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April 16, 2009 Joint Committee on Finance Paper #340

General and Revenue Obligation Bonding Authority, Present Value Subsidy Limit, and Reduce Clean Water Fund Interest Rate Subsidy (Environmental Improvement Fund)

[LFB 2009-11 Budget Summary: Pages 244-246, #1, #2, and #5]

CURRENT LAW

Clean Water Fund Program

The clean water fund program within the environmental improvement fund provides low-interest loans to municipalities for planning, designing, constructing or replacing a wastewater treatment facility, or for nonpoint source pollution abatement or urban stormwater runoff control projects. The program provides loans using proceeds of federal capitalization grants, general obligation bonds, and revenue obligation bonds. The federal grants are used for a state revolving loan fund, and must be matched by state funds equaling at least 20% of the federal grant amount. The state match is provided with general obligation bond proceeds. Most of the general obligation bond debt service costs are paid by general purpose revenues (GPR), and a portion is paid from loan repayments from municipalities. The program also uses general obligation bonding authority to leverage a larger amount of capital through the sale of state revenue obligation bonds for loans to municipalities. State revenue obligation bonds are retired primarily through repayments of program loans, with the general obligation bonds paying the costs of the state subsidy to municipalities that results because loans to municipalities are made at an interest rate below the market interest rate the state pays for its revenue bonds. DOA administers most aspects of the financial management of the environmental improvement fund. DNR primarily administers the loan and grant provisions.

To provide a financial control mechanism, the statutes provide a concept unique to the environmental improvement fund, termed a "present value subsidy" limit. This limit is a means for the Legislature to control the commitment of state financial assistance to municipalities in a biennium. Because it incorporates the debt service that will be paid on bond issuances, the present value subsidy limit reflects the total estimated cost to the state, in current dollars, of subsidizing clean water fund and safe drinking water loan projects. The present value subsidy limit acts as a cap on the sum of all assistance provided through the clean water fund program and safe drinking water loan program in a biennium. To the extent that actual bond interest rates are greater or less than assumed rates, the number of projects that may be funded would decrease or increase. The amount of present value subsidy is intended to be the equivalent of the amount the state would expend, but not be repaid, for a given project if that entire subsidy were provided in the year the loan was made, rather than over twenty years. Conceptually, the present value subsidy is the amount the state would need to invest today at a 7% annual rate of return to receive interest payments equal to the annual subsidy provided to municipalities. There is currently $114.7 million authorized in present value subsidy for the clean water fund for the 2007-09 biennium and $1,000 authorized for subsequent biennia.

Clean water fund projects, other than financial hardship assistance projects, are funded on a continuous funding cycle. If DNR and DOA determine that the amount of present value subsidy, general obligation bonding authority, or revenue bonding authority approved for a biennium is insufficient to provide funding for all projects for which applications will be approved during the biennium, the program would revert to an annual funding cycle, DNR would establish a funding list for each year of the biennium that ranks projects of municipalities that submit financial assistance applications by June 30 of the preceding fiscal year, and DOA would allocate funding to projects in the order they appear on the funding list. Financial hardship assistance projects are scored according to a priority ranking system that is used to establish a list of hardship projects to be funded. Funding for financial hardship assistance is statutorily limited to 15% of the total present value subsidy authorized during a biennium.

Clean water fund program projects receive the following subsidized interest rates as a percent of the market rate: (a) 55% of market rate for compliance maintenance projects, which are projects to prevent a significant violation of an effluent limitation by a municipal sewage treatment facility; (b) 55% of market rate for new or changed limits projects, which are projects to achieve compliance with an effluent limitation established after May 17, 1988, if the project is for a municipality that is not a violator of the specific limit that is changing; (c) 70% of market rate for projects to provide treatment facilities and sewers for unsewered areas, if two-thirds of the initial flow is from wastewater from residences that were in existence prior to October 17, 1972; (d) 65% of market rate for projects to abate nonpoint source pollution and to control urban stormwater runoff; (e) 0% for the portion of a project loan related to septage receiving and storing facilities and capacity for septage treatment; and (f) hardship financial assistance interest rates as low as 0% and grants for up to 70% of project costs, for projects where the municipality's median household income is 80% or less of the statewide median household income and the estimated annual residential wastewater treatment charges would exceed 2% of the median household income in the municipality. The current market interest rate is 4.85%, with loans for 55% of the market rate currently provided at 2.668%, and loans for 70% of market currently provided at 3.395%.

Safe Drinking Water Loan Program

The safe drinking water loan program within the environmental improvement fund provides low-interest loans to municipalities for planning, designing, constructing, or modifying public drinking water systems, if the projects will facilitate compliance with national primary drinking water regulations under the federal Safe Drinking Water Act. The program provides loans using proceeds of federal capitalization grants and a 20% state match provided with general obligation bond proceeds. All of the general obligation bond debt service costs are paid by general purpose revenues (GPR). The program does not have a state revenue obligation bond component like the clean water fund program has. There is $13.4 million in present value subsidy for the safe drinking water loan program for the 2007-09 biennium and $1,000 authorized for subsequent biennia.

Safe drinking water loan projects are scored according to a priority ranking system that is used to establish a list of projects to be funded. Top priority is provided for projects that address an acute public health risk, especially risk related to a confirmed waterborne disease outbreak or confirmed microbial contamination. Second priority is provided for projects that address chronic and longer-term health risks to people who drink the water. Safe drinking water projects receive loans at 55% of the market interest rate, or 33% of the market interest rate if the municipality meets financial need criteria.

Land Recycling Loan Program

The land recycling loan program within the clean water fund provides financial assistance to local governments for the investigation and remediation of contaminated (brownfields) properties. Eligible projects include investigation and remediation of contamination at sites or facilities owned by the local government if the contamination has affected, or threatens to affect, groundwater or surface water. The land recycling loan program is funded with up to $20 million, which comes from reallocation of repayments of clean water fund program loans made with the proceeds of federal grants to the clean water fund. There is $2.7 million in present value subsidy for the land recycling loan program for the 2007-09 biennium, and $1,000 for subsequent biennia. Land recycling loans are made with a 0% interest rate.

GOVERNOR

Provide an increase in bonding authority of $504.7 million for the environmental improvement fund, as shown in Table 1. This includes $85.9 million in general obligation and $418.8 million in revenue obligation bonding authority.

TABLE 1

Environmental Improvement Fund (EIF) Bonding Authority

	Current	AB 75	Total
Clean water fund -- general obligation	$697,643,200	$76,500,000	$774,143,200
Clean water fund -- revenue obligation	1,984,100,000	418,800,000	2,402,900,000
Safe drinking water -- general obligation	38,400,000	9,400,000	47,800,000
Total	$2,720,143,200	$504,700,000	$3,224,843,200

In addition, specify that the state may not obligate, in 2009-10 and 2010-11, a total amount exceeding the current level of $697,643,200 for the clean water fund program unless DOA first takes into account any federal economic stimulus funds received by the state pursuant to federal legislation enacted during the 111th Congress for the purpose of reviving the economy of the United States.

Provide a "present value subsidy limit" totaling $135.1 million for the environmental improvement fund for the 2009-11 biennium, including: (a) $114.8 million for the clean water fund program; (b) $17.6 million for the safe drinking water loan program; and (c) $2.7 million for the land recycling loan program. Provide a present value subsidy limit of $1,000 for any biennium after the 2009-11 biennium.

Reduce the subsidy for most clean water fund program projects to provide an interest rate of 70% of the market rate instead of the current 55% of market rate. The project types that would receive the reduced state subsidy include: (a) compliance maintenance projects, which are projects to prevent a significant violation of an effluent limitation by a municipal sewage treatment facility; and (b) new or changed limits projects, which are projects to achieve compliance with an effluent limitation established after May 17, 1988, if the project is for a municipality that is not a violator of the specific limit that is changing.

DISCUSSION POINTS

1. Current law authorizes a present value subsidy limit for the environmental improvement fund totaling $3,000 for any biennia after 2007-09 ($1,000 for each of the three programs within the fund). This would be insufficient to fund any expected projects during the 2009-11 biennium. If general and revenue obligation bonding authority for the clean water fund program is not increased, the program may have sufficient general obligation bonding authority to provide the required 20% state match to the federal capitalization grants, but would not be expected to have sufficient bonding authority to fund the expected level of project demand. If general obligation bonding authority for the safe drinking water loan program is not approved, the state would not be able to take advantage of the $31.5 million in federal grant funds anticipated to be

available during the biennium.

Clean Water Fund Program

2. The environmental improvement fund biennial finance plan submitted by DNR and DOA to the Building Commission and Legislature in September, 2008, requested sufficient general obligation bonding authority and present value subsidy limit under the clean water fund program to fund all expected wastewater needs during the biennium. DNR and DOA identified wastewater project needs of $804.3 million for the 2009-11 biennium, including: (a) $265.0 million of $530 million in estimated 2008-09 project costs for which applications had not been submitted as of August, 2008, and are now expected to be submitted in 2009-10 instead of 2008-09 (inclusion of this component meant that it was estimated that 2007-09 present value subsidy limit would not be needed for the projects, but that 2009-11 present value subsidy limit would be needed); (b) $509.0 million in estimated need for new clean water fund program applications in the 2009-11 biennium; (c) $6.9 million in land recycling loan program costs in the 2009-11 biennium; and (d) $23.4 million as a 3% construction contingency for the $780.9 million in applications described above. DNR's projections represented the best estimates of need as of August, 2008, based on both file materials and a comprehensive survey of municipalities.

3. During 2005-07 biennial budget deliberations, estimated project costs were $685.9 million. Subsequently, the actual project costs in financial assistance agreements entered into with 2005-07 funding were $395.2 million. During 2007-09 biennial budget deliberations, estimated project costs were $709.8 million. Actual project costs in financial assistance agreements with 2007-09 funding were $357.4 million as of March 31, 2009. It is anticipated that additional financial assistance agreements will be entered into with 2007-09 funding.

4. The biennial finance plan submitted in October, 2008, was based on the current law project interest rate of 55% of the market rate for most projects, and an assumption of a 6% market interest rate for revenue obligations issued during the biennium. Under this assumption, $804.3 million in estimated wastewater project costs would require a present value subsidy limit of $166.3 million, general obligation bonding authority of $133.2 million, and revenue obligation bonding authority of $655.1 million. However, levels of available carryover bonding authority from 2007-09 allowed the request in the biennial finance plan to be $116.0 million in general obligation bonding authority and $418.8 million in revenue obligation bonding authority. The main reasons for carryover general obligation bonding authority from 2007-09 include actual market interest rates of 4.3% to 4.85% instead of the estimated 6.0%, lower than estimated loan activity levels, higher than estimated loan repayments, and unused financial hardship assistance funds.

5. The bill would reduce the state subsidy for most projects from 55% of the market interest rate to 70% of the market interest rate in order to reduce the need for general obligation bonding authority, and the associated future GPR debt service costs. The recommended reduction in state subsidy also reduces the present value subsidy limit (cost of 20 years of subsidy in today's dollars) from the amounts included in the biennial finance plan under current law interest rates.

6. Based on the October, 2008, biennial finance plan submitted by DNR and DOA (which reflected program costs based on the current 55% of market interest rate), the reduction in the state subsidy in the bill would reduce the proposed increase in general obligation bonding authority from the $116 million included in the biennial finance plan, by $39.5 million, to $76.5 million. The bill proposes a clean water fund program present value subsidy limit of $114.8 million instead of the $166.3 million in the biennial finance plan, a reduction of $51.5 million in the need for present value subsidy limit. This means the state's costs of providing 20 years of subsidy for projects funded in the 2009-11 biennium would be expected to decrease by approximately $51.5 million from the levels that would be expected under current law interest rates of 55% of market interest. Lower state subsidy costs mean that costs to municipal borrowers would increase by the same amount.

7. The DNR and DOA biennial finance plan estimated that approximately 90% of anticipated project costs in 2009-11 would be financed at 55% of the market interest rate under current law, and would receive the decrease in subsidy to 70% of the market rate under the bill. Based on the current market interest rate of 4.85%, this means most projects would be funded at an interest rate of 3.395% (70% of 4.85%) instead of the current 2.668% (55% of 4.85%). This would mean an increase in municipal borrower repayment costs of $4.53 annually (38¢ per month) per $1,000 borrowed, or $4,528 annually ($377 per month) per $1 million borrowed.

8. The change in the subsidy rate for compliance maintenance and new or changed limits projects would first apply on the effective date of the budget act. This would likely mean that any financial assistance agreements signed after that date would be subject to the higher interest rate. Some of these projects would have been allocated present value subsidy at the 2007-09 lower (55% of market) interest rate, and would encounter an increase in their interest rate to 70% of the market rate if the municipality could not finalize the loan before the interest rate change would go into effect. The administration indicates that the intent of the provision was to change the subsidy for projects allocated 2009-11 present value subsidy. A technical correction would be required in order to clarify that the interest rate for projects for which present value subsidy is allocated for a biennium before 2009-11 would be 55% of the market rate, and the interest rate for projects for which the subsidy is allocated for 2009-11 or a subsequent biennium would be 70% of the market rate (Alternative #A5).

9. The biennial finance plan and the bill are based on an estimated revenue obligation market interest rate of 6% for long-range planning purposes. The market rate has averaged 5.3% for the 17 years that the program has issued bonds. The program issues bonds during construction of the project in the four to five years after the project financial assistance agreements are entered into, and uses the higher planning interest rate in case interest rates increase during that time.

10. The revenue obligation market interest rate has been at or below 5% since April, 2001, and is currently 4.85%. If market interest rates remain at an interest rate lower than the 6% "planning interest rate" used in the biennial finance plan during the 2009-11 biennium, the Governor's recommended levels of bonding authority could be sufficient to fund a greater amount of projects than were estimated under the biennial finance plan. If actual market interest rates would

rise to a rate higher than the 6% planning rate during the biennium, the amounts provided under the bill might fund a smaller amount of projects than estimated (depending on when during the biennium the interest rate would rise above 6%).

11. When a municipality submits a clean water fund application, DOA allocates present value subsidy limit to the project based on the 6% planning market interest rate. When the program and the municipality enter into a financial assistance agreement, projects are assigned a loan interest rate based upon the actual market interest rate (currently 4.85%), and present value subsidy is allocated as funds are disbursed under the loan during construction of the project. As long as actual interest rates remain below 6% during disbursal of funds under the loan, the actual present value subsidy decreases to less than the amount allocated at the time of the application, and less general obligation bonds are issued. This allows the state to spend less money to subsidize individual projects, and allows the state to finance a greater number of projects than estimated. Interest rates for loans under the program are currently at 4.85%. However, it is possible that the next revenue bond issue would have an interest rate higher than 5%, and the anticipated rate if bonds were issued now might be approximately 5.2% to 5.5%.

12. The Legislature approved levels of general obligation bonding authority and present value subsidy limit based on an estimated 5.0% market interest rate in 2003-05, 2005-07, and 2007-09.

13. Any general obligation or revenue obligation bonding authority authorized, but unused during a biennium, remains available for program use in subsequent biennia.

14. Providing funding for 2009-11 based on an estimated market interest rate of 5.5% would allow a lower level of new bonding authority and present value subsidy limit to be provided than if an estimated market interest rate of 6.0% would be used. It would still allow for some increase in market rates over the biennium without limiting anticipated projects.

15. If interest rates rise beyond estimated rates (for example, if a 5.5% interest rate would be used for provision of funding and the average interest rates rise above 5.5%), municipalities encounter project cost increases, or need is greater than identified in the September, 2008, biennial finance plan, some projects might be deferred from the spring of 2011 to after June 30, 2011, when 2011-13 financing would be made available, or projects might have to obtain interim financing (with a higher interest rate) and refinance with clean water fund program loans at a later date.

16. It is also possible that some demand currently expected for the 2009-11 biennium will not materialize until 2011-13, similar to what has happened in recent biennia. For example, 2005-07 project costs were estimated at $686 million during budget deliberations, and actual costs were $395 million. DOA and DNR estimate that $265 million of projects previously estimated to be financed in 2007-09 will not be realized until 2009-11. This means that bonding authority approved prior to 2009-11 will be used in 2009-11 to finance projects that were previously anticipated to be financed in 2007-09. Similarly, some of the $509 million in expected new 2009-

11 project costs may not be realized until 2011-13, and bonding authority that would be approved in anticipation of that demand may not be needed until 2011-13.

17. If estimates of need are made using a market interest rate lower than the 6% used in the bill, the amount of general obligation (GO) bonding authority and present value subsidy limit could be decreased from the levels in the bill to more accurately reflect expected interest rates. If the interest rate would be estimated as 5.5% during the 2009-11 biennium, and if the proposal to reduce the clean water fund subsidy from 55% of the market interest rate to 70% of the market rate would be adopted, $67.7 million in new GO bonding authority would be sufficient to fund all projected need, instead of the $76.5 million under the bill (a reduction of $8.8 million BR to the bill under Alternative #A2). A present value subsidy limit of $103.3 million would be sufficient for the clean water fund program instead of the $114.8 million provided under the bill.

18. It could be argued that the proposed decrease in the level of subsidy for municipal wastewater projects from 55% of the market interest rate to 70% should be approved because the current level of subsidy is too expensive for the state to sustain in difficult budgetary times, scarce state general funds must be spent on other state priorities than wastewater projects, and local governments should support an increased share of wastewater project costs. General obligation bond debt service payments for the clean water fund program are expected to increase from $45.8 million in 2007-08 ($42.1 million GPR and $6.0 SEG from loan repayments) to $60.1 million in 2010-11 ($54.1 million GPR and $9.0 SEG) under the bill. Under the proposed decrease in subsidy, the state would continue to spend millions of dollars to subsidize municipal wastewater projects, but at a decreased subsidy level. Almost all clean water fund program projects would be financed at the 70% of market interest rate, except stormwater or nonpoint projects (65% of market rate), septage treatment and capacity (0%) and financial hardship projects (interest rates as low as 0% and grants for up to 70% of project costs).

19. It could be argued that the proposed decrease in the level of subsidy for municipal wastewater projects should not be approved because the change would make it more expensive for municipalities to finance wastewater projects, and could make it more difficult for municipalities to obtain financing for projects. Some might also argue that the state's budget problems should not be passed along to local governments in the form of decreased subsidy for local projects. Finally, some might argue that the decrease in state subsidy is inappropriate because the change would mean the state would provide a smaller level of subsidy for wastewater projects than for drinking water projects, which would continue to be financed at 55% of the market interest rate.

20. Table 2 shows the level of subsidy for various types of projects under current law and under the bill. It also shows the interest rate under the current 4.85% market rate and an estimated 5.5% market rate.

TABLE 2

Project Interest Rates by Project Type and Interest Rate - Current Law and the Bill

	Current 4.85% Market Rate		Estimated 5.5% Market Rate	
Project Category	Current Law	AB 75	Current Law	AB 75
Clean Water Fund				
Compliance maintenance	2.668%	3.395%	3.025%	3.850%
New and changed limits	2.668	3.395	3.025	3.850
Stormwater or nonpoint	3.153	3.153	3.575	3.575
Unsewered (2/3 pre-1972)	3.395	3.395	3.850	3.850
Violator, reserve capacity, industrial or unsewered (2/3 post 1972)	4.850	4.850	5.500	5.500
Hardship*	Variable	Variable	Variable	Variable
Septage treatment and capacity	0.000%	0.000%	0.000%	0.000%
Safe Drinking Water				
Regular eligibility	2.668%	2.668%	3.025%	3.025%
Financial need community	1.601	1.601	1.815	1.815

*Hardship projects are eligible for grants and loan interest rates as low as 0%.

21. The Committee could choose to make a smaller reduction in the subsidy provided to municipalities than that proposed in the bill. If the market interest rate would be estimated to average 5.5% during the biennium, and the loan interest rate would be changed from 55% of the market interest rate to 65%, instead of 70% under the bill, $79.8 million in new GO bonding authority would be needed to fund all need projected through June, 2011, instead of $76.5 million under the bill (an increase of $3.3 million BR to the bill under Alternative #A3). In addition, a present value subsidy limit of $119.1 million would be needed for the clean water fund program, which represents an increase of $4.3 million from the $114.8 million provided under the bill.

22. If the market interest rate would be estimated to average 5.5% during the biennium, and the loan interest rate would be changed from 55% of the market interest rate to 60%, instead of the 70% under the bill, $91.9 million in new GO bonding authority would be needed to fund all need projected through June, 2011, instead of the $76.5 million under the bill (an increase of $15.4 million BR to the bill under Alternative #A4). In addition, a present value subsidy limit of $134.9 million would be needed for the clean water fund program, which represents an increase of $20.1 million from the $114.8 million provided under the bill.

23. The Committee could choose to maintain the current clean water fund program interest rate of 55% of the market interest rate, and approve financing levels based on a 5.5% market interest rate instead of the 6.0% planning interest rate used by the program. Under this alternative, $103.2 million in new GO bonding authority would be needed to fund all need projected through

June, 2011, instead of $76.5 million under the bill (an increase of $26.7 million BR to the bill under Alternative #A7). In addition, a present value subsidy limit of $149.8 million would be needed for the clean water fund program, which represents an increase of $35 million from the $114.8 million provided under the bill.

24. Approval of GO bond authority at a level less than provided in the bill would not be expected to result in significant GPR savings in debt service costs until after 2010-11. This is because bonds allocated for projects that are approved for funding in the 2009-11 biennium would likely be issued late in the biennium or in future biennia as facility construction is completed, and debt service would typically begin to be paid after 2010-11. Further, it is probable that any general obligation bonding authority not needed during 2010-11 would be needed for allocation to project costs in the 2011-13 biennium.

25. The Milwaukee Metropolitan Sewerage District (MMSD) borrows the largest percentage of project costs of any municipality in the program. The statutes require that an individual municipality may receive no more than 35.2% of the total available present value subsidy limit. In 2005-07, MMSD was allocated 30.3% ($33.3 million) of the $109.6 million in available present value subsidy limit. This represented 59.4% of the $55.9 million in present value subsidy allocated statewide. MMSD project costs were approximately 65.0% of the statewide total ($256.9 million of $395.2 million in financial assistance agreements statewide). MMSD represented a higher proportion of total actual costs than its proportion of the available present value subsidy limit, primarily because the amount of actual projects funded for other communities were lower than had been projected. In the 2007-09 biennium, MMSD project costs as of March 31, 2009, totaled $142.6 million, out of $357.4 million in statewide project costs to date (39.9%), and MMSD has been allocated 17.5% ($40.4 million) of the $114.7 million in available total present value subsidy limit. It is anticipated that DOA and DNR will allocate additional 2007-09 present value subsidy to MMSD and other municipalities.

Safe Drinking Water and Land Recycling Loan Program

26. The safe drinking water loan program uses all of the authorized general obligation bonds to provide the 20% state match to the federal capitalization grant under the Safe Drinking Water Act. This differs from the clean water fund program, which uses part of the general obligation bonds for the 20% state match to the federal capitalization grant under the Clean Water Act, and the remainder to pay the costs of the state subsidy to municipalities under the revenue obligation bond component of the program. The state is required to have the entire 20% state match in place before it can accept the federal capitalization safe drinking water grant.

27. The biennial finance plan prepared in September, 2008, requested $9.4 million in general obligation bonds for the safe drinking water loan program which, in combination with $88,500 in previously authorized but uncommitted bonding authority, would provide the 20% state match to approximately $47 million in federal capitalization grants. DOA and DNR estimate that approximately $83.9 million in project costs could be funded during the 2009-11 biennium.

28. The proposed general obligation bonding authority assumes a continuation of federal grants for three years at approximately the same $15.77 million annual level as the federal fiscal year 2008 grant. The administration requested 20% match sufficient for three years of federal grants rather than two so that any potential delay in adoption of a state budget would not delay having sufficient general obligation bonding authority in place to accept the federal capitalization safe drinking water grant. In addition, the actual federal grants were approximately $1 million higher than estimated for 2007 and 2008, and the program has allocated almost all the available project funding and present value subsidy during the 2007-09 biennium.

29. An alternative to providing a match sufficient for three years of federal grants would be to provide enough general obligation bonding authority to provide the 20% match for two full years ($6.3 million in GO bonding authority), plus provide a contingency of less than a full third year. For example, a contingency of 10% of each year's grant could be provided instead of a full third year, and $7.0 million could be provided instead of $9.4 million in new GO bonding authority. However, if actual federal grants are substantially higher than estimated, or if more than $7.0 million in state match would be needed before the state would authorize additional state match, it is possible that some safe drinking water projects would have to wait to finalize financial assistance agreements until 2011-13 or until a bill would be passed to authorize additional bonding authority. Any general obligation authority provided, but not needed, in 2009-11, would carry forward to be available for use in 2011-13.

30. If an estimate of a 5.5% market interest rate is made, a present value subsidy limit of $15.8 million could be provided for the safe drinking water loan program instead of the $17.6 million under the bill. However, project costs are limited by the amount of general obligation bonding authority provided, and available federal capitalization grants, in addition to the amount of present value subsidy limit.

31. If an estimate of a 5.5% market interest rate is made, a present value subsidy limit of $2.4 million could be provided for the land recycling loan program instead of the $2.7 million under the bill. However, project costs are limited to a cumulative total of $20 million, which serves as more of a funding limit than present value subsidy limit does. The land recycling loan program can lend up to $6.2 million for 2009-11 project costs.

Federal Stimulus Funding

32. The American Recovery and Reinvestment Act of 2009 (ARRA) included increases in federal capitalization grants to Wisconsin of $107,593,000 for the clean water fund program and $38,042,000 for the safe drinking water loan program. The administration indicates these funds have been included in the $650 million federal appropriation created under "Program Supplements," and will be transferred to the clean water fund and safe drinking water loan program segregated environmental improvement fund appropriations for expenditures for financial assistance. The bill could be amended to accomplish this intent by increasing the environmental improvement fund appropriations by $145,635,000 and decreasing the program supplement FED appropriation by the same amount.

33. Under the bill, general obligation bonding authority for the clean water fund program would increase by $76.5 million, but the state could not obligate any of the increase unless DOA first takes into account any federal economic stimulus funds received by the state under legislation enacted by the 111th Congress. Final preparation of the Governor's budget bill was completed before it was known what the final provisions of any federal economic stimulus bill would be, and what the specific impacts would be on the environmental improvement fund.

34. It is probable the provision in the bill would have little effect for two reasons. First, the state must use ARRA funds as quickly as possible, so will likely disburse ARRA funds before disbursing state funds. Second, while the state needs GO bonding authority in place before the program can approve a project financial assistance agreement, it does not obligate (issue) the bonds until the project is constructed during two to four years after the financial assistance agreement is entered into. For example, the state has allocated GO bonding authorized in previous biennia, but has not obligated any of the GO bonding authorized in the 2007-09 biennial budget act.

35. It is likely that some state statutory changes will be required before Wisconsin can use all of the ARRA funds being provided for the clean water fund and safe drinking water loan programs. For example, ARRA requires that at least half of the ARRA clean water and safe drinking water funds be disbursed as grants, forgiveness of principal, or negative interest, but the statutes only allow grants as part of the financial hardship assistance component of the clean water fund program. Second, financial assistance provided under the program is subject to present value subsidy limits which, under the biennial budget bill, do not factor in ARRA funds. While the clean water fund program operates under a continuous application process, the safe drinking water loan program has an April 30, 2009, application deadline for 2009-10 funding, which might conflict with the availability of ARRA funds.

36. If approximately half of the ARRA grant for the state's clean water fund program is disbursed as loans, it could reduce the need for new general obligation bonding authority by approximately $14.1 million and for revenue obligation bonding authority by approximately $52.8 million. This would be due to ARRA funds substituting for state dollars. The Committee could consider amending the bill to reflect that potential decrease in need. However, it is possible the demand for loan funds under the program might not change substantially from the currently estimated amount if the availability of grant funds allows municipalities to move the timing of many projects to an earlier start date.

37. The Governor, DOA, and DNR are still determining how the ARRA funds will be used and disbursed. The timelines required by ARRA are short enough that statutory changes might be needed before the 2009-11 biennial budget is enacted. Given these timelines, any needed statutory changes would likely need to be enacted in separate legislation that is expected to be advanced when the administration determines its course of action under the ARRA provisions.

ALTERNATIVES

A. Clean Water Fund

1. Approve the Governor's recommendation to provide: (a) an increase in general obligation bonding authority of $76,500,000 for the clean water fund program; (b) an increase in revenue obligation bonding authority of $418,800,000; (c) a "present value subsidy limit" totaling $114.8 million; and (d) a reduction in the subsidy to provide an interest rate of 70% of the market rate instead of the current 55% of market rate for compliance maintenance projects, and new or changed limits projects.

2. Estimate a 5.5% revenue market interest rate, and provide: (a) an increase in general obligation bonding authority of $67,700,000 for the clean water fund program (a decrease of $8.8 million from the bill); (b) an increase in revenue obligation bonding authority of $418,800,000; (c) a "present value subsidy limit" totaling $103.3 million (a decrease of $11.5 million from the bill); and (d) a reduction in the subsidy for most clean water fund program projects to provide an interest rate of 70% of the market rate instead of the current 55% of market rate. (This alternative is the same as the Governor's recommendation except it provides funding based on an estimated revenue market interest rate of 5.5% instead of 6%.)

ALT A2	**Change to Bill** Revenue
BR-GO	**-** $8,800,000

3. Estimate a 5.5% revenue market interest rate, and approve the following: (a) a reduction in the subsidy for most clean water fund program projects to provide an interest rate of 65% of the market rate (instead of the current 55% of market rate or proposed 70%) for compliance maintenance projects, and new or changed limits projects; (b) an increase in general obligation bonding authority of $79,800,000 (an increase of $3.3 million from the bill); (c) an increase in revenue obligation bonding authority of $418,800,000; and (d) a "present value subsidy limit" totaling $119.1 million (an increase of $4.3 million from the bill).

ALT A3	**Change to Bill** Revenue
BR-GO	$3,300,000

4. Estimate a 5.5% revenue market interest rate and approve the following: (a) a reduction in the subsidy to provide an interest rate of 60% of the market rate (instead of the current 55% of market rate or proposed 70%) for compliance maintenance projects, and new or changed limits projects; (b) an increase in general obligation bonding authority of $91,900,000 (an increase of $15.4 million from the bill); (c) an increase in revenue obligation bonding authority of $418,800,000; (d) a "present value subsidy limit" totaling $134.9 million for the clean water fund

program (an increase of $20.1 million from the bill).

ALT A4	**Change to Bill** Revenue
BR-GO	$15,400,000

5. In addition to approving Alternative A1, A2, A3 or A4, make a technical correction to specify that the interest rate for projects for which present value (PV) subsidy is allocated for a biennium before 2009-11 would be the current percentage of the market rate (generally 55%), and the interest rate for compliance maintenance projects and new or changed limits projects, for which the subsidy is allocated for 2009-11 and in any subsequent biennium would be the % of the market rate indicated in Alternative A1 (70%), A2 (70%), A3 (65%), or A4 (60%).

6. Estimate a 5.5% revenue market interest rate, delete the Governor's recommended decrease in subsidy to maintain the current subsidy level of 55% of the market interest rate, and approve the following: (a) an increase in general obligation bonding authority of $103,200,000 for the clean water fund program (an increase of $26.7 million from the bill); (b) an increase in revenue obligation bonding authority of $418,800,000; and (c) a "present value subsidy limit" totaling $149.8 million (an increase of $35.0 million from the bill).

ALT A6	**Change to Bill** Revenue
BR-GO	$26,700,000

7. Delete provision. There would be no new bonding authorized for the clean water fund program. The current law present value subsidy limit for any biennium after 2007-09 is $1,000, which would not be sufficient to fund any expected projects during the 2009-11 biennium.

ALT A7	**Change to Bill** Revenue
BR-REV	- $418,800,000
BR-GO	- 76,500,000
Total	- $495,300,000

B. Safe Drinking Water and Land Recycling Loan Programs

1. Approve the Governor's recommendation to provide: (a) an increase in general obligation bonding authority of $9,400,000 (to meet up to three years of federal match) for the safe drinking water loan program; (b) a "present value subsidy limit" totaling $17.6 million for the safe drinking water loan program; and (c) a "present value subsidy limit" of $2.7 million for the land recycling loan program.

2. Provide: (a) an increase in general obligation bonding authority of $7,000,000 (to meet two years of anticipated federal match, plus a 10% contingency for each year) for the safe drinking water loan program (a decrease of $2.4 million from the bill); (b) a "present value subsidy limit" totaling $17.6 million for the safe drinking water loan program; and (c) a "present value subsidy limit" of $2.7 million for the land recycling loan program.

ALT B2	**Change to Bill**
	Revenue
BR-GO	- $2,400,000

3. Estimate a 5.5% market interest rate and approve the following: (a) an increase in general obligation bonding authority of $9,400,000 (to meet up to three years of federal match) for the safe drinking water loan program; (b) a "present value subsidy limit" totaling $15.8 million for the safe drinking water loan program (a decrease of $1.8 million from the bill); and (c) a "present value subsidy limit" of $2.4 million for the land recycling loan program (a decrease of $0.3 million from the bill).

4. Estimate a 5.5% market interest rate and approve the following: (a) an increase in general obligation bonding authority of $7,000,000 (to meet two years of anticipated federal match, plus a 10% contingency for each year) for the safe drinking water loan program (a decrease of $2.4 million from the bill); (b) a "present value subsidy limit" totaling $15.8 million for the safe drinking water loan program (a decrease of $1.8 million from the bill); and (c) a "present value subsidy limit" of $2.4 million for the land recycling loan program (a decrease of $0.3 million from the bill).

ALT B4	**Change to Bill**
	Revenue
BR-GO	- $2,400,000

5. Delete provision. There would be no new bonding authorized for the safe drinking water loan program. The current law safe drinking water and land recycling loan programs present value subsidy limit for any biennium after 2007-09 is $1,000 for each program, which would not be sufficient to fund any expected projects during the 2009-11 biennium.

ALT B5	**Change to Bill**
	Revenue
BR-GO	- $9,400,000

C. Federal Stimulus Funding

1. Approve the Governor's recommendation to specify that the state may not obligate, in 2009-10 and 2010-11, a total amount exceeding the current level of $697,643,200 for the clean

water fund program unless DOA first takes into account any federal economic stimulus funds received by the state pursuant to federal legislation enacted during the 111th Congress for the purpose of reviving the economy of the United States.

2. Delete provision.

3. In addition to approving Alternative #C1 or #C2, reflect the anticipated transfer of federal stimulus funds from the program supplements FED appropriation to the environmental improvement fund as follows: (a) decrease the FED program supplements appropriation for receipt of federal stimulus funds by $145,635,000 in 2009-10; (b) increase the clean water fund SEG financial assistance appropriation by $107,593,000 in 2009-10; and (c) increase the safe drinking water loan fund SEG financial assistance appropriation by $38,042,000 in 2009-10.

ALT C3	**Change to Bill** Funding
SEG (EIF)	$145,635,000
FED (Program (Supplements)	- 145,635,000
Total	$0

4. In addition to any of the alternatives under Section C, approve either of the following:

a. Decrease bonding authority for the clean water fund program from the amount approved under Section A of the alternatives, by $14.1 million in general obligation bonding authority, and $52.8 million in revenue obligation bonding authority, to reflect the approximately $50 million of anticipated federal stimulus funds that may be used for loans under the program.

ALT C4a	**Change to Bill** Revenue
BR-REV	- $52,800,000
BR-GO	- 14,100,000
Total	- $66,900,000

b. Take no action.

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