

STATE OF WISCONSIN

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JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative John Nygren

Date: August 24, 2015

Re: DNR/DOA Report to JFC

Attached is the Biennial Finance Plan Environmental Improvement Fund Report from the Department of Administration and the Department of Natural Resources, pursuant to s. 281.59(3), Stats.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

AD:JN;jm

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Capital Finance

**BIENNIAL FINANCE PLAN
ENVIRONMENTAL IMPROVEMENT FUND**

FINAL VERSION

July 28, 2015

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://www.doa.state.wi.us/capitalfinance/>

ENVIRONMENTAL IMPROVEMENT FUND
 BIENNIAL FINANCE PLAN
 FINAL VERSION
 July 28, 2015

EXECUTIVE SUMMARY

**PROPOSED FUNDING LEVELS
 FOR
 ENVIRONMENTAL IMPROVEMENT FUND (EIF)
 2015-2017 Biennium**

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

	CHANGE IN AMOUNT	CUMULATIVE
A. CLEAN WATER FUND PROGRAM		
General Obligation Bonding	(-\$42.9)*	\$686.7
Revenue Bonding	(-182.2)*	2,526.0
Note: Bonding authority is expected to be sufficient to meet all of the estimated requests.		
B. SAFE DRINKING WATER LOAN PROGRAM		
General Obligation Bonding	\$5.4*	\$65.6
C. LAND RECYCLING LOAN PROGRAM		
	\$0.0	n/a

Notes:

*For the 2015-17 biennium, it is estimated that the Clean Water Fund Program and the Safe Drinking Water Loan Program will together require \$5.4 million of new general obligation bonding authority to fund \$611.0 million in new projects expected during that period. The reduction in authority requested, along with amounts expected to carryover from previous biennia, will provide amounts sufficient to fund the subsidies, reserves, federal capitalization grant matching requirements, and hardship grants for the Clean Water Fund Program during the 2015-2017 biennium. The increase in authority requested, along with amounts expected to carryover from previous bienna, will provide amounts sufficient to fund federal capitalization grant match requirement for the Safe Drinking Water Loan Program for the 2015-2017 biennium.

The proposed funding levels of general obligation bonding and revenue bonding authority are based on estimates of future needs for funding. These estimates, and the associated funding levels, may change as more data becomes available.

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I. INTRODUCTION

Section 281.59(3), Wis. Stats., requires the submission of 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. The law requires that the Department of Natural Resources (DNR) and the Department of Administration (DOA) provide information on the following topics:

1. An estimate of the needs for wastewater and 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 program authority levels and financial assumptions. Attachment B charts projected sources and uses of funds during the 2015-17 biennium. Attachment C shows the estimated fund capital available for commitments in each of the next four fiscal years based on projected repayment of financial assistance and other fund balance projections.

II. NEEDS AND FINANCIAL ASSISTANCE PLANNED TO BE PROVIDED

A. Clean Water Fund Program (CWFP)

Table 1 shows projections of the total amount of all wastewater and storm water funding needs and the financial assistance planned to be provided over the next four fiscal years. These projections represent the best estimates as of September 2, 2014, based on DNR data, historical CWFP loan data, and surveys of DNR field staff and Wisconsin municipalities. For the purposes of calculating assistance planned to be provided, we presume that Wisconsin will receive \$30,000,000 in capitalization grants in each year.

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TABLE 1 PROJECTED WASTEWATER AND STORM WATER NEEDS AND ASSISTANCE PLANNED TO BE PROVIDED (in \$ millions)				
% of Market Interest Rate	FY16	FY17	FY18	FY19
Loans at 70% of Market Rate All Types-- Compliance Maintenance, Storm Water, Nonpoint, Unsewered	\$343.6	\$77.3	\$54.6	\$87.5
Loans at Market Rate	18.1	4.1	2.9	4.6
Pilot Projects* at 0% of Market Rate	10.0	10.0	10.0	10.0
TOTAL	\$371.7	\$91.4	\$67.5	\$102.1

*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 help further encourage pilot projects and to help 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)

Data from preliminary needs surveys and past applicant activity indicate that drinking water needs will exceed the amount of capitalization grants available in the next two biennia. Therefore, we show values for financial assistance planned to be provided. For the purposes of calculating assistance planned to be provided, we presume that Wisconsin will receive \$16,000,000 in capitalization grants in each fiscal year.

Table 2 shows the amount of funds expected to be available during the next two biennia. The amounts include state match contributions (20% of capitalization grants), unused funds from previous years, repayments, and investment earnings.

TABLE 2 PROJECTED DRINKING WATER FINANCIAL ASSISTANCE PLANNED TO BE PROVIDED (in \$ millions)				
% of Market Interest Rate	FY16	FY17	FY18	FY19
33%	\$20.0	\$ 7.7	\$7.8	\$7.3
55%	80.0	30.7	31.2	29.0
Principal Forgiveness	4.8	4.8	4.8	4.8
TOTAL*	\$104.8	\$43.2	\$43.8	\$41.1

*May not add due to rounding.

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C. Land Recycling Loan Program (LRLP)

TABLE 3 PROJECTED LAND RECYCLING FINANCIAL ASSISTANCE PLANNED TO BE PROVIDED (in \$ millions)				
	FY16	FY17	FY18	FY19
TOTAL	\$0.3*	\$0.0	\$0.0	\$0.0

*\$300,000 was designated as Present Value Subsidy for the 2013 – 2015 biennium. No projects requested funding from this program in that biennium. DOA will maintain \$300,000 available for LRLP projects in the next fiscal year, after which that funding will be eliminated.

III. FUND MAINTAINED IN PERPETUITY

The CWFP consists of three loan portfolios:

1. The **Leveraged Portfolio** uses the proceeds from state revenue bonds to make loans. The leveraged portfolio is designed so that loan repayments plus state subsidies are used to retire revenue bonds issued. Starting in FY16, no future CWFP loans will be made within this portfolio.
2. The **Direct Portfolio** uses capitalization grants from the US Environmental Protection Agency (EPA), state matching funds, and proceeds from state revenue bonds to make loans. Leveraging of the capitalization grants and state matching funds will commence in FY16.

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 EPA-funded programs be maintained in a way that guarantees that they will continue in perpetuity. The only way that the EPA-funded programs would diminish in size is if a substantial number of loan defaults occurred. The leverage direct portfolio is designed so that loan repayments plus interest on EPA-funded loans are used to retire revenue bonds issued.

3. The **Proprietary Portfolio** is for loans that do not fit under the leveraged portfolio or direct portfolio. 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.

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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 (608-266-0739) or the DNR Bureau of Community Financial Assistance (608-266-3915) or on the web as a continuing disclosure event filing at <http://www.doa.state.wi.us/capitalfinance/>

V. LRLP SERVICE FEE

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 2015-17 biennium will be 0.5% of the outstanding balance on LRLP loans.

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 state. The debt service costs for all state water pollution abatement programs were approximately 7.7% of all state debt service in fiscal 2014 and are expected to total 7.7% of all state debt service in fiscal 2015. When compared to the total General Purpose Revenue debt service, the percent of debt service for state water pollution abatement programs would be 10.9% and 11.6%, respectively. Accordingly, the pollution abatement debt service costs are well under the 50% guideline. The composition of the debt service costs will change over time as the debt service expense of the CWFP replaces debt service for the expenses incurred under the Wisconsin Fund grant program.

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.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
SUMMARY OF PROGRAM AUTHORITY AND FINANCIAL ASSUMPTIONS
ATTACHMENT A TO 2015-2017 BIENNIAL FINANCE PLAN FINAL VERSION**

Clean Water Fund Program Authority

GENERAL OBLIGATION BONDS

Subsidy Reserve Requirements	\$	-
Capitalization Grant Match		12,000,000
Credit Reserve (to be funded with revenue bonds for '15-'17)		0
Direct Loans Less Available Repayments		(2,700,000)
Hardship Grants		2,700,000
Subtotal:	\$	12,000,000
Less: Available General Obligation Bond Authority (carried over from '13-'15)		115,000,000
Reduction in General Bond Authority		(54,100,000)
Existing General Obligation Bond Authority		740,800,000
Cumulative General Obligation Bond Authority	\$	686,700,000

REVENUE BONDS

Projects to be Funded	\$	214,800,000
Allowance for Project Cost Increases, Reserves, and Costs of Issuance		21,500,000
Total:	\$	236,300,000
Less: Available Revenue Bond Authority (carried over from '13-'15)		604,800,000
Reduction in General Bond Authority		(182,200,000)
Existing Revenue Bond Authority		2,708,200,000
Cumulative Revenue Bond Authority	\$	2,526,000,000

Financial Assumptions

PROJECTS TO BE FUNDED (from August 2014 DNR estimates)

Wastewater Projects Eligible for 0% of Market Rate	\$	20,000,000
Wastewater Projects Eligible for 70% of Market Rate	\$	420,900,000
Wastewater Projects Eligible for Market Rate	\$	22,200,000

Total Project Costs \$ 463,100,000

CAPITALIZATION GRANTS FROM THE US EPA (estimated) \$ 60,000,000

INTEREST RATES (at 5.0% estimated market rate)

Compliance Maint. and New/Changed Limits, Urban Storm
Nonpoint Source, and Unsewered @ 70% of market 3.500%

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
SUMMARY OF PROGRAM AUTHORITY AND FINANCIAL ASSUMPTIONS
PAGE 2 of ATTACHMENT A to 2015-2017 BIENNIAL FINANCE PLAN FINAL VERSION**

Safe Drinking Water Loan Program Authority

GENERAL OBLIGATION BONDS

Previously Authorized But Uncommitted General Obligation Authority	\$	2,154,683
Capitalization Grant Match for 2015-2017 EPA Grants		6,400,000
New General Obligation Authority proposed (rounded)		5,400,000
Cumulative General Obligation authority including proposed	\$	65,600,000

Financial Assumptions

PROJECTS TO BE FUNDED

Projects for communities receiving 55% of market rate	\$	110,708,168
Projects for communities receiving 33% of market rate		27,677,042
Projects receiving principal forgiveness		9,600,000
Total Project Costs	\$	147,985,210

EPA CAP. GRANT + MATCH AVAILABLE FOR PROJECTS \$ 31,632,474

OTHER FUNDS POTENTIALLY AVAILABLE \$ 116,352,736

INTEREST RATES (at 5.0% assumed market rate)

55% of 5% market interest rate (Regular Rate)	2.750%
33% of 5% market rate (Hardship Rate)	1.650%

Land Recycling Loan Program Authority

GENERAL OBLIGATION BONDS

None authorized nor recommended

Financial Assumptions

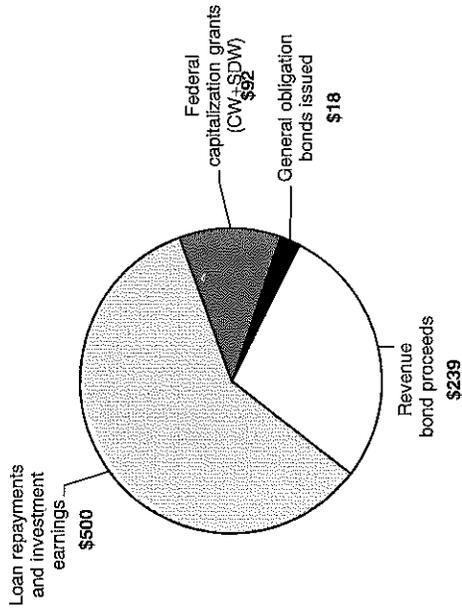
PROJECTS TO BE FUNDED

Total Project Costs	\$	-
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INTEREST RATE ON NEW LOANS 0%

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
ESTIMATED SOURCES AND USES FOR 2015-2017 BIENNIUM
ATTACHMENT B TO 2015-2017 BIENNIAL FINANCE PLAN FINAL VERSION**

Sources of Funds



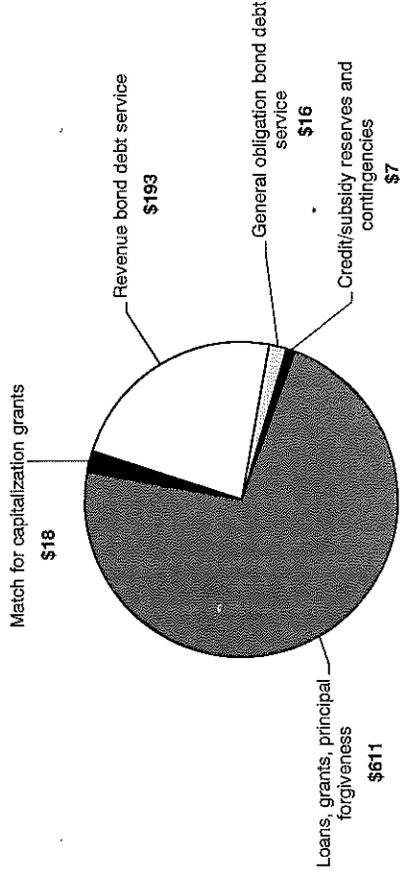
SOURCES OF FUNDS

Federal capitalization grants (CW+SDW)	\$92
General obligation bonds issued	18
Revenue bond net proceeds	236
Loan repayments and investment earnings	500
TOTAL SOURCES	\$846

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

Uses of Funds



USES OF FUNDS

Loans, grants, principal forgiveness	\$611
Match for capitalization grants	18
Revenue bond debt service	193
General obligation bond debt service	16
Credit/subsidy reserves and contingencies	7
TOTAL USES	\$846

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
CAPITAL AVAILABLE AND PROJECTED FUND BALANCES
ATTACHMENT C TO THE 2015-2017 BIENNIAL FINANCE PLAN FINAL VERSION

Fiscal Year	Beginning Balance	Bond & Federal Grant Revenue		Disbursements		Ending Balance	Loan & Grant Commitments	Net Balance
		(adjusted)	Loans	Payments	Payments			
FY12*	\$580.1	\$87.3	\$204.4	(\$314.8)	\$557.0	(\$255.2)	\$301.7	
FY13*	557.0	157.8	214.3	(335.2)	593.8	(210.9)	382.9	
FY14*	593.8	69.2	218.7	(315.4)	566.2	(167.5)	398.7	
FY15	566.2	100.0	241.2	(323.2)	584.2	(254.2)	330.0	
FY16	584.2	120.0	241.2	(323.2)	622.1	(254.2)	367.9	
FY17	622.1	120.0	241.2	(323.2)	660.0	(254.2)	405.9	
FY18	660.0	160.0	241.2	(323.2)	738.0	(254.2)	483.8	
FY19	738.0	120.0	241.2	(323.2)	775.9	(254.2)	521.8	
FY20	775.9	160.0	241.2	(323.2)	853.9	(254.2)	599.7	
FY21	853.9	120.0	241.2	(323.2)	891.8	(254.2)	637.7	
FY22	891.8	160.0	241.2	(323.2)	969.8	(254.2)	715.6	
FY23	969.8	120.0	241.2	(323.2)	1,007.7	(254.2)	753.5	
FY24	1,007.7	160.0	241.2	(323.2)	1,085.6	(254.2)	831.5	
FY25	1,085.6	120.0	241.2	(323.2)	1,123.6	(254.2)	869.4	
FY26	1,123.6	160.0	241.2	(323.2)	1,201.5	(254.2)	947.4	
FY27	1,201.5	120.0	241.2	(323.2)	1,239.5	(254.2)	985.3	
FY28	1,239.5	160.0	241.2	(323.2)	1,317.4	(254.2)	1,063.3	
FY29	1,317.4	120.0	241.2	(323.2)	1,355.4	(254.2)	1,101.2	
FY30	1,355.4	160.0	241.2	(323.2)	1,433.3	(254.2)	1,179.1	
FY31	1,433.3	120.0	241.2	(323.2)	1,471.3	(254.2)	1,217.1	
FY32	1,471.3	170.0	241.2	(323.2)	1,559.2	(254.2)	1,305.0	
FY33	1,559.2	120.0	241.2	(323.2)	1,597.1	(254.2)	1,343.0	
FY34	1,597.1	170.0	241.2	(323.2)	1,685.1	(254.2)	1,430.9	

Notes: All numbers in millions

Beginning and net balances will vary significantly depending on timing of grant receipts and bond issuance

Report shows estimated capital available and fund balances; not assets and equity

For additional information refer to audited financial statements

* indicates actuals