

1999 DRAFTING REQUEST

Assembly Amendment (AA-AB133)

Received: **04/30/99**

Received By: **traderc**

Wanted: **Soon**

Identical to LRB:

For: **Legislative Fiscal Bureau**

By/Representing: **Bonderud**

This file may be shown to any legislator: **NO**

Drafter: **traderc**

May Contact:

Alt. Drafters:

Subject: **Environment - water quality
Buildings/Safety - priv swg sys**

Extra Copies:

Pre Topic:

LFB:.....Bonderud -

Topic:

Changes in private sewage system loan program

Instructions:

See Attached

Drafting History:

| <u>Vers.</u> | <u>Drafted</u> | <u>Reviewed</u> | <u>Typed</u> | <u>Proofed</u> | <u>Submitted</u> | <u>Jacketed</u> | <u>Required</u> |
|--------------|---------------------|---------------------|-------------------|----------------|-------------------------|-----------------|-----------------|
| /? | traderc 04/30/99 | gilfokm 04/30/99 | | _____ | | | |
| /1 | | | mclark 05/3/99 | _____ | lrb_docadmin 05/3/99 | | |

FE Sent For:

<END>

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|--------------|----------------|-----------------|--------------|----------------|------------------|-----------------|-----------------|
| 1? | traderc | 1-4-30-99 | 5/3 mrc | mrc/CH 5/3 | | | |

FE Sent For:

<END>

Tradewell, Becky

From: Bonderud, Kendra
Sent: Thursday, April 29, 1999 8:03 PM
To: Tradewell, Becky
Cc: Hinz, Daryl
Subject: JFC 4/29/99 Action on Environmental Improvement Fund

Becky -

JFC took the following actions related to the Environmental Improvement Fund today. Please begin drafting changes as it fits into your schedule. On Friday morning, I will fax you any of the motions that I refer to in this email that need drafting. Thanks.

Paper 430, no vote passed = Governor, no LRB draft needed (fyi Alternative 1 and 2 each failed on an 8-8 vote)

Paper 431, approved Alternative A.2 (which includes the Alt. A1 technical corrections and needs an LRB draft) and approved Alternative B.1 and B.2, which needs an LRB draft for the B.2 effective date change. Motion 606 was also approved, which affects the priority classification of the grant program. I don't care whether you draft the loan and grant program changes as one or two drafts, whichever is easier for you in drafting.

Paper 432, no vote passed = Governor, no LRB draft needed (fyi Alternative 2 failed on an 8-8 vote)

Motion 633 passed to give the Village of Hatley a 0% loan from the old Wisconsin Fund like was provided for the Lake Tomahawk Sanitary District in the 1997-99 budget.

Also -

JFC talked about PECFA for 1 ½ hours and deadlocked 8-8 on a big Sen. Burke motion. The stalemate relates to groundwater law exemptions. JFC will take up PECFA again Tuesday morning at the beginning of the agenda. If you would like to hear about the JFC discussions, give me a call. Do not start any PECFA drafting yet - stay tuned for next Tuesday's discussions.

JFC finished the rest of Commerce - Building and Environmental Regulation. Two motions need drafting, one related to manufactured housing (transfer responsibilities from DOA and DOT to Commerce, hopefully simpler than last year's efforts) and one related to new home inspection in municipalities with less than 2,500 population, related to the one- and two-family dwelling code. I know Lonnie was working on manufactured housing a year ago, but I am not sure who would be drafting each of these this year. Would you ask the appropriate LRB drafter to contact me? I can then fax the motions and work directly with that person.

Thanks for your help.

Kendra Bonderud
Legislative Fiscal Bureau
(608) 266-3847
Kendra.Bonderud@legis.state.wi.us



Legislative Fiscal Bureau

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April 27, 1999

Joint Committee on Finance

Paper #431

Private Sewage System Replacement and Rehabilitation Loan and Grant Programs (Environmental Improvement Fund and Commerce - Building and Environmental Regulation)

[LFB 1999-01 Budget Summary: Page 218, #4 and Page 155, #19]

see p. 6

CURRENT LAW

The clean water fund program 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. Revenues to the fund come from federal grants, state match to the federal grants provided through general obligation bonding authority, loan repayments from clean water fund loans to municipalities, revenue bonding authority, direct use of general obligation bond proceeds and investment earnings. The clean water fund program does not currently provide financial assistance for private sewage systems or to individuals. DNR and DOA administer the program.

The Department of Commerce is appropriated \$3,500,000 GPR annually for the private sewage system replacement and rehabilitation grant program. The program provides financial assistance to home and small business owners who meet certain income and eligibility criteria, to cover a portion of the cost of repairing or replacing failing private sewage systems. The owner of a failing private sewage system applies to the county, Commerce provides grants to participating counties and the county is responsible for disbursing all grant awards to property owners (participants also include the Oneida Tribe and City of Franklin in Milwaukee County). In a year when approved applications exceed available funding, Commerce is required to prioritize funds, giving highest priority to category one systems which fail by discharging sewage to surface water, groundwater, drain tiles, bedrock or zones of saturated soils, and second priority to category two systems which fail by discharging sewage to the surface of the ground.

Private sewage system replacement or rehabilitation grants are available for homes or small commercial establishments that were constructed and inhabited prior to July 1, 1978, that

are occupied at least 51% of the year by the owner. The annual family income of a residential property owner may not exceed \$45,000. "Family income" is defined as the adjusted gross income of the owner and the owner's spouse, as computed for Wisconsin income tax purposes for the taxable year prior to the year in which the determination of system failure is made.

GOVERNOR

Create a private sewage system replacement and rehabilitation no-interest loan program within the environmental improvement fund to be administered by the Departments of Commerce and Administration. Specify that it may be used only in a year in which Commerce must prorate funds under the private sewage system replacement and rehabilitation grant program. Provide \$3,000,000 SEG in 1999-00 as a one-time annual appropriation from the environmental improvement fund. The funding would come from general obligation bond proceeds and loan repayments from state funds under the clean water fund program.

In a year in which Commerce prorates funds under the private sewage system replacement and rehabilitation grant program, counties could apply to Commerce for a loan under the loan program. The county could only use a loan to increase the grant amount to eligible persons to the amount which the persons would have been eligible to receive under the grant program. A loan to a county would bear no interest. The loan amount could not exceed the difference between the amount the county would have received if Commerce had not prorated grants and the amount that the county did receive. If the amount available for loans under the program is insufficient to provide loans to all eligible counties in a year, Commerce would be required to prorate loans in the same manner as under the grant program.

A loan could be for no longer than 20 years. In order to obtain a loan, a county would pledge any security required by DOA and demonstrate the financial capacity to assure sufficient revenues to repay the loan. Commerce and DOA would enter into a financial assistance agreement with an eligible county.

Make the following changes in eligibility for the private sewage system replacement or rehabilitation grant program: (a) change the definition of annual family income to federal adjusted gross income (instead of Wisconsin income) of the owner of the failing private sewage system and the owner's spouse; and (b) provide grant eligibility if the private sewage system serving the principal residence or the small commercial establishment was installed before July 1, 1978 (rather than that the residence or commercial structure was constructed before that date).

DISCUSSION POINTS

A. Loan Program

1. County participation in the loan program would be optional. If a county would choose to borrow under the program to increase the amount of a private sewage system rehabilitation or replacement grant to a home or small business owner, the county would have to demonstrate to DOA that it could repay the loan.

2. The current program prioritizes funding for category one systems which have the greatest threat to groundwater or surface water and for households with lower incomes (under \$45,000). Commerce prorated grants under the existing grant program in 1995-96 through 1997-98 for category one systems, which are systems that fail by discharging sewage to surface water, groundwater, drain tiles, bedrock or zones of saturated soils. In each of the three fiscal years, there were not sufficient funds for lower priority category two systems, which are systems that fail by discharging sewage to the surface of the ground.

3. In 1998-99, Commerce fully funded all 1,284 category one and 20 category two grants with a total grant amount of \$3,527,700. Commerce expects to fully fund 1999-00 grant awards because 1,214 applications for \$3,317,100 were received by the February 1, 1999, deadline. Thus, the loan program under the bill will not be needed in 1999-00. The number of grant applications has decreased from 1,808 in 1995-96 to 1,214 for the 1999-00 funding cycle. The decrease in applications might be due in part to insufficient funding for category two systems in some recent years and no change in the current income factoring since 1991-92.

4. Commerce officials anticipate that they would promulgate administrative rule changes in Comm 87, the private sewage system grant program rule, to implement the program, and that loans would first be available in the summer or fall of 2000, for the 2000-01 grant/loan cycle.

5. Demand for grants will increase in 2000-01 because in 1998, Commerce revised the grant funding tables in Chapter Comm 87 of the Administrative Code so that grant applications received after February 1, 1999, will be eligible for funding (beginning in 2000-01) under the new funding tables. For example, the replacement of a conventional private sewage system for a three bedroom house is currently eligible for \$1,470 before income proration, but increases by 38% to \$2,025 under the revised grant funding tables. The attachment shows examples of the calculation of the private sewage grant amount for various types of systems under the current and revised funding tables. The grant funding tables are required to fund approximately 60% of the costs of private sewage system replacement or rehabilitation.

6. The Commerce March, 1998, fiscal estimate for the Comm 87 revisions indicated that there would be no state fiscal effects of the rule change, and that existing Commerce staffing levels would be adequate to perform additional tracking, review and monitoring of experimental system applications. However, in March, 1999, Commerce calculated that if the new grant funding

tables had been in effect for the 1998-99 grant cycle, the total eligible grant amount would have been \$4.7 million instead of \$3.5 million, an increase of \$1.2 million or approximately one-third.

7. Demand for grants will also increase because Commerce promulgated rules in Comm 87 to specify how it will begin providing grant awards for experimental private sewage systems in 2000-01. The 1993-95 biennial budget act authorized Commerce to allocate 10% of private sewage system grant funding for experimental private sewage systems, or \$350,000 annually, but no awards for experimental systems will be available until 2000-01 because the rules had not been promulgated.

8. It is not clear how much county interest there will be in applying for loans under the bill. A county that chooses to apply for a loan would have to place a higher priority on providing grants to private sewage system grants to individuals than to other activities in the county budget. At a March, 1999, meeting of the Wisconsin County Code Administrators (representing staff who administer the current grant program at the local level), the group passed a resolution in opposition to the loan program.

9. It is probable that a loan to an individual county would be small in any given year. For example, if the loan program had been available in 1997-98, the last year of grant proration, potential loans to counties would have ranged from less than \$1,000 up to \$20,000. It is possible that these small loans would not be a cost-effective use of state administrative resources. On the other hand, a county may only need a small loan and may want to use the option of borrowing to fully fund grants to residents of the county.

10. The loan program provides an alternative method for increasing funds for private sewage system replacement or replacement to increasing the \$3,500,000 GPR appropriation for the current grant program. However, use of the environmental improvement fund for the 0% private sewage system loan program instead of for low-interest wastewater loans under the clean water fund means that loan repayments to the environmental improvement fund will be reduced, with the effect that, in the future, the clean water fund would have to issue additional general obligation bonds with GPR debt service costs to replace the foregone loan repayments.

11. Some would argue that a county should not have to borrow money from the state in order to ensure that residents of the county receive the full eligible grant under the state grant program. Under this argument, grant funding for the program should be increased to meet the increased demand expected from the change in grant funding tables and implementation of experimental system grants. For example, a \$1,000,000 GPR increase in the 2000-01 grant appropriation would provide almost 30% more funds for the grant program, which is approximately the same percentage increase as provided in the revised grant funding tables.

12. Others would argue that state GPR support of grants for private sewage system replacement or rehabilitation should not be increased, and that existing grant funds sufficiently target resources to systems with the greatest threats to groundwater or surface water and to lower income households. Under this argument, any county that chooses to provide additional funds to its

residents could do so by borrowing from the state at a 0% interest rate.

13. It is possible that even if counties are interested in borrowing under the bill, demand for loans in 1999-01 would be less than the \$3,000,000 provided in the bill. Since the loan program is not needed in 1999-00, provision of \$1,500,000 instead of \$3,000,000, would likely fund potential demand for county loans in 2000-01 under the new grant funding tables and implementation of grants for experimental systems. Needs for loan and grant funding after the 1999-01 biennium could be evaluated during the 2001-03 biennial budget process.

14. Under the bill, technical modifications are necessary to meet the Governor's intent that the \$3,000,000 in loan funding be provided as a continuing appropriation rather than annual (under the bill loans could not be awarded after June 30, 2000) and to clarify that local loan repayments be deposited in the environmental improvement fund.

B. Grant Program Eligibility

15. Currently, income earned outside of Wisconsin can not be used to determine eligible income for the grant program. This means that if two applicants have the same income, but one household has 100% of income from Wisconsin, and one has a portion of income from out-of-state sources, the applicant with out-of-state income would be eligible for a higher grant than the household with 100% of income from Wisconsin. In addition, applicants who move to Wisconsin during the year and apply for a grant the next year would have less Wisconsin income than someone with the same total income who lived in the state the entire year, and would be eligible for a higher grant. It could be argued that using federal income provides a more accurate and fair method of determining income under the program.

16. The bill would use all income that is used for federal income tax purposes to calculate eligibility under the state grant program. Commerce has calculated that of 1,214 applications submitted for 1999-00 grant funding, 184 applicants (15%) verified income by submitting the federal income tax forms, of which 102 applicants (55%) would have had a greater income using the federal income tax forms, 69 (38%) would have had no change in income, and 13 (7%) would have had a lower income. Of the 184 applicants with federal income tax information, 23 (13%) would be eligible under the current use of only Wisconsin income but would not be eligible if federal income was used to determine eligibility. While this sample represents only 15% of 1999-00 grant applicants, it does demonstrate that the change in definition of income would affect grant eligibility for some households.

17. The change to connect eligibility to the age of the private sewage system rather than the age of the structure would focus the program on older systems rather than older structures. For example, if a residence was built prior to July 1, 1978, a private sewage system was installed in the 1980's to replace the original system, and the replacement system fails, it is currently eligible for funding under the program. It is likely that the 1980's system failure would occur by discharging sewage on the surface of the ground, a category two failure that is not as high a priority as contamination of groundwater or surface water under the program. Under the bill, if a system built

in the 1980's, such as in the above example, failed, it would not be eligible for grant funding.

18. Another example of the impact of the change is that a private sewage system installed with a mobile home before July 1, 1978, may still be usable after a mobile home is replaced with another mobile home. Currently, if the mobile home is replaced after July 1, 1978, and subsequently, the private sewage system needs replacement, the system is not eligible under the program, but would be under the bill.

19. The precise number of systems installed prior to July 1, 1978, is not known. However, Commerce estimated 350,000 to 400,000 systems may be at least that old. A typical life-span of a private sewage system is at least 20 years, or longer if properly maintained and pumped. Many of the older systems do not have regular maintenance or pumping.

20. Both changes in grant program eligibility would gain or remove grant eligibility for individual households, depending on how the change impacts them. While the changes could impact total demand for grants under the program, the extent of the impact would depend on the circumstances of individual applicants.

21. The grant eligibility changes would be effective on the effective date of the bill. Currently, an owner may submit a program application to the county at any time during the year, and county applications are due to Commerce before February 1. Applications received by the county on or after February 1, 1999, will be submitted to Commerce before February 1, 2000, for the 2000-01 grant funding cycle. Under the bill, some owners who submit applications based on the current eligibility formula might find their eligibility changes after passage of the bill. A delayed effective date for the grant changes would allow applicants to know in advance the grant eligibility formula that will be in effect for the grant cycle. A delayed effective date could be included for applications submitted to Commerce on or after February 1, 2000, for the 2001-02 grant cycle.

ALTERNATIVES

A. Loan Program - Alternatives to Bill

1. Approve the Governor's recommendation to provide \$3,000,000 SEG from the environmental improvement fund to create a private sewage system loan program, as technically modified to: (a) make the appropriation continuing, rather than annual; and (b) specify that loan repayments by local governments shall be deposited in the environmental improvement fund.

2. Approve Alternative 1 but provide \$1,500,000 SEG instead of \$3,000,000 SEG for the loan program.

↳ 25.43(1)(c) covers this - as I informed Kendra.

16-0

| Alternative 2 | SEG |
|----------------------------------|--------------|
| 1999-01 FUNDING (Change to Bill) | -\$1,500,000 |

3. Delete the Governor's recommendation. Instead, provide \$1,000,000 GPR in 2000-01 for the Commerce private sewage system replacement or rehabilitation grant program.

| Alternative 3 | GPR | SEG | TOTAL |
|---|-------------|--------------|--------------|
| 1999-01 FUNDING (Change to Bill) | \$1,000,000 | -\$3,000,000 | -\$2,000,000 |

4. Maintain current law.

| Alternative 4 | SEG |
|---|--------------|
| 1999-01 FUNDING (Change to Bill) | -\$3,000,000 |

B. Grant Program Eligibility - Alternatives to Base

1. Approve the Governor's recommendation to provide the following changes in the private sewage system replacement or rehabilitation grant program to:

a. change the definition of annual family income to federal adjusted gross income of the owner of the failing private sewage system and the owner's spouse;

b. provide grant eligibility if the private sewage system serving the principal residence or the small commercial establishment was installed before July 1, 1978.

2. In addition, provide a delayed effective date to apply to applications received by Commerce on or after February 1, 2000, for the 2001-02 grant cycle.

3. Maintain current law.

Prepared by: Kendra Bonderud

ATTACHMENT

Examples of Calculation of Private Sewage System Grant Amount

| Component | <u>A</u> | <u>B</u> | <u>Total Eligible Grant Amount</u> | | | | | | | |
|--|--|--|------------------------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
| | Grants Awards 1992-93 thru 1999-2000 | Grant Awards Effective 2000-01 | <u>Example 1</u> | | <u>Example 2</u> | | <u>Example 3</u> | | <u>Example 4</u> | |
| | | | A | B | A | B | A | B | A | B |
| Site evaluation and soil testing | Flat \$200 | Flat \$250 | \$200 | \$250 | \$200 | \$250 | \$200 | \$250 | \$200 | \$250 |
| Installation or replacement of additional septic tank | \$400 to \$750, depending on tank size | \$500 to \$950, depending on tank size | 450 | 550 | 450 | 550 | 450 | 550 | | |
| Installation of a pump chamber and lift pump or siphon | \$875 to \$1,000, depending on number of bedrooms | \$1,100 to \$1,250, depending on number of bedrooms | | | 950 | 1,200 | 950 | 1,200 | | |
| Installation of a non-pressurized or in-ground pressure soil absorption area | \$375 to \$1,850, depending on percolation rate and number of bedrooms | \$800 to \$2,275, depending on percolation rate and number of bedrooms | 825 | 1,225 | 825 | 1,225 | | | | |
| Installation of a high groundwater mound soil absorption area | \$1,625 to \$2,600, depending on number of bedrooms | \$2,250 to \$3,775, depending on number of bedrooms | | | | | 2,200 | 2,550 | | |
| Installation of holding tank | \$1,250 to \$2,500, depending on number of bedrooms | \$2,250 to \$3,775, depending on number of bedrooms | | | | | | | 1,250 | 2,250 |
| Total grant amount before income proration | | | \$1,470 | \$2,025 | \$2,425 | \$3,225 | \$3,800 | \$4,550 | \$1,450 | \$2,450 |

Example 1 = Replacement of a conventional system, 3 bedroom house.

Example 2 = Installation of an in-ground system, 3 bedroom house.

Example 3 = Installation of a high groundwater mound system, 3 bedroom house.

Example 4 = Installation of a holding tank, 3 bedroom house.

1999

Date (time) needed SOON

LRB b 0211 11

**LFB BUDGET AMENDMENT
[ONLY FOR LFB]**

RET : King :

See form **AMENDMENTS — COMPONENTS & ITEMS.**

**LFB AMENDMENT
TO 1999 ASSEMBLY BILL 133 AND 1999 SENATE BILL 45**

>>FOR JT. FIN. SUB. — NOT FOR INTRODUCTION<<

At the locations indicated, amend the bill as follows:

✓ #. Page 101, line 12: after "fund," insert "as a continuing appropriation,"
↑

✓ #. Page 101, line 12: after "fund," insert ^{as} "as a continuing appropriation,"

(End)

#. Page, line:

#. Page, line:

#. Page, line:

#. Page, line:



State of Wisconsin
1999 - 2000 LEGISLATURE

LRBb0211/1
RCT:kmg:mrc

LFB:.....Bonderud - Changes in private sewage system loan program

FOR 1999-01 BUDGET - NOT READY FOR INTRODUCTION

LFB AMENDMENT

TO 1999 ASSEMBLY BILL 133 AND 1999 SENATE BILL 45

1 At the locations indicated, amend the bill as follows:

2 **1.** Page 401, line 12: after "fund," insert "as a continuing appropriation,".

3 **2.** Page 401, line 17: after "fund," insert "as a continuing appropriation,".

4 (END)