

HB

304

SENATE COMMITTEE REPORT

DATE: 3/31/00

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 4/18/00

Resources Committee considered

CS FOR HOUSE BILL NO. 304(FIN) am

CLEAN WATER FUND/DRINKING WATER FUND

and recommends:

- be replaced with S CS HB 304 (RES)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:
- same title
 - new title
- House Bill:
- same title
 - technical title
 - new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Andrew W. Taylor</i>	✓	<i>Laura Roper</i>	✓		
		<i>Pete Kelly</i>	✓		
		<i>James Michael Fisher</i>	✓		
CHAIR: <i>Rick Halford</i>	✓	CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal
DEC	4/10/00		✓

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
Revenue	12/22/99	✓	

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

STATE OF ALASKA

DEPT. OF ENVIRONMENTAL CONSERVATION

DIVISION OF FACILITY CONSTRUCTION & OPERATION

TONY KNOWLES, GOVERNOR

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Juneau, AK 99801-1795
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April 13, 2000

The Honorable Rick Halford, Chair
Senate Resources Committee
Alaska State Senate
State Capitol, Room 121
Juneau, Alaska 99801-1182

Dear Senator Halford:

In committee discussion on HB 304, the Water Bonding Bill, you asked that we suggest options for differentiating the terms of loans made to publicly-owned vs. privately-owned water and sewer utilities. We were able to envision the five alternatives which are described below. There undoubtedly are more.

1. Establish loan terms for private utilities based on increased costs and risk. This is the method currently in the legislation, and the one we believe works best. The approach acknowledges that loans to certain types of privately-owned utilities will cost more to process due to the need for more complex credit analyses, and that certain loans may involve a greater degree of risk. In developing the rate structure in regulation, we would quantify these costs and risks for categories of potential applicants and pass them on to the borrowers through the loan terms.
2. Establish loan terms for privately-owned utilities based on eliminating the state subsidy. This is the specific concept you asked us to explore. While there are several potential variations, one approach is: Define the total subsidy as the difference between market rate and subsidized rate. Assume that the total subsidy consists of a state and a federal component. Assume that those components are fixed by the state and federal capitalization investment in the program at 1/6th (16.67%) state and 5/6th (83.33%) federal funding. Eliminating the state component would mean that the subsidy would be 83.33% of the full subsidy and set the interest rate accordingly.

This approach is best illustrated by example: Currently the Municipal Bond Index is 5.56% and the fully subsidized rate available to municipalities on a 20-year loan is 4.17%. Using the Bloomberg fair market yield curve for taxable utility bonds as an index gives a market rate for private utilities of 8.06%. The total subsidy then is the difference between the

◀◀ *Building Community Sanitation Systems* ▶▶

market rate of 8.06% and the fully subsidized rate of 4.17%, or 3.89%. The partially subsidized rate based on only the federal subsidy would be 83% of the full subsidy (3.89%), or 3.23%. That would yield an interest rate for privately-owned utilities of 4.83%.

3. Establish loan terms for privately owned utilities that are indexed to the municipal bond index. The current interest rate for long-term loans to municipalities is set in regulation at 75% of the Municipal Bond Index (MBI). In our discussions, it was pointed out that loans to privately-owned utilities at 100% of the MBI would represent a significant savings to privately-owned utilities that otherwise would not have access to municipal bond rates. An MBI-indexed rate could also be some other percentage between 75 and 100%.

4. Establish loan terms for privately-owned utilities that are indexed to a market rate for private borrowers – just as the current rate for publicly-owned utilities is indexed to a market rate for public borrowers. For example, the Bloomberg fair market yield curve for taxable utility bonds could be used as an index for market rates available to privately-owned utilities. To satisfy federal law and to provide any benefit at all, the rate, of course, would have to be set at something less than 100% of the market rate.

5. Differentiate the public and private rate structures by imposing additional collateral requirements on private systems. This is, in essence, another form of passing on costs associated with increased risk to private borrowers. In practical terms, it could take the form of requiring private utilities to purchase and provide loan insurance. Typical rates would vary from 0.16% to 2.00% of the loan principal, and would vary inversely with the loan amount and directly with the creditworthiness of the applicant.

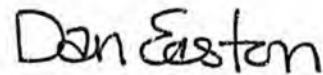
The exercise of developing these options was instructive. In the end, however, we find that we prefer the first option – the one embodied in the current bill. As mentioned, the current bill has evolved to include elements that address the key policy issues presented by expanding the loan eligibility pool:

- Requiring that privately-owned utilities be regulated by the Regulatory Commission of Alaska provides assurance that the economic benefit derived from access to a publicly-subsidized program will generally be passed on to the public in the form of lower user fees. The public would also benefit from improved drinking water quality provided by privately-owned systems.
- The bill allows us to apportion charges such that lower-risk, lower-cost public borrowers would be shielded from the potential impacts of making higher-cost, higher-risk loans to private borrowers.
- The bill, as well as federal law, contains a prohibition on using loans to refinance existing debt. This keeps the program focused on the prime mission of constructing facility improvements that will improve drinking water and wastewater quality.

In addition, we expect healthy growth in both of the funds and an increasing capacity to meet demand for loans.

We stand ready to work with the Senate Resources Committee on these issues. Please let me know if you have additional questions.

Sincerely,

A handwritten signature in black ink that reads "Dan Easton". The signature is written in a cursive, slightly slanted style.

Dan Easton, Director

cc: Senator Robin Taylor, Vice-Chair
Senator Lyda Green
Senator Pate Kelly
Senator Georgianna Lincoln
Senator Jerry Mackie
Senator Sean Parnell
Steve Hildebrand, Office of Management and Budget

H-13 304

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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 20, 2000

The Honorable Brian Porter
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Porter:

Low-interest state loans from the Alaska Drinking Water Fund and the Alaska Clean Water Fund offer municipalities the means to build drinking water and sewage facility projects. This bill I transmit today will allow the state to use revenue bonds to capitalize the Alaska Drinking Water Fund.

Both the Drinking Water and Clean Water funds are capitalized by annual federal grants that require a 20 percent state match. Bond revenues will help provide the state match for federal drinking water project money. But the state is only authorized to sell bonds for the Clean Water Fund. It makes sense to extend this leveraging power to the Drinking Water Fund.

As with existing law, the bill requires the state bond committee to conduct its activities in the best interests of the state, in a manner that will accomplish the most advantageous sale of the bonds. The bill also provides for a new, self-supporting structure to pay for the costs of operating these important loan programs.

I urge your prompt consideration and passage of this bill.

Sincerely,



Tony Knowles
Governor

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. CS HB 304 (FIN)

Revision Date/Time (Note if correction) _____	Dept. Affected <u>DEC</u>
Title <u>AK Bonding - AK Drinking Water Fund</u>	BRU <u>Facility Construction and Operation</u>
	Component <u>Facility Construction and Operation</u>
Sponsor <u>House Rules Committee</u>	
Requester <u>Senate Resources Committee</u>	Component No. <u>637</u>

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	0.0	62.2	120.7	120.7	120.7	120.7
Travel	0.0	7.5	14.6	14.6	14.6	14.6
Contractual	0.0	27.2	52.8	52.8	52.8	52.8
Supplies	0.0	1.0	2.0	2.0	2.0	2.0
Equipment	0.0	1.0	1.0	1.0	1.0	1.0
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	98.9	191.1	191.1	191.1	191.1

CAPITAL EXPENDITURES	0.0	70.0	70.0	70.0	70.0	70.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	(1,551.4)	(1,551.4)	(1,551.4)	(1,551.4)	(1,551.4)
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
1075 Clean Water Loan Fund	0.0	0.0	(395.5)	(455.3)	(455.3)	(455.3)
1100 Drinking Water Loan Fund	0.0	168.9	(380.4)	(448.4)	(448.4)	(448.4)
Drinking Water Fund Bond Recpts	0.0	1,551.4	1,551.4	1,551.4	1,551.4	1,551.4
Clean Water Administrative Fund	0.0	0.0	395.5	455.3	455.3	455.3
Drinking Water Administrative Fund	0.0	0.0	641.5	709.5	709.5	709.5
TOTAL	0.0	168.9	261.1	261.1	261.1	261.1

Estimate of any current year (FY2000) cost: 0.0

POSITIONS

Full-time	0	1	2	2	2	2
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

This legislation would provide for:

- 1) Using bond proceeds instead of GF Match to capitalize the Alaska Drinking Water Fund;
- 2) Deriving loan program operating costs from a portion of loan repayments deposited into two new administrative funds; and
- 3) Making loans to privately-owned utilities which are currently ineligible for the low-interest drinking water and wastewater loan programs.

Prepared by <u>Dan Easton, Director</u>	Phone <u>465-5135</u>
Division <u>Facility Construction and Operations</u>	Date/Time <u>4/10/00 7:48 AM</u>
Approved by <u><i>[Signature]</i></u>	Date <u>4-10-00</u>
Agency <u>Dept. of Environmental Conservation</u>	

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ANALYSIS: (Continued)

The Drinking Water and Clean Water Loan Programs offer low-interest loans to municipalities for drinking water and sewerage facility construction projects. Loans are made from the Alaska Drinking Water Fund and the Alaska Clean Water Fund. Both funds are capitalized by annual federal grants that require a 20 percent state match. The Funds also earn investment and repayment interest.

To date, the state capitalization match requirement for the Drinking Water Fund has been met with GF Match. Federal law provides an alternative to general fund outlays for satisfying the state match requirement. States may use bond financing as match for federal funds to capitalize the Fund, and repay the bonds from interest earnings from the Fund. Statutes (AS 37.15.560) currently provide the bonding authority for the Clean Water Fund needed to take advantage of this funding mechanism. This legislation would provide the same bonding authority for the Drinking Water Fund.

Beginning in FY 2002 there will be sufficient interest in the Alaska Drinking Water Fund to meet the match requirement. Interest will be converted to bond proceeds and supplant the annual general fund appropriation. The effect will be to save approximately \$1.5 million in GF Match that year and each year thereafter. Bonding costs will be about \$70.0.

This legislation would also provide authority to collect fees as a means of funding the operation of the two loan programs. Federal law allows states to set aside four percent of the federal capitalization grants to help pay for program administration. To date, annual program operating expenditures have been met with this set aside. As federal grants decrease and ultimately end in the next few years, the State will be left without a means of paying for program operating costs. To prepare for that, this legislation provides for using a portion of loan repayments to cover program operating costs. The legislation creates two new administrative funds into which a portion of loan repayments would be deposited. Money could then be transferred from these administrative funds to the operating budget to finance program operating costs.

This legislation also makes some privately-owned utilities eligible for the Drinking Water Loan program. Under current law, loan program eligibility is restricted to municipalities. This change has the potential to improve drinking water quality, but it also has the potential to produce a significant increase in the number of loans and drinking water construction projects to be managed by the program. The best estimate is that 133 privately-owned drinking water systems could become eligible for the program. We project an increase of 10 new loan projects each year -- roughly doubling the current pace at which loans are made. This will result in receiving and prioritizing new loan applications, executing additional loan agreements, guiding additional loan recipients through the federally-mandate environmental review process, additional and more complex credit worthiness and owner capacity assessments, reviewing additional documents to approve loan payments, issuing additional payment checks, reviewing and improving a substantial increase in the number of engineering plans, and additional construction inspections and associated travel costs. The first year will also require development of regulations governing this new class of loan recipients.

The department estimates that two new positions will be required to handle the increased loan processing and engineering workload. The first position will be needed by SFY 2002 and both by SFY 2003. In addition, contractual funding of \$50.0 will be used to contract for credit worthiness assessments, as well as assessments of owner managerial, technical and financial capacity as required by federal law.

Personal Services New Position Detail

Department of Environmental Conservation
HB 304 Personal Services - FY2003

Scenario: FY2001 Legislative Fiscal Note Info - 2
Component: Facility Construction and Operations (637)
BRU Name: Facility Construction and Operations

PCN	Job Class Title	Time Status	Retire Code	Barg Unit	Location	Salary Sched	Range & Steps	Budgeted Months	Split / Annual Count	Annual Salary	COLA	Premium Pay	Annual Benefits	Total Costs
18-#032	Loan/Collection Off II	FT	A	GG	Anchorage	1A	16C	12 0		47,004	0	0	15,236	62,240
Justification: Implementation of HB 304							Funding Detail:							
							1004	General Fund Receipts					100 00%	62,240
												Total Funding:	100 00%	62,240
18-#033	Environ Eng Asst II	FT	A	GG	Anchorage	1A	17C	12 0		43,860	0	0	14,617	58,477
Justification: Implementation of HB 304							Funding Detail:							
							1004	General Fund Receipts					100 00%	58,477
												Total Funding:	100 00%	58,477

Component Summary:

Total New Positions: 2

Fund Description	Fund Percent	Fund Amount
1004 General Fund Receipts	100 00%	120,717
Total Funding:	100 00%	120,717

Note: If a position is split, an asterisk (*) will appear in the Split/Count column. If the split position is also counted in the component, two asterisks (**) will appear in this column.

Personal Services New Position Detail

Department of Environmental Conservation

HB 304 Personal Services - FY2002

Scenario: FY2001 Legislative Fiscal Note Info - 2
 Component: Facility Construction and Operations (637)
 BRU Name: Facility Construction and Operations

PCN	Job Class Title	Time Status	Retire Code	Barg Unit	Location	Salary Sched	Range & Steps	Budgeted Months	Split / Annual Count	Annual Salary	COLA	Premium Pay	Annual Benefits	Total Costs
18-#032	Loan/Collection Off II	FT	A	GG	Anchorage	1A	18 C	12 0		47,004	0	0	15,236	62,240
Justification:							Funding Detail:							
Implementation of HB 304							1004	General Fund Receipts					100 00%	62,240
Total Funding:												100 00%	62,240	

Component Summary:

Total New Positions: 1

Fund Description	Fund Percent	Fund Amount
1004 General Fund Receipts	100 00%	62,240
Total Funding:	100 00%	62,240

Note: If a position is split, an asterisk (*) will appear in the Split/Count column. If the split position is also counted in the component, two asterisks (**) will appear in this column

FISCAL NOTE

Bill Version: HB 304

(H) Publish Date: 1/21/00

STATE OF ALASKA
1999 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) _____	Dept. Affected <u>Revenue</u>
Title <u>Drinking Water Fund Bonds</u>	BRU <u>Revenue Operations</u>
	Component <u>Treasury Division</u>
Sponsor <u>Rules Committee</u>	
Requester <u>Governor</u>	Component Serial No. <u>121</u>

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
CHANGE IN REVENUES ()						

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year (FY00) cost: 0.0

POSITIONS

POSITIONS	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The Alaska Drinking Water Fund will pay all costs of issuance, administration, and debt service for bonds issued. Bond proceeds will be deposited in the Drinking Water Fund to make loans to municipalities. There is no other fiscal impact on state funds.

Prepared by <u>Deven Mitchell, Debt Manager</u>	Phone <u>465-3750</u>
Division <u>Treasury Division</u>	Date/Time <u>December 22, 1999</u>
Approved by <u>Wilson L. Condon</u>	Date <u>December 22, 1999</u>
Commissioner <u>Wilson L. Condon</u>	
Agency <u>Department of Revenue</u>	

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**HOUSE BILL 304
SENATE BILL 210**

SECTIONAL ANALYSIS

Introduction. This bill authorizes revenue bonds to be sold to make available bond receipts for the Alaska Drinking Water Fund by providing the same bonding authority that currently exists with the Alaska Clean Water Fund. The bill also creates two administrative funds to provide the authority to use a portion of the repayments being made on the loans to support program operations for both Funds. And it clarifies the uses of the Alaska Drinking Water Fund to ensure that its purposes conform to current federal statutes.

Section 1 and 2. AS 37.15.560 (a) (b). **BOND AUTHORIZATION-** Authorizes the state bond committee to issue and sell bonds to raise money to be placed into the **Alaska Drinking Water Fund**. Because these are revenue bonds, they can be issued when the committee decides and this does not require a public vote. The committee may enter into agreements and perform those functions that are normally required to accomplish the task of issuing and selling bonds.

Section 3. AS. 37.15.565. **BOND REDEMPTION FUND-** A new bond redemption fund is established as the **Alaska Drinking Water Fund Revenue Bond Redemption Fund**. This is a standard industry technique for making it easier and more accountable to perform the many functions necessary in the bond issuance and sales process. And also, to provide accountability for any future principle and interest payments and any premium redemption on the bonds.

Sections 4, 5, 6, 7. AS 37.15.570(c)(d)(e)(f) **BOND TERMS-** The state bond committee may issue, sell, control or redeem bonds for the **Alaska Drinking Water Fund** in such a way as to achieve the greatest advantage for the State. They can make decisions based upon the market conditions of that moment and do not require approval of another agency or group to execute these decisions. The committee will decide the level of security required from the fund that will provide this collateral security. A trustee may be appointed by the committee to perform all necessary functions as directed by the committee. The committee must give due regard to the federal requirements of this drinking water fund, but any decisions made after giving this consideration are final. Bond resolutions that reference these statutes shall be regarded as having given this consideration.

Section 8. AS 37.15.573. **BOND RESOLUTION-** The committee must adopt a bond resolution to issue bonds for the **Alaska Drinking Water Fund**. The resolution will contain those items that are necessary to identify and define the bonds and the bond sales process.

Section 9. AS 37.15.575. **STATE AID INTERCEPT-** This paragraph defines the procedure for allowing the State to intercept or garnish other legitimate sources of State aid should a community default on a loan from the **Alaska Drinking Water Fund**. This paragraph is included in the legislation to enhance investor confidence in the program and ultimately, lower

program costs.

Section 10 AS 37.15.580. PLEDGE OF THE STATE- The committee has the right to make contracts for any bonding effort for the **Alaska Drinking Water Fund** and not have the terms of those contracts altered by any subsequent state action. The bond investors also have the right to rely upon the terms of any contracts.

Section 11. AS 37.15.583. ENFORCEMENT BY BONDOWNER- For any resolution of disagreements between the bondowners and the committee involving a bonding issue of the **Alaska Drinking Water Fund**, 10% or more of the owners of any series or issue of the bonds can bring suit in Superior Court in Juneau. The amount of 10% was selected to prevent frivolous suits from being brought.

Section 12. AS 37.15.585. AMOUNTS REQUIRED FOR PAYMENTS- Each year the committee will inform the commissioners of the departments of Environmental Conservation and Revenue of the amounts needed in that year to pay for the costs of issuing or maintaining the bonds from the **Alaska Drinking Water Fund**. The notice will be given at this time so that the departments will be able to incorporate these numbers into their financial planning for the next fiscal year.

Section 13. AS 37.15.587. PURPOSES AND SUFFICIENCY OF REVENUE- Bond proceeds will be used to build projects that are eligible in the **Alaska Drinking Water Fund** program. No bonds will be issued if there is not enough security available in the fund to make it prudent to sell the bonds.

Section 14. AS 37.15.590. REFUNDING- If it is in the best interests of the State, the committee will refund all or some of the bonds for the **Alaska Drinking Water Fund**. They do not need any authority from the voters or the legislature to do this. The committee will follow the defined procedures to conduct the refunding process. The committee is authorized to incur the expenses inherent with this process. A trustee may be appointed to conduct this process. The trustee has the right to invest funds in short-term federal instruments until the refunding proceeds are needed.

Section 15, 16, 17 AS 37.15.605(1), (3), (7) DEFINITIONS. These sections update the definitions to include the **Alaska Drinking Water Fund** and the funds bonding accounts.

Section 18 AS 46.03.034 ALASKA CLEAN WATER ADMINISTRATIVE FUND. Replaces the current Alaska Clean Water Account with Alaska Clean Water Administrative Fund which is composed of the 1). Alaska Clean Water Administrative Operating Account that can be used to pay for the Departments costs in managing the fund and the 2). Alaska Clean Water Administrative Income Account to receive payment of fees and earnings of the Alaska Clean Water Administrative Fund.

Section 19 AS 46.03.035. FEES CHARGED FOR THE LOANS MADE FROM THE ALASKA CLEAN WATER FUND. This authorizes the department to charge and collect reasonable fees

for making and servicing loans.

Section 20 AS 46.03.036 ALASKA DRINKING WATER FUND. This section is updated so that the proceeds and interest from the sale of bonds can be deposited into the fund and well as funding the administration of the fund. The requirement is set that municipalities wishing to borrow money have to have the authority to incur debt and establish a source of revenue for payment. Regulations are required that set out criteria for priority setting, standards for borrowers eligibility, types of projects to be funded and long term interest rates, standards for self sufficiency, collateral and loan terms.

Section 21. AS 46.03.038 ALASKA DRINKING WATER ADMINISTRATIVE FUND. This fund is set up the same as the Alaska Clean Water Administrative Fund in Section 18 with a 1). Alaska Drinking Water Administrative Operating Account and the 2). Alaska Drinking Water Administrative Income Account to receive payment of fees and earnings of the Alaska Clean Water Administrative Fund.

Section 22. AS46.03.039 FEES CHARGED FOR LOANS MADE FROM THE ALASKA DRINKING WATER FUND. This authorizes the department to charge and collect reasonable fees for making and servicing loans.

Section 23. Clarifies that this portion of the legislation would create a change in Civil Procedure 3 and cause all actions to be filed in Superior Court in Juneau. The second paragraph recognizes that in order for this procedure change to be in effect, this section must receive a two-thirds majority vote of each house as required by Article IV, Section 15, Constitution of the State of Alaska.

Section 24. Specifies that the regulations adopted under this statute may not take effect before the statutory effective date of sections 1 through 22.

Section 25. States that section 24 takes effect immediately upon passage of the statute.

CITY OF UNALASKA

P.O. BOX 610
UNALASKA, ALASKA 99685-0610
(907) 581-1260 FAX (907) 581-2187



February 16, 2000

Senator Rick Halford
Alaska State Legislature
State Capitol Building, Rm. 121
Juneau, AK 99801

FEB 21 2000

Dear Senator Halford,

The City of Unalaska is writing to seek your support for the recently introduced Water Bond Bill (Senate Bill 210 and House Bill 304). The bill gives ADEC authority to use bonds to capitalize the Alaska Drinking Water Fund – the fund used to make low-interest loans to communities for drinking water projects.

The City of Unalaska has enjoyed the benefits of this program and would like to emphasize the importance of keeping this program viable. The Water Bond Bill will allow the loan program to be self-supporting and will provide a long-term mechanism for the program to continue to be available to Alaskan communities.

We appreciate your support in this matter. Please feel free to contact me at 907-581-1260 if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Mike Golat".

Mike Golat
Director of Public Utilities

cc: Scott Seabury, City Manager
Mike Burns, ADEC
Ray Gillespie
67.115



**RESOLUTION OF THE ALASKA MUNICIPAL LEAGUE
AND ALASKA CONFERENCE OF MAYORS**

RESOLUTION 00-01

**A RESOLUTION URGING THE LEGISLATURE TO PASS THE
GOVERNOR'S ADEC BONDING AND FEE AUTHORITY BILL**

WHEREAS, it is important that the State promote the health of its citizens and encourage the growth of infrastructure by assisting communities in developing safe water supplies and sanitary means of wastewater treatment and disposal; and

WHEREAS, the Alaska Clean Water Fund and the Alaska Drinking Water Fund are important financial alternatives for communities, having so far provided \$160,000,000 in subsidized, low-interest loans to communities for projects of this type; and

WHEREAS, Governor Knowles has introduced a bill to provide for the issuance of bonds as an alternative to using state general funds to capitalize the loan Funds; and

WHEREAS, the alternative financing method provided by the bill will allow the State to continue securing federal grants to grow the Funds and the amounts available for loans; and


WHEREAS, the alternative financing method provided by the bill will save approximately \$1.5 million in state general fund expenditures annually; and

WHEREAS, the bill also reserves a portion of the finance charges paid on the loans to pay the costs of administering the loan programs to offset decreasing federal grant funding available; and

WHEREAS, reserving a portion of the loan finance charges for program administration will not increase the cost of the loans to the communities of the State nor increase the need for any State general fund dollars;

NOW, THEREFORE, BE IT RESOLVED by the Alaska Municipal League and Alaska Conference of Mayors that the Alaska State Legislature is urged to adopt the ADEC Bonding and Fee Authority legislation during the 2000 legislative session.

Adopted on January 27, 2000.

Attest: 
Kevin C. Ritchie, Executive Director

Post-It® Fax Note	7671	Date	1-31	# of pages	1
To	Mary	From			
Co./Dept.	ADEC	Co.	AWL		
Phone #		Phone #			
Fax #	465-5342	Fax #			



Alaska Department of Environmental Conservation
Division of Facility Construction and Operation
Municipal Loans Program

Water Bond Bill Fact Sheet

January 14, 2000

What does the legislation do?

Authorizes DEC to:

- Sell bonds as a means of capitalizing the Alaska Drinking Water Fund; and
- Designate a portion of the interest charged on Drinking Water and Clean Water program loans to help pay for program operations.

What are the Drinking Water and Clean Water Loan Programs?

DEC-operated loan programs that offer low-interest loans to municipalities for drinking water, sewerage and other water-quality construction projects.

How are the programs funded?

Each year the State may apply for two federal capitalization grants: one for the Drinking Water Loan Program and one for the Clean Water Loan Program. Both federal grants require a 20 percent state match. In state fiscal year 2000, the State received \$15.5 million in federal grants and contributed \$3.1 million in state funds.

In addition to annual contributions of state and federal capitalization money, the funds also earn interest. Funds that have yet to be loaned out are invested in interest bearing accounts and earn investment interest. Communities also pay interest when they repay their loans. Both investment and repayment interest must, by federal law, be retained in the Alaska Drinking Water and Clean Water Funds and thus contribute to the growth of the Funds.

What are the rules about how the programs are operated?

The funds must be used in accordance with federal rules derived from the Safe Drinking Water Act for the Alaska Drinking Water Fund and the Clean Water Act for the Alaska Clean Water Fund. The federal rules are complex, but an important concept is central: Once money is deposited into a fund, it must remain in the fund and unavailable for any purposes other than to make loans to communities – except in a very limited number of special cases.

How do the programs work?

Each year DEC mails applications to all Alaska municipalities. Interested communities complete and return the applications proposing specific projects for funding. DEC ranks the applications based primarily on the degree of public health benefit expected from the projects. Loan agreements with municipalities are executed for the highest-ranking projects. As construction costs are incurred, monies are drawn from the Funds and loaned to municipalities. The municipalities pay back the loans when projects are complete. This money is returned to the loan Funds where it becomes available for other projects.

For each loan project, DEC assigns an engineer to assist the community in selecting an appropriate project design, in getting permits and other authorizations, and generally in serving as an advisor to the community on the project. There is a broad range of assistance provided depending on each community's capabilities and needs. The engineers also approve all payments to communities to make certain that all costs are eligible for funding under state and federal law.

Why is bonding authority needed?

Until now, the State of Alaska has met its match obligation using general funds. However, the federal government recently offered the states another option for meeting their match requirements. The option is to use interest retained in the Funds in a form of short-term bonding exercise to meet the state match requirement. In essence, this form of bonding lets the states convert interest earned by the funds into bonds and then use the bonds to meet the state match requirement. To take advantage of that option requires that state statutes provide bonding authority. The statutes establishing the Alaska Clean Water Fund currently provide authority to use bonds for financing. That authority does not exist for the Alaska Drinking Water Fund.

Since the statutes currently provide authority to use bonds to capitalize the Alaska Clean Water Fund, does DEC plan to exercise that authority in FY 2001?

Yes. DEC intends to use the existing Clean Water Loan Program bonding authority to obtain the \$1.5 million in state match needed to capture the \$7.5 million in federal grant funds expected for FY 2001. That will save the State \$1.5 million in general funds in FY 2001.

What will the bonding costs be?

The costs for preparing bond documents and finance charges will be approximately \$50,000.

What about the Alaska Drinking Water Fund? Can the State do the same for the Alaska Drinking Water Fund?

Not until two things happen. First, the statutes need to be amended to provide authority to use bonds to capitalize the Alaska Drinking Water Fund. Second, there needs to be an amount of interest earnings in the Alaska Drinking Water Fund equal to the state match requirement plus bonding costs. In other words, there needs to be about \$1.5 million in interest in the Fund to execute a short-term bonding exercise. Because the Alaska Drinking Water Fund is much younger than the Alaska Clean Water Fund, there aren't enough interest earnings in the fund to take advantage of this short-term bonding option in FY 2001.

When will the State be in a position to use short-term bonds to meet its capitalization obligation for the Alaska Drinking Water Fund?

There should be enough interest earnings in the Alaska Drinking Water Fund by FY - 2002. With enough interest and bonding authority for this Fund, the State would be positioned to save \$1.5 million in general funds in the FY 2002 budget.

What overall savings could the State realize by bonding for both the loan Funds?

The State could save about \$3 million each year in money needed to capture \$15 million in federal grants. Our hope is to save \$1.5 million beginning in FY 2001 and \$3.0 million in FY 2002 and beyond.

Will bonding affect the amount of federal grant funds the state qualifies for?

No. The amount of the federal grant awards will be the same whether the State match comes from general funds or bond proceeds.

Switching to the second part of this legislation, why is fee authority needed?

It costs about \$1 million each year to operate the two programs – to provide engineering assistance, to execute loan agreements, to review payment requests and issue payments to communities, to track loan debt, to collect and record repayments from communities, and to pay for audits by CPA firms. Federal law allows states to use a small part of the federal capitalization grants to pay for program costs. For the past few years, DEC has relied entirely on this source to fund program operations. With decreasing federal grant levels, this funding source will not be sufficient to cover program costs – even though those costs are expected to remain stable. Another source of funding is needed. Most states already use a portion of the repayment

interest to pay for program costs. Eventually all states will be doing the same. We think it makes sense in Alaska as well.

Are personnel and other costs increasing?

No. The number of personnel and other program costs are expected to remain at current levels for the foreseeable future. We are seeking only to replace the declining federal subsidy.

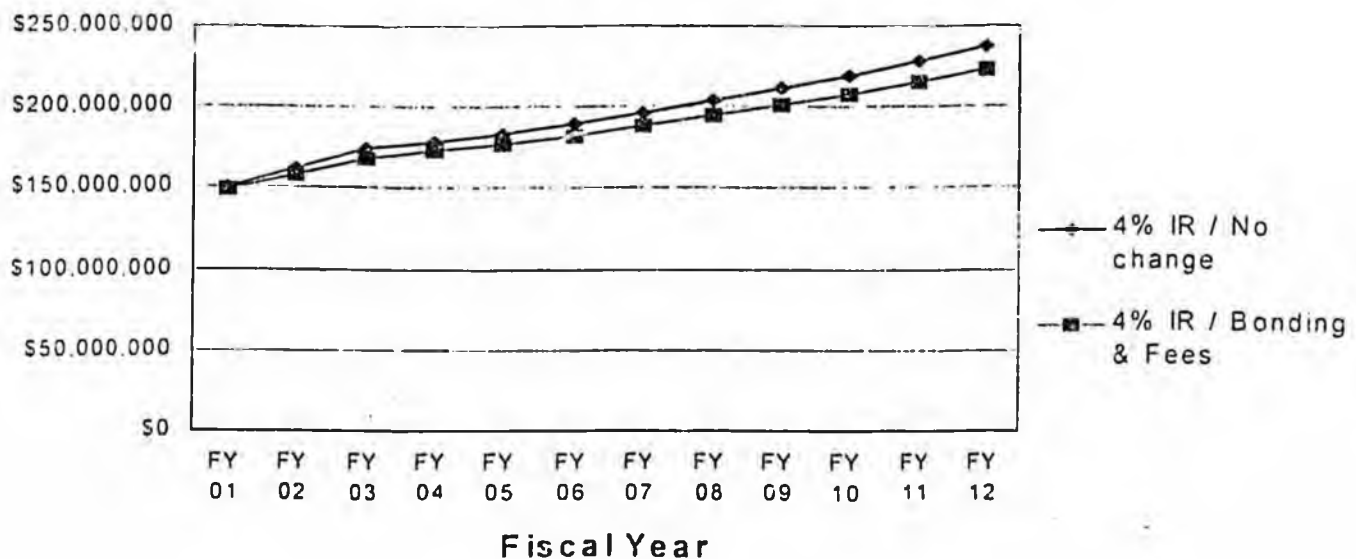
How will these changes affect the terms of the loans DEC makes to communities? Will costs go up?

Finance charges on the loans will not go up. In fact we are proposing to lower finance rates. All of the finance charges for the loans are currently treated as interest and returned to the Funds. To assess fees, the finance charges that communities pay would be broken into two parts: a portion that is interest to be returned to the Fund, and a portion that would go to paying for program operations. For example, if the overall financing charge is 2.5 percent, 2 percent might be interest that is returned to the Fund, and 0.5 percent might go to fund program operations. Again though, the overall debt service cost to the municipalities is expected to go down.

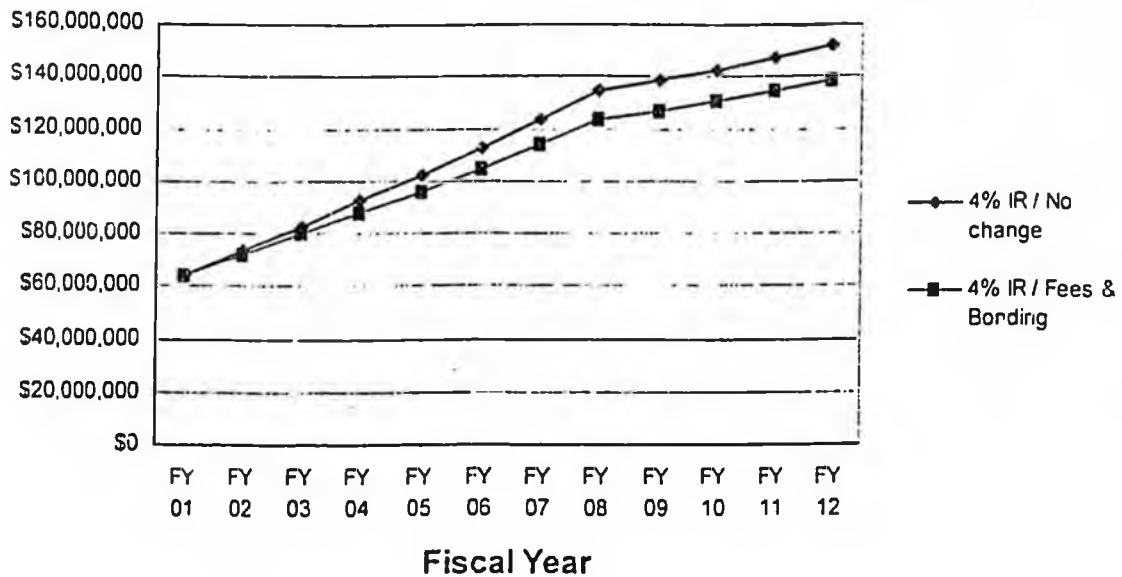
What about the impacts on the amount of money available to loan out? Will the changes reduce the rate of growth of the funds?

Yes. The changes will result in slower growth in the Funds. For example, the projected annual growth in the Alaska Clean Water Fund over the next 12 years is expected to decrease from 5.3% to 4.6% per year. Similarly the annual growth in the Alaska Drinking Water Fund is expected to slow from 13.8% to 11.9%. Nevertheless, the funds will remain healthy and capable of meeting the expected demand for loans.

Clean Water Projected Growth



Drinking Water Projected Growth



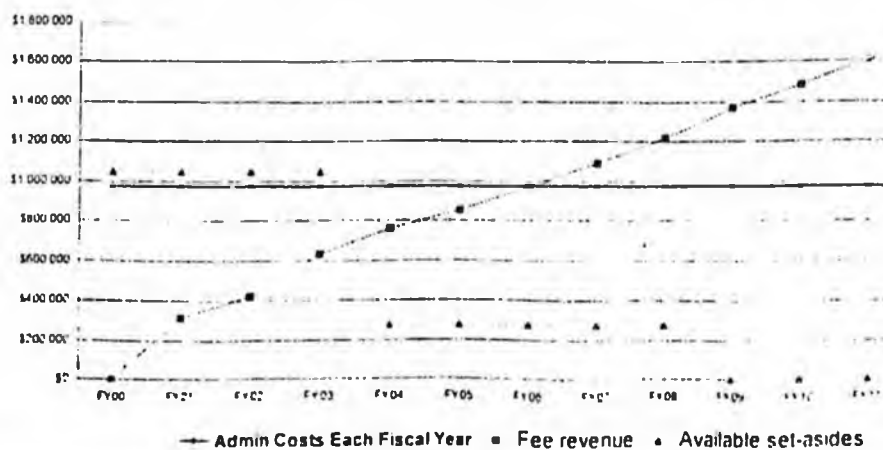
What else needs to happen?

The new finance charge structure and amounts need to be established in regulation (18 AAC 76). We are proposing a structure that satisfies the conflicting goals of trying to provide the lowest loan cost to the communities and still protect the long-term financial integrity of the Funds. We are proposing a flat loan rate of 2.5% that graduates to a bond-indexed rate when the municipal bond index hits 8 percent. Included within that rate is a designated 0.5% to pay for program administration. For purposes of comparison, the current interest rate is about 4.3%.

Will this cover program costs?

The expected revenue will be small at first and gradually increase. At the proposed rate of 0.5%, we expect to collect enough money to cover operating expenses. The following chart shows the relationship between the expected revenues and program costs.

CW & DW Set-Asides & Fee Revenue Versus Admin Costs



When interest rates go down, what will happen to the existing loans made at higher rates? Will communities be stuck with the higher rate loans?

We will offer all communities with existing loans the opportunity to convert to the new rate structure. No communities will be stuck with higher rate loans.

If more fees are collected than are needed to cover program costs, what will happen?

Fees will be deposited into an income account. Each year we will request that the legislature appropriate funds from the income account to an operating account to cover program costs. If there are more funds in the income account than are needed to cover program costs, we will use those excess funds to make loans to communities.



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Loan Fund Bonding and Fee Authority Legislation FACT SHEET

April 6, 2000

What does the legislation do?

Authorizes DEC to:

- Sell bonds as a means of capitalizing the Alaska Drinking Water Fund; and
- Designate a portion of the interest charged on Drinking Water and Clean Water program loans to help pay for program operations.
- Make certain privately-owned utilities eligible for low-interest loan financing.

What are the Drinking Water and Clean Water Loan Programs?

DEC-operated loan programs that currently offer low-interest loans only to municipalities for drinking water, sewerage and other water-quality construction projects.

How are the programs funded?

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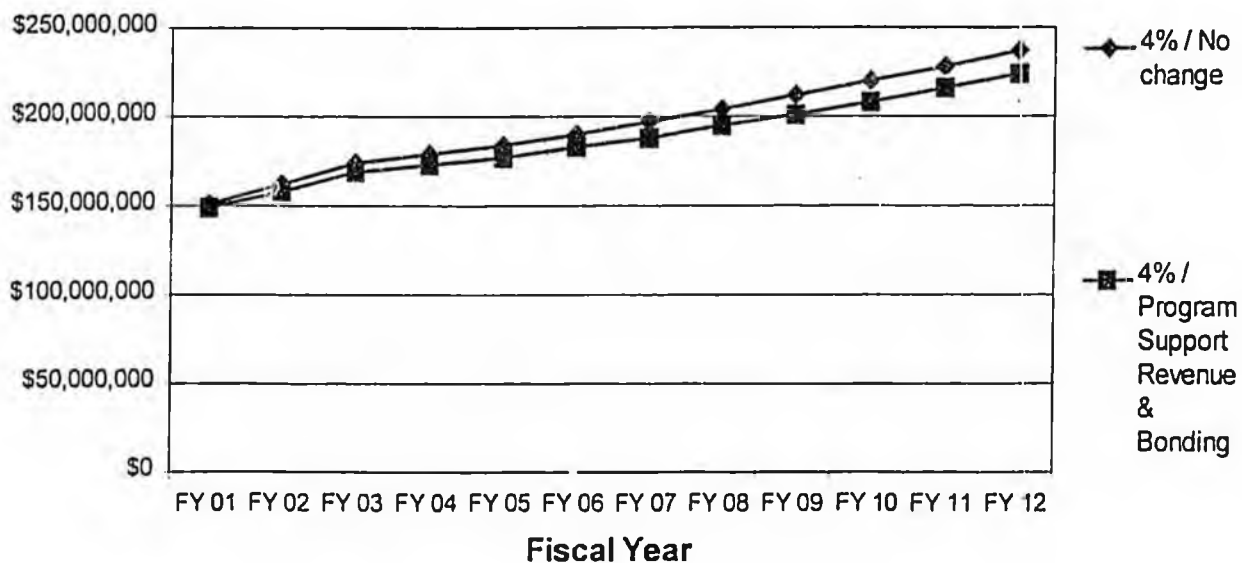
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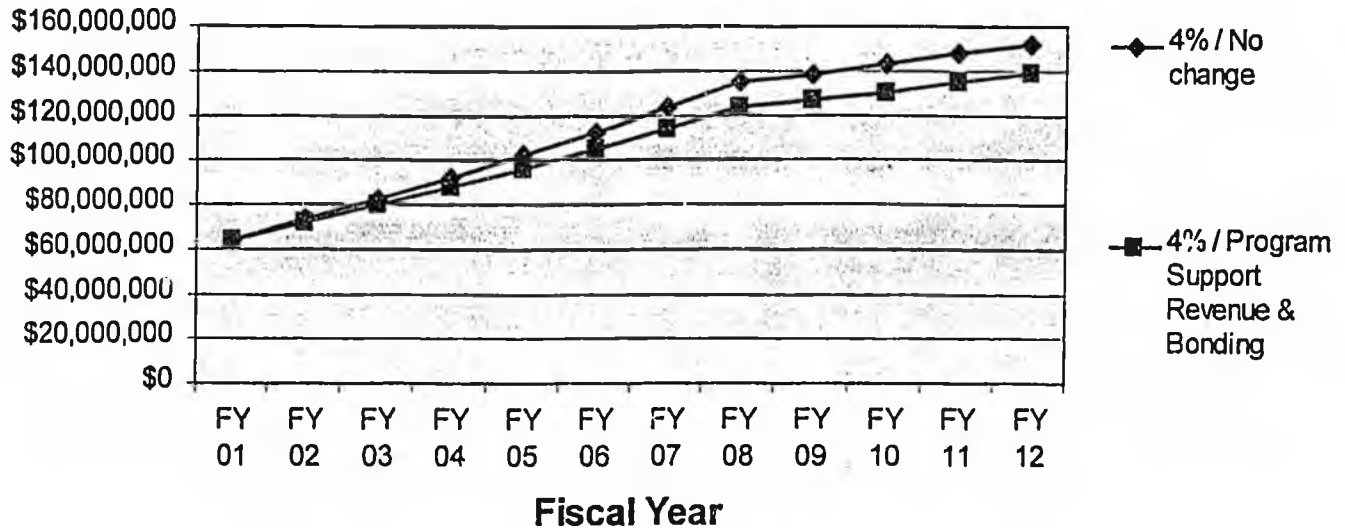
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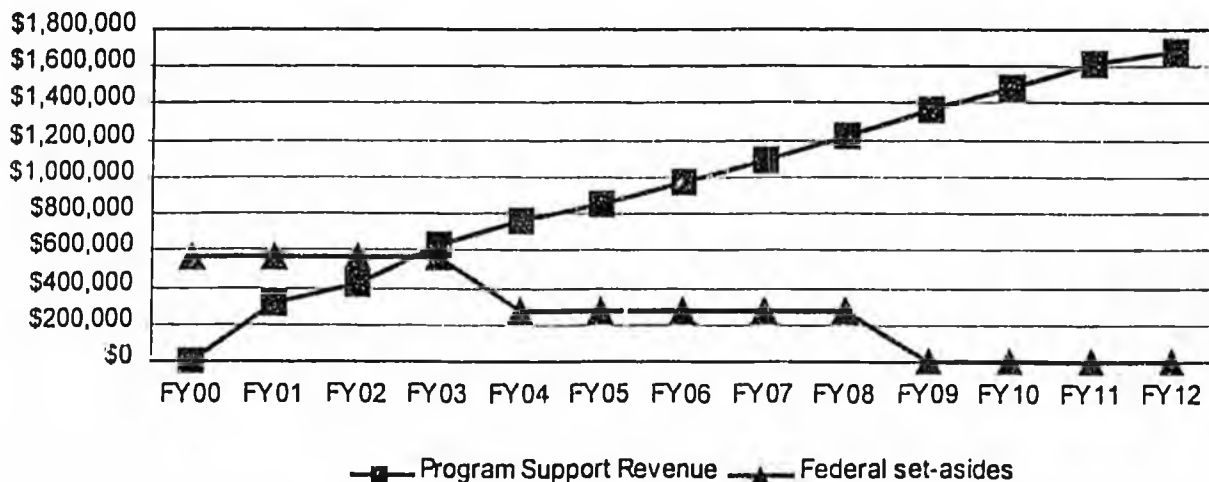
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CW & DW Set-Asides & Program Support Revenue



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Fees will be deposited into an income account. Each year we will request that the legislature appropriate funds from the income account to an operating account to cover program costs. If there are more funds in the income account than are needed to cover program costs, we will use those excess funds to make loans to other projects.

The last objective of this bill is to allow loan financing to some eligible privately-owned water and wastewater systems. Why?

The House Finance committee felt that private systems that serve the public and are certificated and economically regulated by the Regulatory Commission of Alaska should be eligible to receive assistance from the loan programs. They amended the bill to make private systems eligible for the loan program. These amendments provide an opportunity to improve drinking water quality and to correct wastewater pollution problems that could not previously be addressed.

Does federal law allow private systems to receive assistance through these loan programs?

Federal statutes currently allow states to provide this funding to private systems under the Drinking Water loan program. However, the federal Clean Water Act currently prohibits funding of private systems for wastewater projects. In the last few years, there has been discussion in the U. S. Congress about expanding eligibility to include private systems. The state bill anticipates a change in federal law such that the State program could make loans to privately-owned wastewater systems if and when the federal statutes change. Until that time, we would be prohibited from making loans to private systems for wastewater projects.

Would all types of systems, whether publicly- or privately-owned, receive the same loan rates and terms?

Not necessarily. The bill allows us to establish different terms and rates for different classes of borrowers to accommodate different levels of risk and cost. Higher risk, higher cost systems may well pay higher rates. The structure for loan program rates, terms and the credit analyses will be set in regulation.

Would either category of public or private systems have an advantage in receiving funding over the other?

Federal guidelines provide the criteria used to rank projects for loan funding. Whether a system is publicly- or privately-owned will not enter into the scoring process.

These amendments also prohibit a private system from refinancing debt. Why?

The amended federal Safe Drinking Water Act contains this specific prohibition. This portion of our State bill repeats the federal law. This policy insures that the program stays closer to its primary mission, to finance new projects that address drinking water needs. Any refinancing of old debt would detract from that mission.

Finally, the amendments also do not allow loans to private systems until July 2002. Why the delay?

The delayed effective date does two things. First, it gives the new revenue stream established in the bill a year to work. Those revenues can then be used to pay for the increased program costs associated with making more loans to a larger and more diverse eligibility pool. Second, it gives us a year to develop the new regulations that will be required to implement the expanded program.