

CLEAN WATER FUNDING: *Evaporating Funds Leaving Towns Dry*

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INTRODUCTION

Connecticut's Clean Water Fund used to be a model for the nation. Its creation established Connecticut as a leader in building a state-local partnership to protect the environment while allowing our economy to grow. Treatment plants and sewerage systems were constructed – and the waters of the state got cleaner.

Sadly, however, the Clean Water Fund is no longer doing the job it was created to do. The reason is clear: **the State has fallen behind in providing the necessary bond funding.** Not only that, a few years ago the State actually took away almost \$80 million that had previously been authorized for the program.

According to the state Department of Environmental Protection, **at present funding levels only one-in-five projects that are ready-to-go will go forward this year, and only one-in-seven next year.**

Towns and cities are willing to do their fair share to pay for projects – under the present funding arrangement they end up paying for the majority of the cost – but they cannot do it without more help from the State.

BACKGROUND

What is the Clean Water Fund?

The Clean Water Fund (CWF) is the primary mechanism by which Connecticut provides financial assistance to municipalities for the construction, expansion or improvement of publicly owned systems to clean sewage that would otherwise go into our rivers, lakes and Long Island Sound.

Connecticut created the CWF in 1986 to provide low-cost financing to municipalities to (i) achieve and facilitate compliance with federal and state water quality standards and (ii) significantly improve the conditions of the state's waterways. It was established to replace state and federal grant programs that had existed since the 1950s, and which provided local governments with grants that paid for as much as 90% of a project's cost.

The CWF provides a combination of grants and loans to municipalities that are intended to cover 100% of the cost of the projects. The loans are at a state-subsidized interest rate of 2%. For most projects municipalities get grants for 20%, they receive grants of 30% for nitrogen removal projects and 50% for projects to separate combined sewers.

Why Is It Needed?

The CWF is needed because the benefits of clean water are enjoyed statewide and by future generations. Towns and cities lack the fiscal capacity to pay for the expensive sewerage facilities required to protect this valuable national resource.

A report commissioned by the Connecticut Conference of Municipalities in November 1998 found that the total cost of making necessary upgrades to existing treatment facilities and building new facilities was estimated to be about \$2.8 billion over the next 25 years. And this may be low – recent estimates are that it will cost about \$1.5 billion just to complete projects to separate combined storm and sanitary sewers (without such separation rain storms cause sewage to overflow into waterways).

The State finances the grant portion of CWF projects by selling general obligation (GO) bonds. The loan portion of projects is financed through the sale of revenue bonds. (*Important note: revenue bonds cannot be used to finance the grant portion of projects.*)

THE CLEAN WATER PROGRAM IS IN TROUBLE

But now the CWF is in trouble. There is very little GO bond money available -- this is the direct result of inadequate GO bond authorizations over the last several years.

Between 1987 and 2002, GO bonding for the CWF averaged \$47.9 million each year. From 2003 to 2007, general obligation bonding for CWF averaged (-\$7.6) million. This average includes **rescissions of \$18 million in FY 03 and \$60 million in FY 04** – available grant funding was actually reduced. And, there was no GO bonding for the CWF in FY 05.

The State authorized \$20 million in GO bonds for the CWF for last fiscal year and this one (FY06 and FY07). At these funding levels, according to DEP “it is estimated that **only one in five projects ready to proceed will be funded in FY 06, and only one in seven projects ready**

to proceed will be funded in FY 07. This limitation on available funding has a significant negative impact on the state's ability to continue with nitrogen removal projects for improvement to Long Island Sound, as well as projects which address reduction or elimination of combined sewer overflows (CSOs) to surface waters." ¹ (emphasis added)

In order to keep up with projects that are ready to move forward, approximately \$157 million will be needed to pay for grants in FY 08 and \$137 million will be needed in FY 09.

MUNICIPALITIES ARE WILLING TO CARRY THEIR FAIR SHARE

Even with grants and low-interest loans local sewer users (residents and businesses) still pay the lion's share of the costs of the project:

- ✍ For example, for a \$10 million project that receives a 20% grant a municipality would receive a grant for \$2 million and a loan for \$8 million. **At the state-subsidized 2% interest rate, the municipality will pay \$9,785,000 after all the loan repayments are made – about 98% of the \$10 million cost.**
- ✍ For a nitrogen-reduction project, a municipality would receive a grant for \$3 million and a loan for \$7 million. **At the state-subsidized 2% interest rate, the municipality will pay \$8,498,840 million after all the loan repayments are made – about 85 % of the \$10 million cost.**
- ✍ **Even with a 50% grant level, municipalities are carrying a significant cost burden. After all the loans are paid back, a municipality will still have paid for about 61% of the original project cost.**

Municipalities and sewer users pay all of the costs of operating and maintaining the plants.

Towns and cities are willing to carry their fair share, but in most cases simply cannot move forward without more help from the State.

WIDE RANGE OF SUPPORT

This is not just a municipal-finance issue. It is important for the environment, and can help create jobs. In early 2006 CCM formed a "Clean Water Investment Coalition" to advocate for **additional GO bonding** for the CWF. **The coalition included a wide variety of groups, including environmentalists** (such as Audubon CT, Rivers Alliance of CT, ConnPIRG). It would help the economy, too, and was supported by **businesses** (e.g., the American Council of Engineering Companies of Connecticut) and **labor** (the AFL-CIO, CT State Building Trades).

WHY GRANTS ARE NEEDED AND LOANS ALONE AREN'T GOOD ENOUGH

Some have suggested that the grant program is too expensive and that a loan-only program should be considered.

¹ Department of Environmental Protection, *Proposed Clean Water Fund Financial Assistance*, Dec. 2005

A change to a loan-only program would have significant negative financial impacts on communities considering clean water projects. Even at the present interest rate of 2%:

- ✍ **the elimination of grants would increase the local cost for a combined sewer separation project by \$6.1 million for every \$10 million in project costs (they presently receive a 50% grant); and**
- ✍ **for most projects, which presently receive a 20% grant, the increased local cost would be \$2.4 million for every \$10 million.**

These numbers rise dramatically with a higher interest rate.

THE CONSEQUENCES OF INACTION

What will be the impact if the CWF falters and fails to provide enough funding to maintain the present grant and loan mix? Clean water projects will languish or not be done at all – because local residents and businesses will balk at the increased costs. Such a situation would quickly devolve into legal wrangling that could drag on for years – while the prices of the projects skyrocket and our waters remain polluted.

WHAT THE STATE CAN DO TO HELP

Provide Necessary Grant Funding

The most important thing the State can do is to provide adequate grant funding so that the program can get back on track -- \$157 million next year and \$137 for FY 09. The State's robust financial picture means that not all this grant money need come from bonding. Some of the growing surplus (estimated at almost \$950 million) can be used, which would save the State the long-term costs of borrowing.

Reduce Program Costs

Beyond that, the State can make changes to the program that can help reduce its overall costs.

For example:

- ✍ the amortization of loans for sewer separation projects can be extended from 25 to 30 years. The work done on this type of project lasts much longer than 25 years (that is not true for most other projects), and
- ✍ the life of long-term consent degrees can be extended beyond the present 15 years. At present, DEP and municipalities enter into such agreements to ensure that work is done so that environmental standards and goals are met. Extending the deadlines for such agreements would better match the ability of the State and localities to pay for the work.

DEP's Advisory Work Group

The Department of Environmental Protection recently convened a Clean Water Fund Advisory Work Group to "evaluate creative options for the CWF to provide a sustainable level of funding to assist municipalities in addressing emerging water quality issues and enhancement of wastewater infrastructure with an end goal of protecting water quality." The Advisory Work Group comprises individuals and organizations with a direct interest in the ability of the CWF to fund projects, and the resulting environmental impacts (including CCM). This Work Group is scheduled to meet throughout the summer and fall of 2006 and come up with recommendations.

But no matter what the final recommendations of the Work Group, it is clear that unless more grant money is provided, projects will not go forward and local costs will go up significantly.

SUMMARY

From the municipal perspective, Connecticut's Clean Water Fund is a good program compared with others around the country. There is no dispute that over the last 20 years the State has made a significant financial investment in clean water projects. But it is clear that municipalities, their property taxpayers, and sewer users cannot bear the present and future high costs associated with cleaning up our waterways.

Clean lakes, rivers and the Long Island Sound are important to everyone in Connecticut – and will continue to be. Increased GO bonding - or use of the state budget surplus - is appropriate, as the benefits of today's efforts will be shared statewide and by succeeding generations. Individual municipalities are willing to be partners in this effort, but the magnitude of the statewide task means a greater investment by the State is necessary.

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For more information, please contact Gian-Carl Casa, Kachina Walsh-Weaver
or Jim Finley of CCM at (203) 498-3000.