

ENVIRONMENTAL IMPROVEMENT FUND

Budget Summary				FTE Position Summary	
	2018-19 Adjusted Base	<u>Governor</u> 2019-20 2020-21		2019-21 Change Over <u>Base Year Doubled</u> Amount %	
GPR	\$15,482,400	\$13,251,500	\$10,938,900	-\$6,774,400	- 21.9%
SEG	<u>8,000,000</u>	<u>8,000,000</u>	<u>8,000,000</u>	<u>0</u>	0.0
TOTAL	\$23,482,400	\$21,251,500	\$18,938,900	-\$6,774,400	- 14.4%
BR		\$57,050,000			

Positions for the Environmental Improvement Fund program are provided under the Departments of Administration and Natural Resources.

Budget Change Items

1. BONDING AUTHORITY OVERVIEW

Governor: The following table summarizes environmental improvement fund (EIF) bonding authority under current law and the bill. Proposed changes in bonding authority are summarized in the following entries.

Environmental Improvement Fund Bonding Authority

	<u>Current</u>	<u>Bill</u>	<u>Total</u>
General Obligation			
Clean water fund program	\$646,283,200	\$13,500,000	\$659,783,200
Safe drinking water loan program	71,400,000	3,550,000	74,950,000
Lead service line replacement (safe drinking water)	<u>0</u>	<u>40,000,000</u>	<u>40,000,000</u>
Subtotal General Obligation Bonding	\$717,683,200	\$57,050,000	\$774,733,200
Revenue Obligation			
Clean water fund program	\$2,526,700,000	-\$2,526,700,000	\$0
Clean water fund and safe drinking water loan program	<u>0</u>	<u>2,526,700,000</u>	<u>2,526,700,000</u>
Subtotal Revenue Obligation Bonding	\$2,526,700,000	\$0	\$2,526,700,000
Total Bonding Authority	\$3,244,383,200	\$57,050,000	\$3,301,433,200

2. PROGRAM CHANGES

BR	\$17,050,000
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Governor: Make the following changes to the EIF.

Clean Water Fund Bonding Authority. Provide an increase in general obligation bonding authority of \$13,500,000 for the clean water fund program within the EIF. 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 storm water runoff control projects.

Safe Drinking Water Bonding Authority. Provide an increase in general obligation bonding authority of \$3,550,000 for the safe drinking water loan program within the EIF. Authorize the Department of Natural Resources (DNR) and Department of Administration (DOA) to issue revenue obligations for the safe drinking water loan program in a manner consistent with the existing authority for clean water fund program revenue obligations. Specify that the current authorization for the state to issue up to \$2,526,700,000 in revenue obligations for the clean water fund program could also be used to issue revenue obligations for the safe drinking water loan program. No additional revenue obligations would be authorized for either program.

The safe drinking water loan program provides financial assistance to municipalities for the planning, design, construction, or modification of public water systems. State general obligation bonds are issued to pay for the 20% state match to the federal capitalization grant for the safe drinking water loan program. Under the current clean water fund program revenue obligation provisions, the state issues revenue obligations to provide capital to make loans to municipalities for eligible projects. Municipalities borrow money under the program, including at below-market interest rates, and use the loans for the costs of planning, design and construction of wastewater treatment facilities. The repayment of the clean water fund program revenue obligations comes from: (a) municipality repayment of loans funded from the revenue obligations; (b) interest repayments on loans made with federal capitalization grants received from the U.S. Environmental Protection Agency (EPA); and (c) in cases of default, intercepts of state aid otherwise payable to a municipality. Safe drinking water revenue obligations would be repaid by similar means.

The administration indicates the safe drinking water state match would be funded from revenue obligations upon completion of certain measures necessary to establish the line of debt. The general obligation authority provided by the bill would be used in the event a state match would be necessary prior to the availability of safe drinking water revenue obligations.

Safe Drinking Water 30-Year Loan Term. The Executive Budget Book states that the Governor recommends increasing the maximum loan term from 20 years to 30 years to mirror the clean water fund program. The bill does not include this provision and would need to be amended to accomplish this intent.

[Bill Sections: 122, 171 thru 176, 295, 296, 339, and 1957 thru 1960]

3. LEAD SERVICE LINE REPLACEMENT

BR	\$40,000,000
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Governor: Provide an increase in general obligation bonding authority of \$40,000,000 for the safe drinking water loan program. Require DOA to allocate not more than \$40,000,000 in safe drinking water general obligation bonding authority to projects involving forgivable loans to private users of public water systems to cover not more than 50% of the cost to replace lead service

lines. Create a legislative finding and determination that the prevalence of lead service lines in connection to public water systems poses a public health hazard and that processes for reducing lead entering drinking water from such pipes requires additional treatment of wastewater. Further, it would be determined to be in the public interest, and the public policy of the state, to assist private users of public water systems in replacing lead service lines.

Water service lines, also known as laterals, connect a building to the water mains in the street, and carry drinking water from the public water system to the individual building. Water services lines were often constructed with lead as late as the 1980s in some areas. Lead in water service lines can leach into drinking water and damage the health of people drinking the water. In general, maintenance or replacement of the portion of the lateral that extends from the water main to the curb stop is the responsibility of the public water system, and the remaining portion of the lateral that extends from the curb stop to the building is the responsibility of the property owner.

The current safe drinking water loan program provides financial assistance to local governments that own public water systems or to the private owner of a community water system that serves a local government. The current program does not provide financial assistance to private users of public water systems. State safe drinking water loans have not been used for projects on private property because of state concerns about using general obligation bonding proceeds, which provide the state match for federal safe drinking water grants, for projects that benefit private property owners rather than improve publicly-owned infrastructure or provide a direct public benefit.

In 2016-17 and 2017-18, the safe drinking water loan program awarded principal forgiveness loans (grants) totaling \$26,857,900 for 42 municipalities to replace private lead service lines. However, these activities were funded by federal safe drinking water grants to the state. Lead service line replacements are to occur where public lead water mains have been replaced in the past or are replaced at the same time as private lead service lines.

[Bill Sections: 27, 296, and 1961]

4. DEBT SERVICE REESTIMATE

GPR	- \$6,774,400
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Governor: Reestimate debt service costs by -\$2,230,900 in 2019-20 and by -\$4,543,500 in 2020-21 for state general obligation bonds and commercial paper debt issued for the environmental improvement fund. This would include: (a) -\$1,613,300 in 2019-20 and -\$3,904,700 in 2020-21 for the clean water fund program; and (b) -\$617,600 in 2019-20 and -\$638,800 in 2020-21 for the safe drinking water loan program. Actual and estimated debt service payments from 2017-18 through 2020-21 are shown in the table. Clean water fund program debt service is also paid from a sum-certain SEG appropriation that receives a portion of loan repayments from municipalities on loans originally funded using general obligation bonds.

Environmental Improvement Fund Debt Service Expenditures

	<u>GPR Clean Water Fund Program</u>	<u>SEG Clean Water Fund Program</u>	<u>Safe Drinking Water Loan GPR</u>	<u>Total</u>
2017-18 Actual	\$9,888,600	\$8,000,000	\$5,095,400	\$22,984,000
2018-19 Base	9,893,500	8,000,000	5,588,900	23,482,400
2019-20 Bill	8,280,200	8,000,000	4,971,300	21,251,500
2020-21 Bill	5,988,800	8,000,000	4,950,100	18,938,900