



Joel Brennan, Secretary

Preston D. Cole, Secretary

October 1, 2020

Mr. Patrick E. Fuller
Assembly Chief Clerk
17 W. Main St., Room 401
Madison, WI 53707

**SUBJECT: Wisconsin Environmental Improvement Fund
Biennial Finance Plan for 2021-2023 First Version**

Dear Mr. Fuller:

Wisconsin Statutes (s. 281.59(3)(bm)1, Wis. Stats.) requires the Department of Natural Resources and the Department of Administration to jointly submit to the Legislature and to the State Building Commission the first version of the EIF Biennial Finance Plan. The purpose of the Plan is to provide information on loan, loan subsidy, and bonding levels for program operations during the 2021-2023 biennium.

If you have any questions regarding the Biennial Finance Plan, please contact Jim Ritchie at 215-6235 or David Erdman at 267-0374.

Sincerely,

A handwritten signature in blue ink that reads "Jim Ritchie".

Jim Ritchie, Director
Bureau of Community Financial Assistance
Department of Natural Resources

A handwritten signature in blue ink that reads "David Erdman".

David Erdman
Capital Finance Director
Department of Administration

cc: Preston Cole – AD/8
Joel Brennan – DOA

BIENNIAL FINANCE PLAN
ENVIRONMENTAL IMPROVEMENT FUND
FIRST VERSION
OCTOBER 1, 2020

Prepared by:

Department of Natural Resources
Bureau of Community Financial Assistance
<http://dnr.wi.gov/Aid/LoanNews.html>

Department of Administration
Capital Finance Office
<http://doa.wi.gov/capitalfinance>

ENVIRONMENTAL IMPROVEMENT FUND
 BIENNIAL FINANCE PLAN
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EXECUTIVE SUMMARY

**PROPOSED FUNDING LEVELS
 FOR
 ENVIRONMENTAL IMPROVEMENT FUND (EIF)
 2021-23 Biennium**

**BONDING AUTHORITY
 (in \$ millions)**

	CHANGE IN AMOUNT	CUMULATIVE
ENVIRONMENTAL IMPROVEMENT FUND		
Revenue Bonding	\$385.0	\$2, 911.7
A. CLEAN WATER FUND PROGRAM		
General Obligation Bonding	\$0.0	\$659.8
B. SAFE DRINKING WATER LOAN PROGRAM		
General Obligation Bonding	\$0.0	\$75.0

Notes:

- For the 2021-23 biennium, in addition to existing authorized unissued bonding authority, it is estimated that the Environmental Improvement Fund will require \$385.0 million of new revenue bonding authority to fund projects that may apply through June 30, 2024.
- The bonding authority amounts reflect proposed funding levels that are based on estimates of future funding needs. Such funding needs, and the corresponding funding levels, may change as more data becomes available.

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I. Introduction

Section 281.59(3), Wis. Stats., requires that the Department of Natural Resources (**DNR**) and the Department of Administration (**DOA**) jointly submit a *Biennial Finance Plan* for the Environmental Improvement Fund (**EIF**) to the Building Commission, the Joint Committee on Finance, and to the Chief Clerk of each house of the legislature. This first version of the Biennial Finance Plan is required to be provided by October 1 of each even-numbered year. The law requires DNR and DOA to provide information on the following topics:

1. An estimate of the needs for wastewater, storm water, safe drinking water treatment, and land recycling project needs, and the total amount of financial assistance planned to be provided or committed for projects during the four fiscal years of the next two biennia.
2. The extent to which the EIF will be maintained in perpetuity.
3. Financial statements, charts, and other financial information regarding the EIF.
4. The amount and description of service fees to be charged.
5. The Biennial Finance Plan impact on the guideline stated in s. 281.59(3)(b), Wis. Stats.

Attachment A summarizes authority levels and financial assumptions for the programs. Attachment B charts projected sources and uses of funds for the 2021-23 and the 2023-25 biennia.

II. Needs and Financial Assistance Planned To Be Provided

A. Clean Water Fund Program (CWFP)

Table 1 shows the projections of the total amount of all wastewater and storm water funding needs for the next four fiscal years. There are sufficient funds and bonding authority to meet these projected needs. These projections represent estimates as of September 25, 2020.

The State fiscal year (**SFY**) 2022 funding needs are projected by using the average of the last eight years of the CWFP Intent to Apply (**ITA**) submittals. We then estimate that 35% of the ITA submittals will result in actual funding applications. We also note that there is a linear increase of approximately 10% in the total amount of funding applied for over the past five years. Therefore, the projections for SFY 2023, SFY 24 and SFY 25 are based on a 10% projected increase above the SFY 2022 estimate. For the purposes of calculating assistance planned to be provided, we assume that the state will receive \$47,651,700 in federal capitalization grants in each year.

The 2017-19 biennial budget decreased the base interest rate charged on CWFP loans from 70% of market interest rate to 55% of market interest rate. Non-disadvantaged municipalities that have a population of 10,000 or more and or a median household income (**MHI**) greater than 80% of the State MHI are eligible to receive loans that are 55% of the market rate. Disadvantaged municipalities that have a population of less than 10,000 and an MHI that is 80% or less of the State MHI are eligible to receive loans that are 33% of the market interest rate. The 2017-19 biennial budget also eliminated hardship grant funding and replaced the hardship grants with a 0% interest rate tier. Extremely disadvantaged municipalities that have a population less than 1,000 and an MHI that is 65% or less of the State MHI are eligible to receive 0% interest rate loans. There were no changes to the CWFP interest rates in the 2019-2021 Biennial Budget.

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TABLE 1 Projected Wastewater and Storm Water Needs and Assistance Planned to be Provided (in \$ millions)				
% of Market Interest Rate	SFY22	SFY23	SFY24	SFY25
55%	\$241.6	\$265.7	\$292.3	\$321.5
33%	94.3	103.7	114.1	125.5
0%	20.7	22.7	25.0	27.5
Market Rate (100%)	18.3	20.1	22.1	24.2
Pilot Projects* at 0% of Market Rate	10.0	10.0	10.0	10.0
TOTAL	\$384.8	\$422.3	\$463.5	\$508.8

*DNR is authorized to fund non-traditional Clean Water Fund projects to address water quality issues that are consistent with the federal Clean Water Act. These non-traditional projects are anticipated to be awarded 0% interest rate loans to further encourage pilot projects and build a repertoire of projects for future consideration. DNR anticipates setting aside \$10 million/year for pilot projects in anticipation of changes in technology and implementation options.

B. Safe Drinking Water Loan Program (SDWLP)

Table 2 shows the projections of the total amount of all drinking water funding needs for the next four fiscal years. For the purposes of calculating assistance planned to be provided, we assume that the State will receive \$19,965,900 in federal capitalization grants in each year. The 2019-2021 Biennial Budget included authorization to issue revenue bonds for the SDWLP, which is expected to provide additional sources of funds to address needs in this and future biennia.

The State fiscal year (SFY) 2022 funding needs are projected by using the average of the last seven years of SDWLP Intent to Apply (ITA) submittals. We then estimate that approximately 29% of the ITA submittals will result in actual funding applications. We also note that there is a linear increase of approximately 6% in the total amount of funding applied for over the past five years. Therefore, the projections for SFY 2023, SFY 2024, and SFY 2025 are based on a 6% projected increase above the SFY 2022 estimate. These projections represent estimates as of September 25, 2020.

No changes were made to the SDWLP interest rates in the 2019-2021 Biennial Budget. Non-disadvantaged municipalities with population of 10,000 or more and MHI greater than 80% of State MHI are eligible to receive loans that are 55% of market interest rate. Disadvantaged municipalities that have a population of less than 10,000 and an MHI that is 80% or less of the State MHI are eligible to receive loans that are 33% of market interest rate.

With the revenue bonding authority noted above, revenue bond proceeds for the SDWLP will also now provide the required state match contributions on federal capitalization grants, thereby eliminating the issuance of tax-supported general obligation bonds for that purpose.

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TABLE 2 PROJECTED AVAILABLE DRINKING WATER FINANCIAL ASSISTANCE (in \$ millions)				
% of Market Interest Rate	SFY22	SFY23	SFY24	SFY25
55%	\$74.7	\$79.2	\$83.9	\$89.0
33%	\$60.4	\$64.0	\$67.8	\$71.9
TOTAL*	\$135.0	\$143.1	\$151.7	\$160.8

* May not add due to rounding.

C. Land Recycling Loan Program (LRLP)

No projects have requested funding from this program since SFY 2008. The remaining unallocated LRLP balance totals \$299,657. While Wis. Stats. continue to authorize use of these funds for financial assistance under the program, no future funding for this program is anticipated and no financial assistance has been calculated.

III. Fund Maintained in Perpetuity

The CWFP consists of three loan portfolios:

1. Prior to SFY 2016, the **Leveraged Portfolio** used proceeds from State of Wisconsin Clean Water Revenue Bonds (**CWRB**) to make loans. The leveraged portfolio was designed so that loan repayments plus state subsidies were used to retire previously issued CWRBs. Starting in SFY 2016, no CWFP loans were made within this portfolio. On February 15, 2017, the Building Commission approved an Amended and Restated Program Resolution for State of Wisconsin Environmental Improvement Fund Revenue Obligations. The amended and restated program resolution allows the State to move the loans from the leveraged portfolio into the direct portfolio as investment loans, to close out the leveraged portfolio, and surrender the state general obligations that were previously needed to pay annual debt services on the CWRBs.

On June 6, 2017, the State issued State of Wisconsin Environmental Improvement Fund Revenue Bonds (**EIFRB**) and all outstanding CWRBs were either legally or economically defeased.

2. The **Direct Portfolio** uses capitalization grants from the US Environmental Protection Agency (**EPA**), state matching funds that originate from EIFRBs, and proceeds from EIFRBs to make loans. Leveraging of the capitalization grants and state matching funds commenced in SFY 2016, and all new CWFP loans made since SFY 2016 have been made within this portfolio. As mentioned above, all loans made under the leveraged portfolio have been moved into the direct portfolio as investment loans. The direct portfolio was designed so that loan repayments on EPA-funded and bond-funded loans are used to retire revenue bonds that were issued.

The EPA-funded programs for the CWFP, the SDWLP, and the LRLP are self-perpetuating portfolios that will continue to grow as principal and interest payments are recycled into new loans. EPA regulations require that the EPA-funded programs be maintained in a way that guarantees that they will continue in perpetuity. While there are sufficient funds and bonding authority to meet the projected CWFP and SDWLP needs for the next four years, there is no guarantee that funding at those assumed levels can be maintained for future

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years and is subject to review each biennium. A major way that the EPA-funded programs could diminish in size is if a substantial number of loan defaults occurred.

3. The **Proprietary Portfolio** is for loans that did not previously fit under the above portfolios. Some loans can only be funded in the proprietary portfolio because of questionable credit quality, non-conformity with EPA regulations, or federal tax requirements. The number and amount of loans maintained in the proprietary portfolio is kept to a minimum.

DOA and DNR maintain and monitor financing models intended to assist the Fund to maintain financing operations in perpetuity. The models take into account the funding sources, including but not limited to CWFP and SDWLP loan repayments, along with future needs and future administrative expenses.

IV. Financial Reports

Section 281.59(3)(a)5, Wis. Stats., requires the presentation of audited financial statements for the CWFP, the SDWLP, and the LRLP. Financial statements covering those programs, including the balance sheet and statement of revenues and expenses, are part of the overall program financial statements prepared by the DOA and audited by Baker Tilly Virchow Krause, LLP. These statements must be considered in their entirety and may not be presented without accompanying statements and notes. The most recent copies of the audited financial statements, together with the report of the accountants, are available from the DOA Capital Finance Office (608-266-2305) or the DNR Bureau of Community Financial Assistance (608-266-3915) or on the web at doa.wi.gov/capitalfinance.

V. Loan Servicing

Section 281.58(9)(d), Wis. Stats., specifies that the DNR and the DOA may jointly charge and collect service fees on CWFP applications as established by rule for reviewing and acting upon the application and servicing the financial assistance agreement. Section NR 162.21, Wis. Admin. Code, specifies that if a service fee is imposed, the fee shall be described in the Biennial Finance Plan. The service fee for the 2021-23 biennium will continue to be 0.25% of the outstanding balance on CWFP loans entered into during the biennium. This service fee on the outstanding balance of CWFP loans started with the 2017-19 biennium. The service fee will be included in the interest rate charged on CWFP loans. Municipalities will not see an increase in the interest rate that they are charged on CWFP loans.

Section 281.60(11m), Wis. Stats., specifies that the DNR and the DOA shall jointly charge and collect an annual service fee for servicing LRLP financial assistance agreements. The statute also specifies the fee for the biennium shall be described in the Biennial Finance Plan. The service fee for the 2021-23 biennium will be 0.5% of the outstanding balance on LRLP loans.

Section 281.61(5)(b), Wis. Stats., specifies that the DNR and the DOA may jointly charge and collect service fees on SDWLP applications as established by rule for reviewing and acting upon of the application and servicing the financial assistance agreement. The DNR and the DOA have not established a service fee on SDWLP loans, but the DNR has begun the administrative rule process to authorize the collection of loan service fees for the SDWLP.

VI. Impact on Section 281.59(3)(b), Wis. Stats., Guidelines:

Authorizing legislation for the CWFP indicates that, in preparation of the Biennial Finance Plan, the DNR and the DOA shall consider as a guideline that all state water pollution general obligation debt service should not exceed 50% of all general obligation debt service costs of the

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state. The debt service costs for all state water pollution abatement programs were approximately 1.7% of all state debt service in SFY 2020 and are expected to total 1.4%, 1.3%, and 1.1% of all state debt service in SFYs 2021, 2022, and 2023. When compared to the total General Purpose Revenue debt service, the percent of debt service for state water pollution abatement programs would be 3.0% and 2.4%, 2.4%, and 2.0%, respectively. This plan contemplates the issuance of revenue bonds and no general obligation bonds. Accordingly, the pollution abatement debt service costs are well under the 50% guideline and should remain at such levels.

The state cost of subsidized loans to municipalities for the construction of pollution control facilities will continue to be significantly less than the costs previously incurred when state grants were offered for similar facilities. With all new CWFPP loans made since SFY 2016 originating from the direct portfolio, and issuance of revenue bonds funding the state match contributions, the state costs of subsidized loans is further drastically reduced.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
SUMMARY OF PROGRAM AUTHORITY AND FINANCIAL ASSUMPTIONS
ATTACHMENT A TO 2021-2023 BIENNIAL FINANCE PLAN VERSION 1**

Clean Water Fund Program Authority

GENERAL OBLIGATION BONDS

Clean Water Fund Program

Previously Authorized But Uncommitted General Obligation Authority	\$	798,548
Increase in General Obligation Bond Authority Recommended		-
Existing General Obligation Bond Authority		659,783,200
Cumulative General Obligation Bond Authority		659,783,200

Safe Drinking Water Loan Program

Previously Authorized But Uncommitted General Obligation Authority	\$	3,551,694
Increase in General Obligation Bond Authority Recommended		-
Existing General Obligation Bond Authority		74,950,000
Cumulative General Obligation Bond Authority		74,950,000

REVENUE BONDS

Environmental Improvement Fund (Clean Water Fund Program and Safe Drinking Water Loan Program)

Capitalization Grant Match (FYs 2021, 22, 23, and 24)*	\$	54,094,080	
Projects to be Funded/Bond Proceeds (FYs 2021, 22, 23, and 24)*		808,699,547	
Allowance for Project Cost Increases and Costs of Issuance		80,869,955	
Total:			943,663,582
Less: Available Revenue Bond Authority (carried over from '17-'19)			610,455,000
New Recommended Revenue Bond Authority			385,000,000
Existing Revenue Bond Authority			2,526,700,000
Cumulative Revenue Bond Authority			2,911,700,000

Financial Assumptions

PROJECTS TO BE FUNDED (FYs 2022 and 23)

Wastewater Projects Eligible for 0% of Market Rate	\$	43,400,000
Wastewater Projects Eligible for 33% of Market Rate		198,000,000
Wastewater Projects Eligible for 55% of Market Rate		507,300,000
Wastewater Projects Eligible for Market Rate		38,400,000
Safe Drinking Water Projects for 33% of Market Rate		124,400,000
Safe Drinking Water Projects for 55% of Market Rate		153,900,000
 Total Project Costs		 1,065,400,000

CAPITALIZATION GRANTS FROM THE US EPA (estimated)

Clean Water Fund Program	\$	95,302,000
Safe Drinking Water Loan Program		39,930,000
 Total Capitalization Grants		 135,232,000

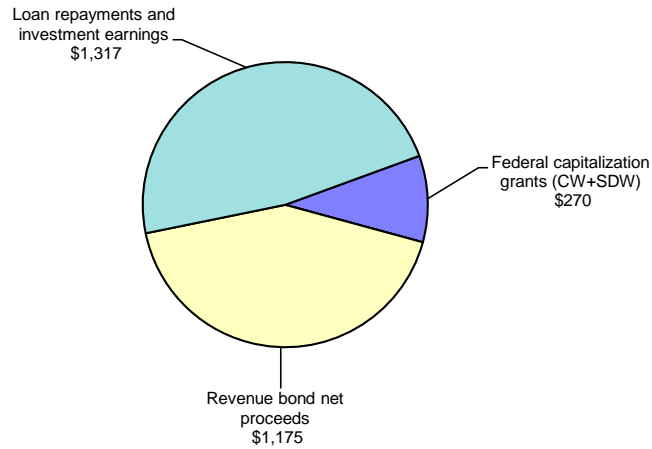
INTEREST RATES (at 5.0% estimated market rate)

Clean Water Fund Program Compliance Maint. and New/Changed Limits, Urban Storm, Nonpoint Source, and Unsewered @ 55% of market (Regular Rate)	2.750%
Clean Water Fund Program Hardship Rate (33%)	1.650%
Clean Water Fund Program Hardship Rate (0%)	0.000%
Safe Drinking Water Fund Program @ 55% of market (Regular Rate)	2.750%
Safe Drinking Water Fund Program Hardship Rate (33%)	1.650%

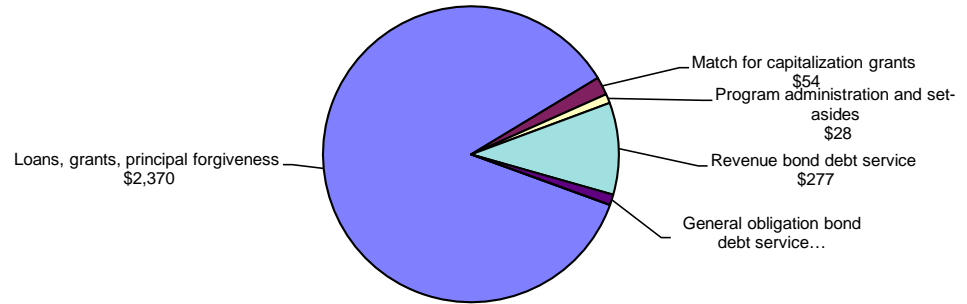
* To address future revenue bond authority, includes assumed issuance for remainder of FY2021 and assumed needs in FY2024 so that any bonding authority needed in the next biennium is addressed in this budget in the event of future budget delays.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
ESTIMATED SOURCES AND USES FOR 2021-23 and 2023-25 BIENNIA
ATTACHMENT B TO 2021-2023 BIENNIAL FINANCE PLAN VERSION 1**

Sources of Funds



Uses of Funds



SOURCES OF FUNDS

Federal capitalization grants (CW+SDW)	\$270
Revenue bond net proceeds	1,175
Loan repayments and investment earnings	<u>1,317</u>
TOTAL SOURCES	\$2,762

USES OF FUNDS

Loans, grants, principal forgiveness	\$2,370
Match for capitalization grants	54
Program administration and set-asides	28
Revenue bond debt service	277
General obligation bond debt service	32
TOTAL USES	\$2,762

Notes:

All numbers estimated and expressed in millions of dollars
 Loans and grants include projects originated during period indicated to end of funding cycle
 Assumptions regarding future interest rates for tax exempt bonds affect projections
 Does not include accruals or unapplied fund balances

OTHER RECIPIENTS OF ENVIRONMENTAL IMPROVEMENT FUND
BIENNIAL FINANCE PLAN FOR OCTOBER 2020

The Honorable Alberta Darling
Co-Chair Joint Committee on Finance
Room 317 East
State Capitol

The Honorable John Nygren
Co-Chair Joint Committee on Finance
Room 309 East
State Capitol

Ms. Naomi De Mers
Division of Facilities Development, DOA
7th Floor – 101 E. Wilson St.
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Mr. Jeff Renk
Senate Chief Clerk
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Updated September 2020