Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2019 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 19-2948/1	Introduction Number SB-248

Description
term and repayment for loans under the Safe Drinking Water Loan Program

Fiscal Effect

State:

☐ No State Fiscal Effect
☒ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☐ Decrease Existing Revenues
- ☐ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☐ No
- ☐ Decrease Costs

Local:

☐ No Local Government Costs
☒ Indeterminate

1. ☒ Increase Costs
   ☒ Permissive ☐ Mandatory
2. ☒ Decrease Costs
   ☒ Permissive ☐ Mandatory
3. ☐ Increase Revenue
   ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue
   ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
   ☒ Towns ☒ Village ☒ Cities
   ☒ Counties ☒ Others sanitary & lake dists., etc.
   ☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
DNR/ Paul Neumann (608) 266-0818	Paul Neumann (608) 266-0818	6/18/2019

Fiscal Estimate Narratives
DNR 6/18/2019

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Description term and repayment for loans under the Safe Drinking Water Loan Program		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, DNR and DOA jointly administer the Safe Drinking Water Loan Program (SDWLP), which provides low-interest loans to municipalities for drinking water infrastructure projects, to help them comply with federal drinking water standards. DNR administers the loan provisions and DOA administers the financial management of the program.

Under current law, a SDWLP loan approved under this program must be fully amortized not later than 20 years after the original date of the financial assistance agreement, and the repayment of principal and interest, if any, must begin not later than 12 months after the expected date of completion of the project that it funds, as determined by the department of administration. Under this bill, SDWLP loans must be fully amortized not later than 30 years after the expected date of completion of the project that it funds, as determined by the department of administration, and the repayment of principal and interest, if any, must begin not later than 18 months after the expected date of completion of the project that it funds, as determined by DOA.

A. State Fiscal Effect

1. Program Administration

No fiscal effect. DNR and DOA staff time and costs to administer 30-year loans will be similar to efforts to administer 20-year loans.

2. Federal Funding Impacts

No fiscal effect. Loans with longer repayment lengths will not affect the amount of the federal Safe Drinking Water capitalization grant received from US Environmental Protection Agency nor the amount of state match to the federal grant.

3. Loan Impacts

The Safe Drinking Water Loan Program (SDWLP) uses loan payments (combined principal and interest) from existing loans as part of the basis for new loans. Longer loan terms, as allowed in the bill, would -- all other things being equal -- reduce the annual principal and interest payments returning to the SDWLP, thereby somewhat reducing the SDWLP's ability to make new loans.

This analysis assumes SDWLP makes new loans in the following amounts in the years below:

$81.3 million in FY2020
$57.3 million in FY2021
$59.9 million in FY2022
$62.9 million in FY2023

These amounts are consistent with the latest version of the Environmental Improvement Fund "FY2019-2021 Biennial Finance (Bi-Fi) Plan". It is estimated that 5% of the dollar value of new loans would be for 30-year loans. In addition, it is estimated that interest rates are 2.0% on new 20-year loans and 2.4% on new 30-year loans. Based on this analysis, 30-year loans would result in annual SDWLP revenue decreases of approximately $46,000, on average, due to the 30-year loans, which would slightly reduce the amount of funds available to make new loans under the SDWLP. However, given the unknown nature of future interest rates the fiscal effect is characterized as indeterminate.

B. Local Fiscal Effect

The benefit of SDWLP's subsidized interest rates is basically equal on 20-year loans and 30-year loans. The interest rate reduction may be a greater benefit on 30-year loans because interest is a larger part of the loan cost. In all cases, municipalities would have the discretion to decide whether to borrow money for 20 year or up to 30 years. Each request for financing over 20 years would be reviewed by DNR and DOA on a case-by-case basis.

1. Loan Demand

Longer loan terms would have unknown effects on demand for SDWLP loans by local units of government. Thus far, only a handful of inquiries have been received from municipalities indicating interest in loans with repayment length of more than 20 years.

2. Reduced Costs

Municipalities could benefit from 30-year loans on an annual basis because annual loan payments would be smaller, thus making SDWLP financing more affordable to municipalities.

3. Increased Costs

Over the course of 30 years, the total interest to be repaid would be more than if a municipality received a 20-year loan.

Long-Range Fiscal Implications

Given the unknown nature of future interest rates, fixing interest rates for 30 years instead of 20 years would have indeterminate long-term effects for SDWLP. Longer term loans would slightly reduce the SDWLP's ability to make new loans on an annual basis.