MEMORANDUM

To: Members
   Joint Committee on Finance

From: Senator Alberta Darling
      Representative John Nygren

Date: September 27, 2018

Re: DNR/DOA Report to JFC

Attached is a report on Environmental Improvement Fund Biennial Finance Plan from the Department of Natural Resources and the Department of Administration, pursuant to s. 281.59(3)(b)1, 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
Ellen Nowak, Secretary

September 20, 2018

The Honorable John Nygren
Co-Chair Joint Committee on Finance
Room 309 East
State Capitol

SUBJECT: Wisconsin Environmental Improvement Fund
Biennial Finance Plan for 2019-2021

Dear Representative Nygren:

Environmental Improvement Fund (EIF) program legislation (s. 281.59(3)(bm)1, Wis. Stats.) requires the Department of Natural Resources and the Department of Administration to submit to the Legislature and to the State Building Commission the first version of the EIF Biennial Finance Plan. The purpose of the Plan is to provide information on loan, loan subsidy, and bonding levels for program operations in the 2019-2021 biennium.

If you have any questions regarding the Biennial Finance Plan, please contact Mary Rose Teves at 267-7683 or David Erdman at 267-0374.

Sincerely,

Mary Rose Teves, Director
Bureau of Community Financial Assistance
Department of Natural Resources

cc: Daniel Meyer – AD/8
Ellen Nowak – DOA
BIENNIAL FINANCE PLAN
ENVIRONMENTAL IMPROVEMENT FUND
FIRST VERSION
SEPTEMBER 20, 2018

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/
EXECUTIVE SUMMARY

PROPOSED FUNDING LEVELS FOR ENVIRONMENTAL IMPROVEMENT FUND (EIF) 2019-2021 Biennium

BONDING AUTHORITY (in $ millions)

<table>
<thead>
<tr>
<th></th>
<th>CHANGE IN AMOUNT</th>
<th>CUMULATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. CLEAN WATER FUND PROGRAM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Obligation Bonding</td>
<td>$0.0</td>
<td>$646.3</td>
</tr>
<tr>
<td>Revenue Bonding</td>
<td>$0.0</td>
<td>$2,526.7</td>
</tr>
</tbody>
</table>

Note: Bonding is expected to be sufficient to meet all of the estimated requests.

B. SAFE DRINKING WATER LOAN PROGRAM

<table>
<thead>
<tr>
<th></th>
<th>CHANGE IN AMOUNT</th>
<th>CUMULATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation Bonding</td>
<td>$7.1</td>
<td>$78.5</td>
</tr>
</tbody>
</table>

Notes:

The proposed funding levels are based on estimates of future needs for funding. These estimates, and the associated funding levels, may change as more data becomes available.
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. This first version of the Biennial Finance Plan is required to be provided by October 1 of each even-number year. 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, storm water and 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 for the 2019-21 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 the projections of the total amount of all wastewater and storm water funding needs for the next four fiscal years. There are sufficient funds and bonding authority to meet these projected needs. These projections represent the best estimates as of August 30, 2018.

The SFY 2020 funding needs are projected by using the average of the last six years of the CWFP Intent to Apply (ITA) submittals. We then estimate that 35% of the ITA submittals will result in actual funding applications. We also note that there is a linear increase of approximately 7% in the total amount of funding applied for over the past five years. Therefore, the projections for SFY 21, SFY 22 and SFY 23 are based on a 7% projected increase from SFY 2020 estimate. For the purposes of calculating assistance planned to be provided, we assume that the state will receive $43,392,000 in federal capitalization grants in each year.

The 2017-19 biennial budget decreased the base interest rate charged on CWFP loans from 70% of market interest rate to 55% of market interest rate. Non-disadvantaged municipalities that have a population of 10,000 or more and or a median household income (MHI) greater than 80% of the MII for the State are eligible to receive loans that are 55% of the market rate. Disadvantaged municipalities that have a population of less than 10,000 and a MHI that is 80% or less of the MHI for the State are eligible to receive loans that are 33% of the market interest rate. The 2017-19 biennial budget also eliminated hardship grant funding and replaced the hardship grants with a 0% interest rate tier. Extremely disadvantaged municipalities that have a population less than 1,000 and a MHI that is 65% or less of the MHI for the State are eligible to receive 0% interest rate loans.
**TABLE 1**
Projected Wastewater and Storm Water Needs and Assistance Planned to be Provided (in $ millions)

<table>
<thead>
<tr>
<th>% of Market Interest Rate</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
</tr>
</thead>
<tbody>
<tr>
<td>55%</td>
<td>$237.4</td>
<td>$254.0</td>
<td>$271.8</td>
<td>$290.8</td>
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<tr>
<td>33%</td>
<td>43.7</td>
<td>46.8</td>
<td>50.0</td>
<td>53.5</td>
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<tr>
<td>0%</td>
<td>6.3</td>
<td>6.8</td>
<td>7.2</td>
<td>7.7</td>
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<tr>
<td>Market Rate (100%)</td>
<td>14.9</td>
<td>15.9</td>
<td>17.0</td>
<td>18.1</td>
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<tr>
<td>Pilot Projects* at 0% of Market Rate</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
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<tr>
<td>TOTAL</td>
<td>$312.3</td>
<td>$333.5</td>
<td>$356.0</td>
<td>$380.1</td>
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</table>

*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 further encourage pilot projects and 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 the past five years of application activity indicate that drinking water needs are experiencing a linear increase of approximately 5% in the total amount of funding applied for each year. The increase in funding applied for is further supported by annual increases shown in the preliminary needs surveys. At this rate, the need will exceed the amount of capitalization grants available in the next two biennia. Therefore, we show values for financial assistance planned to be provided based on the actual funds projected to be available, rather than project needs. For the purposes of calculating assistance planned to be provided, we assume that the state will receive $18,931,000 in federal capitalization grants in each 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.

No changes were made to the SDWLP interest rates in the 2017-19 budget. Non-disadvantaged municipalities with population of 10,000 or more and median household income (MHI) greater than 80% of State MHI are eligible to receive loans that are 55% of market interest rate. Disadvantaged municipalities that have a population of less than 10,000 and a MHI that is 80% or less of the MHI for the State are eligible to receive loans that are 33% of market interest rate.
TABLE 2
PROJECTED DRINKING WATER FINANCIAL ASSISTANCE PLANNED TO BE PROVIDED (in $ millions)

<table>
<thead>
<tr>
<th>% of Market Interest Rate</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>23</th>
</tr>
</thead>
<tbody>
<tr>
<td>55%</td>
<td>$62.0</td>
<td>$42.8</td>
<td>$44.9</td>
<td>$47.3</td>
</tr>
<tr>
<td>33%</td>
<td>15.5</td>
<td>10.7</td>
<td>11.2</td>
<td>11.8</td>
</tr>
<tr>
<td>Principal Forgiveness</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
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<tr>
<td>TOTAL*</td>
<td>$81.3</td>
<td>$57.3</td>
<td>$59.9</td>
<td>$62.9</td>
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</table>

*May not add due to rounding.

C. Land Recycling Loan Program (LRLP)

No projects have requested funding from this program since SFY 2008. As part of the 2015-2017 Biennial Budget, the remaining $300,000 balance of the LRLP was eliminated due to inactivity. No future funding for this program is anticipated.

III. Fund Maintained in Perpetuity

The CWFP consists of three loan portfolios:

1. The Leveraged Portfolio used proceeds from State of Wisconsin Clean Water Revenue Bonds (CWRBs) to make loans. The leveraged portfolio was designed so that loan repayments plus state subsidies were used to retire previously issued CWRBs. Starting in FY16, no CWFP loans were made within this portfolio. On February 15, 2017, the Building Commission approved an Amended and Restated Program Resolution for State of Wisconsin Environmental Improvement Fund Revenue Obligations. The amended and restated program resolution allows the State to move the loans from the leveraged portfolio into the direct portfolio as investment loans, to close out the leveraged portfolio, and surrender the state general obligations that were previously needed to pay annual debt services on the CWRBs. On June 6, 2017, the State issued State of Wisconsin Environmental Improvement Revenue Bonds (EIFRB) and all outstanding CWRBs were either legally or economically defeased.

2. The Direct Portfolio uses capitalization grants from the US Environmental Protection Agency (EPA), state matching funds that originate from EIFRBs, and proceeds from EIFRBs to make loans. Leveraging of the capitalization grants and state matching funds commenced in FY16, and all new CWFP loans made since FY16 have been made within this portfolio. As mentioned above, steps have been taken to close out the leveraged portfolio and move all loans made under the leveraged portfolio into the direct portfolio as investment loans.

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 the 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 leveraged direct portfolio is designed so that loan repayments plus interest on EPA-funded loans are used to retire revenue bonds that were issued.

3. The Proprietary Portfolio is for loans that do not fit under the leveraged or direct programs. Some loans can only be funded in the proprietary portfolio because of
ENVTMENTAL IMPROVEMENT FUND
BIENNIAL FINANCE PLAN
FIRST VERSION, SEPTEMBER 20, 2018

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.

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 at http://www.doa.state.wi.us/capitalfinance/

V. Loan Servicing
Section 281.58(9)(d), Wis. Stats., specifies that the DNR and the DOA may jointly charge and
collect service fees on CWFP applications as established by rule for reviewing and acting upon
the application and servicing the financial assistance agreement. Section NR 162.21, Wis.
Admin. Code, specifies that if a service fee is imposed, the fee shall be described in the Biennial
Finance Plan. The service fee for the 2019-21 biennium will be 0.25% of the outstanding balance
on CWFP loans entered into during the biennium. The service fee will be included in the interest
rate charged on CWFP loans. Municipalities will not see an increase in the interest rate that they
are charged on CWFP loans.

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 2019-21 biennium will be 0.5% of the outstanding balance on LRLP loans.

Wisconsin State Statutes do not currently permit service fees to be collected for SDWLP 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 4.4% of all state debt service in fiscal 2018 and are expected to total 4.3% of all
state debt service in fiscal 2019. When compared to the total General Purpose Revenue debt
service, the percent of debt service for state water pollution abatement programs would be 7.3%
and 7.3%, 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, and with all new CWFP loans made since FY16
originating from the Direct Portfolio, the state costs of subsidized loans is further drastically
reduced.

6
STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
SUMMARY OF PROGRAM AUTHORITY AND FINANCIAL ASSUMPTIONS
ATTACHMENT A TO 2019-2021 BIENNIAL FINANCE PLAN VERSION 1

Clean Water Fund Program Authority

GENERAL OBLIGATION BONDS

Hardship Grants
Less: Available General Obligation Bond Authority (carried over from '17-'19) 6,018,500
Recommended Reduction of General Obligation Bond Authority
Existing General Obligation Bond Authority 646,283,200
Cumulative General Obligation Bond Authority 646,283,200

REVENUE BONDS

Capitalization Grant Match 17,356,800
Projects to be Funded 47,650,800
Allowance for Project Cost Increases and Costs of Issuance 4,765,080
Total: 69,772,680
Less: Available Revenue Bond Authority (carried over from '17-'19) 690,455,000
New Recommended Revenue Bond Authority
Existing Revenue Bond Authority 2,526,700,000
Cumulative Revenue Bond Authority 2,526,700,000

Financial Assumptions

PROJECTS TO BE FUNDED

Wastewater Projects Eligible for 0% of Market Rate 33,100,000
Wastewater Projects Eligible for 33% of Market Rate 90,500,000
Wastewater Projects Eligible for 55% of Market Rate 491,400,000
Wastewater Projects Eligible for Market Rate 30,800,000

Total Project Costs 645,800,000

CAPITALIZATION GRANTS FROM THE US EPA (estimated) 86,784,000

INTEREST RATES (at 5.0% estimated market rate)

Compliance Maint. and New/Changed Limits, Urban Storm
Nonpoint Source, and Unsewered @ 55% of market 2.750%
Safe Drinking Water Loan Program Authority

**GENERAL OBLIGATION BONDS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previously Authorized But Uncommitted General Obligation Authority</td>
<td>$469,948</td>
</tr>
<tr>
<td>Capitalization Grant Match for 2019-2021 EPA Grants</td>
<td>$7,572,400</td>
</tr>
<tr>
<td>New General Obligation Authority proposed (rounded)</td>
<td>$7,100,000</td>
</tr>
<tr>
<td>Cumulative General Obligation authority including proposed</td>
<td>$78,500,000</td>
</tr>
</tbody>
</table>

**Financial Assumptions**

**PROJECTS TO BE FUNDED**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects for communities receiving 55% of market rate</td>
<td>$104,862,183</td>
</tr>
<tr>
<td>Projects for communities receiving 33% of market rate</td>
<td>$26,215,546</td>
</tr>
<tr>
<td>Projects receiving principal forgiveness</td>
<td>$7,572,400</td>
</tr>
<tr>
<td>Total Project Costs</td>
<td>$138,650,129</td>
</tr>
</tbody>
</table>

**EPA CAP. GRANT + MATCH AVAILABLE FOR PROJECTS**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$34,061,360</td>
</tr>
</tbody>
</table>

**OTHER FUNDS POTENTIALLY AVAILABLE**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$104,588,769</td>
</tr>
</tbody>
</table>

**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%
STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
ESTIMATED SOURCES AND USES FOR 2019-2021 BIENNIAL
ATTACHMENT B TO 2019-2021 BIENNIAL FINANCE PLAN VERS. 1

Sources of Funds

- Repayments and interest earnings $879
- Federal capitalization grants (CW+SDW) $125
- General obligation bonds issued $8
- Revenue bond net proceeds $70
- TOTAL SOURCES $1,081

Uses of Funds

- Loans, grants, principal forgiveness $890
- Match for capitalization grants $25
- Program administration and set-asides $14
- Revenue bond debt service $131
- General obligation bond debt service $16
- Contingencies $5
- TOTAL USES $1,081

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
### STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
CAPITAL AVAILABLE AND PROJECTED FUND BALANCES
ATTACHMENT C TO THE 2019-2021 BIENNIAL FINANCE PLAN VERSION 1

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Beginning Balance</th>
<th>Bond &amp; Federal Grant Revenue (adjusted)</th>
<th>Loan Payments</th>
<th>Bond &amp; Loan Payments</th>
<th>Ending Balance</th>
<th>Loan &amp; Grant Commitments</th>
<th>Net Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY16*</td>
<td>540.8</td>
<td>123.5</td>
<td>232.3</td>
<td>(243.1)</td>
<td>653.5</td>
<td>(229.9)</td>
<td>423.6</td>
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<td>FY17*</td>
<td>653.5</td>
<td>334.8</td>
<td>308.8</td>
<td>(1,010.6)</td>
<td>286.5</td>
<td>(144.1)</td>
<td>142.4</td>
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<td>FY18*</td>
<td>286.5</td>
<td>59.6</td>
<td>238.1</td>
<td>(289.1)</td>
<td>295.2</td>
<td>(166.7)</td>
<td>128.5</td>
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<td>(289.1)</td>
<td>364.2</td>
<td>(166.7)</td>
<td>197.5</td>
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<td>473.3</td>
<td>(166.7)</td>
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<td>(289.1)</td>
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<td>(166.7)</td>
<td>841.0</td>
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<td>(289.1)</td>
<td>1,076.7</td>
<td>(166.7)</td>
<td>910.0</td>
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<td>160.0</td>
<td>238.1</td>
<td>(289.1)</td>
<td>1,185.7</td>
<td>(166.7)</td>
<td>1,019.1</td>
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<tr>
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<td>1,185.7</td>
<td>120.0</td>
<td>238.1</td>
<td>(289.1)</td>
<td>1,254.8</td>
<td>(166.7)</td>
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<td>160.0</td>
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<td>(289.1)</td>
<td>1,363.9</td>
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<td>1,197.2</td>
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<td>1,363.9</td>
<td>120.0</td>
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<td>(289.1)</td>
<td>1,432.9</td>
<td>(166.7)</td>
<td>1,266.3</td>
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<td>(289.1)</td>
<td>1,552.0</td>
<td>(166.7)</td>
<td>1,385.3</td>
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<td>(289.1)</td>
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<td>1,454.4</td>
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<td>(166.7)</td>
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<td>1,624.5</td>
</tr>
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**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
OTHER RECIPIENTS OF ENVIRONMENTAL IMPROVEMENT FUND
BIENNIAL FINANCE PLAN FOR SEPTEMBER 2018

The Honorable Alberta Darling
Co-Chair Joint Committee on Finance
Room 317 East
State Capitol

The Honorable John Nygren
Co-Chair Joint Committee on Finance
Room 309 East
State Capitol

Mr. John Klenke
Division of Facilities Development, DOA
7th Floor – 101 E. Wilson St.
Madison, WI 53703

Mr. Jeff Renk
Senate Chief Clerk
Room B20 Southeast
State Capitol

Mr. Patrick E. Fuller
Assembly Chief Clerk
17 W. Main St., Room 401
Madison, WI 53707

Updated September 2018