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Perdue plan to sell loans draws fire

Atlanta Business Chronicle - by [Dave Williams](#) Staff Writer

Local governments are worried that Gov. Sonny Perdue's plan to sell part of an environmental loan fund to investors to help balance the state budget would threaten water and sewer projects across Georgia.

But the governor and officials with the **Georgia Environmental Facilities Authority** (GEFA) say they will leave enough in the fund to make sure the agency still can fulfill its core mission: financing water and sewer improvements for credit-poor cities and counties that can't get loans from the private sector.

"We'll continue to fund GEFA to make loans for the future," Perdue said.

At stake is a proposal to "monetize" up to \$500 million of GEFA's **Georgia Fund**, the state portion of an agency portfolio that also includes federal money. GEFA closed out fiscal 2009 last June with total net assets of \$1.7 billion, including \$642.8 million in the Georgia Fund.

The sell-off would generate an estimated \$288 million in revenue for the state, making it a major component of Perdue's strategy for balancing his \$18.2 billion fiscal 2011 budget request.

By comparison, all of the state programs and contracts the governor wants to eliminate from next year's recession-impacted budget add up to about \$135 million.

Putting GEFA on a diet isn't a new idea. The Georgia Public Policy Foundation suggested it back in 2003, Perdue's first year in office, when Georgia also was facing an economic downturn that was biting into state tax revenue.

In a report released last summer, the foundation identified \$300 million to \$500 million that GEFA could save by not issuing low-interest loans for water and sewer projects to local governments with sufficient credit to qualify for private financing.

Unlike loans issued by commercial and investment banks, 94 percent of GEFA's lendable funds are at zero cost because state agencies pay no taxes, said Kelly McCutchen, president of the Atlanta-based foundation, which advocates free-market solutions to public policy

issues. As a result, GEFA has a competitive advantage over its banking counterparts, he said.

“We completely support the original function of GEFA being the lender of last resort for communities that can’t get loans through the private sector,” he said. “[But] it’s critical that state government doesn’t compete against the private sector.”

But representatives of local governments say raiding GEFA for a one-time budget fix could cripple an agency that cities and counties have relied upon for decades to finance water and sewer improvements they need to attract jobs.

Tom Gehl, deputy director of governmental relations for the Georgia Municipal Association, said GEFA loans helped West Point, Ga., land the **Kia Motors Corp.** plant that began production last fall, played a role in financing Atlanta’s sewer overhaul, and is currently helping Hinesville, Ga., prepare for projected growth at Fort Stewart.

“It’s one of our favorite state agencies,” he said. “It’s one of the ones that actually helps local governments and grows the state.”

Todd Edwards, who specializes in environmental policy for the Association County Commissioners of Georgia, said shrinking GEFA’s Georgia Fund would drive up the costs of loans to local governments.

“It forces us to go to Wall Street investment bankers and expensive private bond attorneys for future water and sewer loans,” he said. “That’s going to mean higher interest rates for Georgia taxpayers to pay these off.”

Also in dispute is how selling off GEFA assets would affect the job market. McCutchen said the plan could revitalize Georgia’s moribund financial industry.

“This comes at a good time for banks and bond lawyers,” he said. “I look at this as an economic stimulus measure.”

But Edwards said making it more difficult for local governments to get loans for water and sewer projects would hurt the construction industry. “Projects are going to get delayed because local governments won’t be able to afford them,” he said. “That’s actually going to cost jobs.”

Edwards said the proposal also is ill-timed because it comes just as the state is poised to impose costly new water-saving mandates on local governments.

Fixing leaky water systems was among the recommendations of a task force formed by Perdue last fall to develop strategies in the aftermath of a federal court ruling threatening Lake Lanier’s future as a regional water supply.

But GEFA spokesman Shane Hix said cities and counties most in need of GEFA's help still could get it. For one thing, Perdue's budget includes \$19 million in bond money for water and sewer loans.

"That gives us the ability to do new loans so we don't have to shut our doors down," said Tom Steinmetz, GEFA's chief financial officer.

Hix said GEFA would prioritize the loans left in the Georgia Fund after the sell-off.

"The focus will shift to funding the communities that have the most difficulty obtaining private financing," he said.

Edwards said he is not optimistic that lawmakers could block Perdue's plan. With the governor's budget so dependent upon the revenue generated from the sell-off, rejecting the proposal would mean finding equivalent spending cuts, Edwards said.

"It's just unfortunate that we have to fill a hole in the budget," said Sen. Jack Hill, R-Reidsville, chairman of the Senate Appropriations Committee. "If we don't do it, we'll have to fill [another] hole."

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