CONNECTICUT
CONFERENCE OF
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THE VOICE OF LOCAL GOVERNMENT

TESTIMONY

of the

CONNECTICUT CONFERENCE OF MUNICIPALITIES

to the

ENVIRONMENT COMMITTEE

March 12, 2010

CCM is Connecticut's statewide association of towns and cities and the voice of local government - your partners in governing Connecticut. Our members represent over 93% of Connecticut's population. We appreciate this opportunity to provide testimony to you on issues of concern to towns and cities.

CCM _supports_ Raised Senate Bill 388 *"An Act Concerning Connecticut's Economic and Environmental Future"*.

Among other things, this bill would increase funding to the Clean Water Fund (CWF) for FY 2010-11: $90 million in General Obligation Bonds (from $40 million) and $150 million in Revenue Bonds (from $80 million). This would restore the CWF to the funding level for the previous biennium.

Municipalities depend on the grants provided by general obligation bonds to move forward on projects to clean up our rivers and Long Island Sound. Prior to the current biennium, funding for Clean Water Fund projects had fallen woefully behind. – and with state money tight, projects had begun to founder.

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.

The total cost of making necessary upgrades to existing treatment facilities and building new facilities is estimated to be in the billions – and 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.)

Funding of the Clean Water Program

- 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.
- There was no GO bonding for the CWF in FY 05.
- The State authorized $20 million in GO bonds for the CWF for FY 06 and FY 07.
- Major strides were made for FY 08 and FY 09 -- $90 million each year.
- Huge backsliding in the current biennium to $65 million in FY10 and $40 million in FY11.

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 <u>all</u> 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.

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.

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 could be $2.4 million for every $10 million.**

These numbers rise dramatically with a higher interest rate.

<u>Can Connecticut Afford More Bonding?</u>

Although Connecticut's debt burden is often cited as being one of the highest in the country per capita, a better test of our state's ability to do more bonding is to examine debt according to what the public can afford – and the best measurement of that is to compare debt to income.

Many professionals, including David Osborne during his February 2, 2009 presentation at the Connecticut Legislative Office Building, suggest that Connecticut would appear to have a higher burden when the data is viewed per capita, but that tax as a percent of income is the fairest measure of tax burden. Using that measurement for bonding, the state is in the middle of the pack: **Connecticut (including state and local government) ranks 24th in the nation for Interest on General Debt per $1,000 of income, and 28th in the nation for Total Outstanding Debt per $1,000 of income.**

<u>Summary</u>

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.

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.

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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If you have any questions, please contact Kachina Walsh-Weaver, Senior Legislative Associate of CCM via email kweaver@ccm-ct.org or via phone (203) 498-3026.