

SENATE ENVIRONMENT COMMITTEE

STATEMENT TO

SENATE, No. 2142

STATE OF NEW JERSEY

DATED: JUNE 5, 1997

The Senate Environment Committee favorably reports Senate Bill No. 2142.

This bill would appropriate certain federal and State moneys to the Department of Environmental Protection (DEP) for the purpose of implementing the 1997 New Jersey Wastewater Treatment Financing Program, which is expected to finance approximately \$111 million in wastewater treatment system projects for State Fiscal Year 1998.

Specifically, the bill would appropriate to the DEP moneys from (1) the "Wastewater Treatment Fund - State Revolving Fund Accounts" established pursuant to section 1 of P.L.1988, c.133 an amount equal to the Federal Fiscal Year 1997 capitalization grant made available to the State pursuant to the federal "Water Quality Act of 1987" for wastewater treatment system projects; (2) any fees and penalties received pursuant to the federal "Marine Protection, Research, and Sanctuaries Act of 1972," as may be deposited in the State Revolving Fund Accounts; (3) the unappropriated balances from the "Wastewater Treatment Fund" established pursuant to section 15 of the "Wastewater Treatment Bond Act of 1985," (P.L.1985, c.329); and (4) the sum of \$10,000,000 from the "1992 Wastewater Treatment Fund" established pursuant to section 27 of the "Green Acres, Clean Water, Farmland and Historic Preservation Bond Act of 1992," (P.L.1992, c.88).

The DEP would use the funds appropriated under this bill to make zero interest loans to local governments for up to 50% of eligible project costs for wastewater treatment system projects included in the "State Fiscal Year 1998 Project Priority List" and to provide a supplemental zero interest loan to a local government that received a loan in past years. The supplemental loan constitutes the difference between the allowable loan amounts required by the project and the loan amounts certified by the Commissioner of DEP in State FY 1995 under the New Jersey Wastewater Treatment Financing Program.

A companion bill, Assembly Bill No. 3020 of 1997 and Senate Bill No. 2144 of 1997, would authorize the New Jersey Wastewater Treatment Trust to provide approximately \$300,000 in a supplemental loan for an existing project and approximately \$53 million for loans to local governments identified on the priority list for the remaining

allowable project costs.

New wastewater treatment system projects that are eligible for financing in calendar year 1997 have allowable costs totaling approximately \$110.4 million, while previously financed projects that are eligible to receive supplemental loans under the State Fiscal Year 1998 Program total approximately \$.6 million.

The New Jersey Wastewater Treatment Financing Program is the primary source available for either federal or State funding to assist eligible local governments to finance necessary wastewater treatment (sewer) system upgrades. In 1985, the Legislature established the New Jersey Wastewater Treatment Trust, a State financing authority established pursuant to P.L.1985, c.334 (C.58:11B-1 et seq.), as the keystone of a financing mechanism for funding the rehabilitation and construction of wastewater treatment facilities.

The New Jersey Wastewater Treatment Financing Program comprises two complementary elements: the proceeds of State general obligation bonds and federal capitalization grants administered by the DEP, and the revenue bonds issued by the Trust. The federal grant moneys are made available from the federal Environmental Protection Agency (EPA) under the State Revolving Loan Fund Program established pursuant to the federal "Water Quality Act of 1987" (33 U.S.C.§1251 et seq.). Additional federal moneys are available from any fees and penalties received pursuant to the federal "Marine Protection, Research, and Sanctuaries Act of 1972," (33 U.S.C.§1401 et seq.).

To qualify for receipt of federal moneys under the "Water Quality Act of 1987," a state must establish a revolving loan fund and provide an annual 20 percent State-match to those moneys. All federal moneys received by the State for wastewater treatment system project financing are deposited in the "Wastewater Treatment Fund," a revolving loan fund established pursuant to the \$190 million "Wastewater Treatment Bond Act of 1985," P.L.1985, c.329 and administered by the DEP. In past years, the State has met the match requirement entirely through conventional General Fund appropriations or from a combination of a General Fund appropriation and by pledging loan repayment moneys from previous project loans made from the "Wastewater Treatment Bond Act of 1985." The 20% match for State Fiscal Year 1998 is expected to be provided entirely from loan repayments of older wastewater treatment system projects funded from the "Wastewater Treatment Bond Act of 1985" during the late 1980's.

Section 6 a. of the 1985 bond act allocated \$150 million to the DEP for zero interest loans to local governments for wastewater treatment system projects. Section 6 b. allocated \$40 million to the Trust to establish a reserve account for loans made by the Trust, and a guarantee account to secure debt issued by local governments in connection with the financing of a project. In 1987, the Legislature

enacted P.L.1987, c.198, which appropriated the \$40 million to the Trust for these purposes.

Moneys in the "Wastewater Treatment Fund" provide zero interest loans to local governments for up to 50% of eligible project costs for wastewater treatment system projects included on the project priority list. The Trust revenue bonds provide moneys for low interest (at or below market-rate) loans to local governments for the remaining portion of allowable project costs. By matching the loans made by the DEP, the Trust nearly doubles the amount of money available for wastewater treatment system projects. Since the combined money is provided at half the typical market interest rate, the New Jersey Wastewater Treatment Financing Program reduces the costs to a local government that must be passed on to the project's users. By funding its wastewater treatment system project through the Program, a local government should realize an average savings of 30% on the financing of the total eligible cost of the project over what it would cost that local government to secure its own financing.

On November 3, 1992 the voters approved the \$345 million "Green Acres, Clean Water, Farmland and Historic Preservation Bond Act of 1992," P.L.1992, c.88. Section 12 of the 1992 bond act allocated \$50 million for the financing of wastewater treatment system projects, in order to bring such systems into full compliance with permits issued pursuant to the "Water Pollution Control Act", P.L.1977, c.74 (C.58:10A-1 et seq.), to provide adequate wastewater treatment in areas where large numbers of septic systems have malfunctioned or become obsolete, or to connect an obsolete or malfunctioning wastewater treatment system to another wastewater treatment system.

Section 12 b. of the 1992 bond act allocated \$45 million to the DEP for zero interest loans to local governments for wastewater treatment system projects. Section 12 c. allocated \$5 million to the Trust to be used for reserve and guarantee funding to secure debt issued by the Trust or by local governments in connection with the financing of wastewater treatment system projects.

A local government seeking financial assistance for a wastewater treatment system project must apply for a loan from each State agency.

P.L.1985, c.334 requires that the DEP develop a project priority list for funding by the Trust in conformance with the applicable provisions of federal law.

Under federal law, a Federal Priority List must be developed by the DEP and approved each year by the EPA. The list ranks projects based upon existing water quality conditions and anticipated impacts on existing and potential water uses. All local governments listed or eligible for listing on the project priority list are required to advise the DEP whether they will pursue their own funding source, or exercise their option to apply for loans from the State. Those local

governments opting for State financial assistance are ranked in accordance with the priority system and placed on the State funding list. These projects are placed in the same rank order as they are found on the Federal Priority List.

The New Jersey Wastewater Treatment Financing Program has completed ten annual financing cycles and financed more than \$1.3 billion of wastewater treatment system projects throughout the State. Between 1987 and 1996 the DEP and the Trust have utilized moneys from the following sources: federal capitalization grants made available under the federal "Water Quality Act of 1987," State loans from the moneys made available under the "Wastewater Treatment Bond Act of 1985," State General Fund appropriations, loan repayments, and the unexpended balances of leftover or "de-obligated" loan moneys from project loans made in prior years. The EPA has made ten federal capitalization grants to New Jersey totaling approximately \$651 million since the Program's inception.

Under this bill, in conjunction with Assembly Bill No. 3020 of 1997 and Senate Bill No. 2144 of 1997, the New Jersey Wastewater Treatment Financing Program for 1997 would finance approximately \$110 million in wastewater treatment system projects. A new component of the Program introduced in 1995 permits local governments sponsoring wastewater treatment system projects partially funded from the "Pinelands Infrastructure Trust Fund" established pursuant to the "Pinelands Infrastructure Trust Bond Act of 1985," P.L.1985, c.302, to receive a Trust loan for the balance of allowable project costs. However, there are no Pinelands area projects scheduled to be financed in State Fiscal Year 1998.

New wastewater treatment system projects eligible for financing under this bill and Assembly Bill No. 3020 of 1997 and Senate Bill No. 2144 of 1997 have total allowable costs of approximately \$110 million, while a previously financed project is eligible to receive supplemental loans totaling \$600,000.

This bill is identical to Assembly Bill No. 3021.