

## Fund Source Report

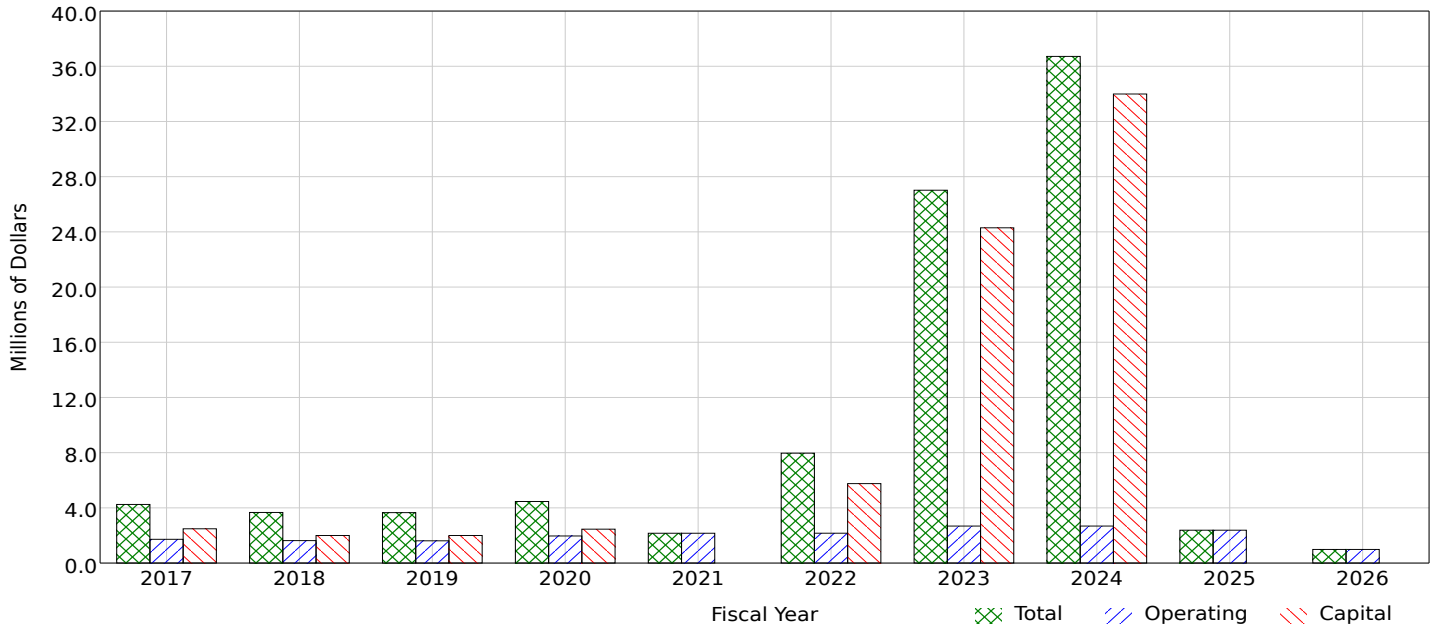
**1100**

**Drk Wtr Fd**

**Alaska Drinking Water Fund**

|                         |               |                |                      |                    |                                |
|-------------------------|---------------|----------------|----------------------|--------------------|--------------------------------|
| Year Authorized<br>1994 | Year Repealed | Active?<br>Yes | Mental Health?<br>No | Duplicated?<br>Yes | Fund Group<br>Other Designated |
|-------------------------|---------------|----------------|----------------------|--------------------|--------------------------------|

### Operating and Capital Appropriations



#### Legal Authority

AS 46.03.036, 42 USC 300j-12

#### Source of Revenue

The Fund consists of money appropriated by the legislature to meet federal matching requirements, federal capitalization grants, loan repayments including interest, interest earned from investments and proceeds and accrued interest from the sale of Alaska Drinking Water Bonds.

#### Restrictions on Use

Provide financial assistance to municipalities and organizations regulated by the APUC or RCA for drinking water systems, and to pay the costs of administering the fund and of debt service on bonds for which the proceeds have been deposited into the drinking water fund.

#### Description and History

Alaska established the Alaska Drinking Water fund in 1994 in anticipation of congressional action. Federal funding was approved by Congress in 1996 in response to the reauthorization of the federal Safe Drinking Water Act. The Act contains provisions that offer grants to states to help fund revolving loan programs for drinking water projects. A federal grant of \$26.8 million was offered in 1996 for which the state was required to provide a 20 percent match, or \$5.4 million.

Until the 1996 Act, EPA-funded grant and loan programs for sewerage and other pollution abatement projects generally ignored drinking water needs. The federal Surface Water Treatment Rule compelled most Alaskan communities to begin upgrading their water supply infrastructure. The Alaska Drinking Water Revolving Loan program offers low interest loans to the municipalities of the state to assist them in meeting their drinking water capital project needs.

Prior to FY01, the Department of Environmental Conservation (DEC) met the state match requirement by capitalizing the loan fund with general fund appropriations. Chapter 61, SLA 2000 established the authority to issue and sell revenue bonds to fund the clean water and drinking water loan projects. The balance of the loan funds can be used as collateral for the bonds. In FY01, DEC began issuing bonds to take advantage of a provision allowing federal receipts to be used to pay debt service on bonds for eligible projects.

The current funding mechanism is:

1. Alaska issues bonds and deposits the proceeds in the Drinking Water Bond Receipt Fund (fund code 1159)
2. Bond proceeds are appropriated to the RLF in order to meet the state match requirement
3. Money from the RLF (1100, a duplicated fund source) is appropriated to debt service to immediately pay off the bonds.

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The result is that federal funds are effectively used to meet the state match requirement. This scenario reduces total available funding by eliminating deposits of general funds to the drinking water fund.

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Appropriations from the fund to the facility construction allocation have not been made since FY06--the DWF has been used only to pay off short-term bonds issued annually. As with all revolving loan funds, loans from the fund do not require appropriation.

The drinking water program functioned strictly as a loan program until FY2011, when terms of the federal Drinking Water Capitalization Grant required states to issue subsidies (a loan forgiveness process). The subsidy amount required is now specified under the grant terms. In order to implement the subsidy provision, an appropriation is necessary to properly record the loan forgiveness payment as an expense in the Alaska Drinking Water Fund.

Funding from the Alaska Drinking Water Loan Fund program follows a cycle which begins with the compilation of a funding priority list. From this list, the Department of Environmental Conservation prepares a grant application to the U.S. Environmental Protection Agency (EPA). Following grant approval, DEC may respond to applications from the list. The fund may provide loans, buy or refinance debt, or provide collateral security.

A large decline in federal funding in FY15 prompted DEC to begin using the drinking water administrative fund (code 1231) to maintain the FY14 funding level for the program. The Department of Environmental Conservation has been collecting a 0.5% fee on all loans made from the drinking water fund since December 2000. These fees have not been appropriated to the drinking water administrative fund, and arguably do not need to be appropriated to the fund. An appropriation is required only to spend the fees collected (plus interest). The June 30, 2013 balance of the income account was \$3,584,831.

See

1159 Alaska Drinking Water Fund Bond Receipts

1231 Alaska Drinking Water Administrative Fund