

Fiscal Estimate Narratives

DATCP 12/9/2003

LRB Number	03-1624/4	Introduction Number	AB-684	Estimate Type	Original
Subject					
Create Rural Finance Authority					

Assumptions Used in Arriving at Fiscal Estimate

Bill Analysis: The bill establishes the Wisconsin Rural Finance Authority (WRFA) and authorizes WRFA to operate certain participation loans and loan guarantee programs related to agriculture. The bill does not provide funding for WRFA start up or ongoing operations.

The bill creates four new subsidized participation loan programs and gives WRFA authority to issue up to \$26 million in bonds, which are not state debt. The bill authorizes WRFA to operate three agricultural loan guarantee programs similar to programs currently administered by the Wisconsin Housing and Economic Development Authority (WHEDA) and to guarantee up to \$25 million in total principal amount, subject to change by the Joint Committee on Finance. The bill provides for a Wisconsin agricultural reserve fund, which would consist of funds to guarantee loans, but does not provide funding for the reserve fund. The bill requires WRFA to maintain a cash balance of \$1 of reserve funding to \$4.50 of outstanding principal of loans guaranteed.

The bill also authorizes WRFA to implement a revolving loan fund, equity financing program and conservation trading program in consultation with the Department of Commerce. No funding is provided for these programs.

DATCP Fiscal Estimate:

The DATCP Secretary will appoint the WRFA executive director and serve on the WRFA board of directors. The direct fiscal impact will be primarily staff time associated with these roles and inter-agency coordination between DATCP's Division of Agricultural Development, WHEDA, and Department of Commerce to ensure effective development and implementation of WRFA. The DATCP estimate assumes that WRFA will have adequate financial resources described below for start-up and ongoing operations.

Assumptions for DATCP fiscal estimate are:

One-Time Costs

DATCP Secretary will spend 3 hours a month

Legal Counsel will spend 10 hours a month

Administrator, Division of Agricultural Development, will spend 16 hours a month

DAD Business Developer will spend 10 hours a week

DATCP one-time (first year) costs are estimated at: Salary and Fringe costs of \$39,900 and Other (Supplies and Services costs of \$5,200).

Ongoing Continuing Costs

DATCP Secretary will spend 2 hours a month

Administrator, Division of Agricultural Development, will spend 12 hours a month

DAD Business Developer will spend 5 hours a week

DATCP continuing annualized costs are estimated at: Salary and Fringe costs of \$19,500 and Other (Supplies and Services costs of \$2,600).

WRFA Fiscal Estimate:

The fiscal estimate for WRFA is divided into two parts: one time (start up) costs and operating costs.

One Time WRFA Costs (No fund source is identified in the bill for one-time start up costs)

Funding Wisconsin Agricultural Reserve Fund - \$5,555,555

The bill requires \$1 reserves for every \$4.50 in outstanding principal, which would require \$5.5 million if the reserve fund is fully funded.

Contract legal services - \$50,000
Assist in developing loan and lender agreements, policies, etc.

Financial consultant - \$75,000
Develop business plan (required for bond issuance)

Information technology - \$50,000
Accounting system and computers needed for back end administration of loans, website development (includes cost estimate of \$15,000 for web site development)

Office Set Up - \$17,400
Furniture and equipment

Initial bond issuance - Indeterminate
Initial bond issuance costs cannot be estimated without a business plan. These costs will be financed from bond proceeds.

Total Known Estimated One-Time Costs - \$5,747,400

Ongoing WRFA Operating Costs

Expenses

Board expense - \$10,000
Travel & reimbursement

Executive Director - \$120,700
Salary of \$85,000. Benefits at 42%

Loan Officer - \$85,200
Salary of \$60,000. Benefits at 42%

Office Manager - \$49,700
Salary of \$35,000. Benefits at 42%

Legal Services - \$50,000
Review of participation agreements, etc.

Supplies & services - \$50,000
Rent, utilities, telephone, IT, printing, etc.

Ongoing bond issuance costs - Indeterminate
Financed from bond proceeds.

Annual Debt Service - \$500,000
Assume 5% interest on \$10 million in outstanding bonds

Total Estimated Ongoing Costs - \$865,600

Revenue

The bill assumes WRFA will pay for its ongoing operations through (1) the interest rate spread between the cost of funds and interest rates and (2) service fees and other direct charges to program beneficiaries. Earnings from the Wisconsin Agricultural Reserve Fund cannot be used for operating expenses.

(1) Interest Rate Spread: It is difficult to precisely project revenue from the interest rate spread, which depends on interest rates charged (which must be lower than the participating lender's interest rate) compared to the cost of funds, which is determined by the marketability of WRFA bonds.

Several factors will reduce the marketability of WRFA bonds, thus increasing the cost of funds, including:

(a) high-risk loan pool. It is assumed that the loan pool will consist of a comparatively small pool of relatively high-risk loans due to the expected size of the loans relative to bonding authority and the provision that requires borrowers to be low-equity farmers, which could result in a relatively high default rate;

(b) required interest rates. The participation loan programs in the bill require WRFA to charge an interest rate below the participating lender's interest rate (e.g., one program fixes WRFA's interest rate at 50% of the interest rate charged by the lender; when market interest rates exceed 10%, the bill provides a direct two percent subsidy to lenders), which could reduce revenue to WRFA; and

(c) current market conditions. Historically low interest rates in recent months create interest rate compression, which further reduces expected revenue from interest rate spread.

(2) Fees. The bill provides for WRFA to charge fees to generate revenue. The bill fixes origination fees at one percent of loan proceeds.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
This fiscal estimate worksheet includes one time and annualized costs for DATCP only, not WRFA. One time costs for DATCP are \$39,900 Salary and Fringe, and \$5,200 Supplies and Services, for a total of \$45,100. Annualized costs for DATCP are shown below.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$19,500	
	(FTE Position Changes)		
	State Operations - Other Costs	2,600	
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$22,100	\$
B. State Costs by Source of Funds			
	GPR	22,100	
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$22,100	\$
NET CHANGE IN REVENUE		\$	\$
Agency/Prepared By		Authorized Signature	Date
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