



Kathy Blumenfeld, Secretary

Adam N. Payne, Secretary-Designee

March 17, 2023

Mr. Edward Blazel
Assembly Chief Clerk
17 W. Main St., Room 401
Madison, WI 53707

**SUBJECT: Wisconsin Environmental Improvement Fund
Biennial Finance Plan for 2023-2025 Second Version**

Dear Mr. Blazel:

Wisconsin Statutes (s. 281.59(3)(bm)2, Wis. Stats.) requires the Department of Natural Resources and the Department of Administration to jointly submit to the Legislature and to the State Building Commission the updated version of the EIF Biennial Finance Plan to reflect material approved in the Governor's biennial budget. The purpose of the Plan is to provide information on loan, loan subsidy, and bonding levels for program operations during the 2023-2025 biennium.

The first version of the Biennial Finance Plan for 2023-2025 was submitted on September 30, 2022. A third, and final, version of the Biennial Finance Plan will be distributed after the biennial budget is enacted.

If you have any questions regarding the Biennial Finance Plan, please contact Jim Ritchie at 608-215-6235 or Aaron Heintz at 608-267-1836.

Sincerely,

Jim Ritchie, Director
Bureau of Community Financial Assistance
Department of Natural Resources

Aaron Heintz, Director
Capital Finance Office
Department of Administration

cc: Adam Payne – AD/8
Kathy Blumenfeld – DOA

BIENNIAL FINANCE PLAN
ENVIRONMENTAL IMPROVEMENT FUND
SECOND VERSION
MARCH 17, 2023

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://doa.wi.gov/capitalfinance>

ENVIRONMENTAL IMPROVEMENT FUND
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EXECUTIVE SUMMARY

**PROPOSED FUNDING LEVELS
 FOR
 ENVIRONMENTAL IMPROVEMENT FUND (EIF)
 2023-2025 Biennium**

BONDING AUTHORITY
 (in \$ millions)

	CHANGE IN AMOUNT	CUMULATIVE
ENVIRONMENTAL IMPROVEMENT FUND		
Revenue Bonding	\$372.0	\$2,923.4
A. CLEAN WATER FUND PROGRAM		
General Obligation Bonding	\$0.0	\$659.8
B. SAFE DRINKING WATER LOAN PROGRAM		
General Obligation Bonding	\$0.0	\$75.0

Notes:

- For the 2023-2025 biennium, in addition to existing authorized unissued bonding authority, it is estimated that the Environmental Improvement Fund will require \$372.0 million of new revenue bonding authority to fund projects that may apply through June 30, 2025.
- The bonding authority amounts reflect proposed funding levels that are based on estimates of future funding needs for the next four fiscal years. Although current inflationary and supply chain challenges have slowed the pace of new construction, we believe the downturn will be offset by increased demand resulting from the Bipartisan Infrastructure Law over the next four years. Such funding needs, and the corresponding funding levels, may change as more data becomes available.
- The 2023-2025 Executive Budget includes \$200.0 million of one-time GPR funding in FY 2024 under the Safe Drinking Water Loan Program for the replacement of lead service lines.

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I. Introduction

Section 281.59(3), Wis. Stats., requires that the Department of Natural Resources (**DNR**) and the Department of Administration (**DOA**) jointly submit 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 first version of the Plan was submitted on September 30, 2022. This second version of the Plan is required to be provided within 30 days after the Executive Budget has been introduced and reflects items included in the Executive Budget pertaining to the EIF. The law requires DNR and DOA to provide information on the following topics:

1. An estimate of the needs for wastewater, storm water, safe drinking water, 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 authority levels and financial assumptions for the programs. Attachment B charts projected sources and uses of funds for the 2023-2025 and the 2025-27 biennia.

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. Projected funds and current bonding authority will meet nearly all of these projected needs. These projections represent estimates as of February 23, 2023.

The State fiscal year (**SFY**) 2024 funding needs are projected by estimating that 35% of the CWFP Intent to Apply (**ITA**) submittals will result in actual funding applications. We also note that there is a linear increase of approximately 10% in the total amount of funding applied for over the past ten years. Therefore, baseline projections for SFY 2024 through SFY 2027 are based on an 10% projected increase above the amount of funding requested for SFY 2023. For the purposes of calculating assistance planned to be provided, we assume that the state will receive base Clean Water (CW) State Revolving Fund (SRF) federal capitalization grants of approximately \$31.3 million plus a Bipartisan Infrastructure Law (BIL) supplemental CW SRF capitalization grant of approximately \$62.0 million and a BIL CW SRF emerging contaminant capitalization grant of approximately \$5.7 million in each of the four years in Table 1.

Non-disadvantaged municipalities that have a population of 10,000 or more and or a median household income (**MHI**) greater than 80% of the State MHI are eligible to receive loans that are 55% of the market rate. Disadvantaged municipalities that have a population of less than 10,000 and an MHI that is 80% or less of the State MHI are eligible to receive loans that are 33% of the market interest rate. Extremely disadvantaged municipalities that have a population

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less than 1,000 and an MHI that is 65% or less of the State MHI are eligible to receive 0% interest rate loans.

TABLE 1 Projected Wastewater and Storm Water Needs and Assistance Planned to be Provided (in \$ millions)				
% of Market Interest Rate	SFY24	SFY25	SFY26	SFY27
55%	\$272.8	\$300.1	\$330.1	\$363.1
33%	\$111.0	\$122.1	\$134.3	\$147.8
0%	\$20.7	\$22.7	\$25.0	\$27.5
Market Rate (100%)	\$21.3	\$23.4	\$25.8	\$28.3
Pilot Projects* at 0% of Market Rate	\$11.1	\$12.3	\$13.7	\$15.2
TOTAL	\$436.9	\$480.7	\$528.8	\$581.9

*DNR is authorized to fund non-traditional Clean Water Fund projects (such as water quality trading 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.

B. Safe Drinking Water Loan Program (SDWLP)

Table 2 shows the projections of the total amount of all drinking water funding needs for the next four fiscal years. For the purposes of calculating assistance planned to be provided, we assume that, on average, the State will receive the following Drinking Water (DW) SRF federal capitalization grants in each of the four years in Table 2: base allocation of \$14.6 million; supplemental BIL allocation of \$39.5 million; lead service line replacement BIL allocation of \$48.3 million; and emerging contaminant BIL allocation of \$12.8 million. The 2019-2021 Biennial Budget included authorization to issue revenue bonds for the SDWLP, which is expected to provide additional sources of funds to address needs in this and future biennia.

Over the last nine years, there has been a linear increase of approximately 7% in the total amount of SDWLP funding applied for. The SFY 2024 funding needs are based on the average amount of funding requested during the last four fiscal years (SFY 2020-2023) plus an expected increase of 7%. Funding needs for SFY 2025 through 2027 are then estimated at a 7% increase from the previous fiscal year's estimate. These projections represent estimates as of March 17, 2023.

Non-disadvantaged municipalities with population of 10,000 or more and 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 an MHI that is 80% or less of the State MHI are eligible to receive loans that are 33% of market interest rate.

With the revenue bonding authority noted above, revenue bond proceeds for the SDWLP now provide the required state match contributions on federal capitalization grants, thereby eliminating the issuance of tax-supported general obligation bonds for that purpose.

The 2023-2025 Executive Budget include \$200 million of one-time GPR funding in SFY 2024 under the Safe Drinking Water Loan Program for the replacement of lead service lines. The total

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costs associated with the newly proposed lead service line replacement program are not include in Table 2 due to the limited term nature of the funding.

TABLE 2 Project Drinking Water Financial Assistance Planned to be Provided (in \$ millions)				
% of Market Interest Rate	SFY24	SFY25	SFY26	SFY27
55%	\$64.2	\$68.7	\$73.5	\$78.6
33%	\$43.3	\$46.3	\$49.5	\$53.0
TOTAL*	\$107.4	\$115.0	\$123.0	\$131.6

* May not add due to rounding.

C. Land Recycling Loan Program (LRLP)

No projects have requested funding from this program since SFY 2008. The remaining unallocated LRLP balance totals \$305,657. Currently, Wis. Stats. authorize use of these funds for financial assistance under the program, but no future funding for this program is anticipated and no financial assistance has been calculated.

2023 Senate Bill 13 proposes to eliminate the Land Recycling Loan Program. A provision within the bill specifies that the statutory requirements of the LRLP will continue to apply to any outstanding loans, including the transfer of funds from the LRLP to the DERF, and that all future loan repayments would be deposited into the Environmental Improvement Fund for the Clean Water Fund Program.

III. Fund Maintained in Perpetuity

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. While projected funds and current bonding authority (including the bonding authority included in the 2021-2023 Biennial Budget) meet nearly all of the projected CWFP and SDWLP needs for the next four years, there is no guarantee that funding at those assumed levels can be maintained for future years and is subject to review each biennium. A major way that the EPA-funded programs could diminish in size is if interest costs on EIF revenue bonds exceed interest earnings on CWFP and SDWLP loans.

DOA and DNR maintain and monitor financing models intended to assist the Fund in maintaining financing operations in perpetuity. The models take into account the funding sources, including but not limited to CWFP and SDWLP loan repayments, along with future needs and future administrative expenses.

Two loan portfolios are used to describe the EIF:

1. 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 SFY 2016, and all new CWFP loans made since SFY 2016 and all new SDWLP since November 2019 have been made from this portfolio. In 2017, all loans made under the now-closed leveraged portfolio were moved into the direct portfolio as investment loans.

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The direct portfolio was designed so that loan repayments on EPA-funded and bond-funded loans are used to retire revenue bonds that were issued.

2. The **Proprietary Portfolio** is for loans that did not previously fit under the above portfolios. 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. EPA does not require the proprietary portfolio to operate in perpetuity. The proprietary portfolio has not made a new loan since 2018 and currently has limited ongoing funding to make new loans.

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 US, 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 (608-266-2305) or the DNR Bureau of Community Financial Assistance (608-575-8825) or on the web at doa.wi.gov/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 2023-2025 biennium will continue to be 0.25% of the outstanding balance on CWFP loans entered into starting with the 2017-2019 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.

In addition, 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 2023-2025 biennium will be 0.5% of the outstanding balance on LRLP loans.

Finally, Section 281.61(5)(b), Wis. Stats., specifies that the DNR and the DOA may jointly charge and collect service fees on SDWLP applications as established by rule for reviewing and acting upon the application and servicing the financial assistance agreement. Effective beginning with the May 1, 2022, loan repayment cycle, the DNR and DOA began collecting a service fee of 0.25% on SDWLP loans that have originated since July 1, 2017. This service fee is a component of the interest rate and does not result in an interest rate that is higher than what is described in Section II.B.

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

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state. The debt service costs for all state water pollution abatement programs are expected to total 1.1%, 0.9%, and 0.8% of all state debt service in SFYs 2023, 2024, and 2025. When compared to the total General Purpose Revenue debt service, the percent of debt service for state water pollution abatement programs would be 2.0%, 1.8% and 1.5%, respectively. This plan contemplates the issuance of revenue bonds and no general obligation bonds. Accordingly, the pollution abatement debt service costs are well under the 50% guideline and should remain at such levels.

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. With all new CWFPP loans made since SFY 2016 originating from the direct portfolio, and issuance of revenue bonds funding the state match contributions, the state costs of subsidized loans is further drastically reduced.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
SUMMARY OF PROGRAM AUTHORITY AND FINANCIAL ASSUMPTIONS
ATTACHMENT A TO 2023-2025 BIENNIAL FINANCE PLAN VERSION 2**

GENERAL OBLIGATION BONDS

Clean Water Fund Program

Previously Authorized But Uncommitted General Obligation Authority	\$ 78,592
Increase in General Obligation Bond Authority Included in Biennial Budget	-
Existing General Obligation Bond Authority	659,783,200
Cumulative General Obligation Bond Authority	659,783,200

Safe Drinking Water Loan Program

Previously Authorized But Uncommitted General Obligation Authority	\$ 3,551,002
Increase in General Obligation Bond Authority Included in Biennial Budget	-
Existing General Obligation Bond Authority	74,950,000
Cumulative General Obligation Bond Authority	74,950,000

REVENUE BONDS

Environmental Improvement Fund (Clean Water Fund Program and Safe Drinking Water Loan Program)

Capitalization Grant Match (FYs 2023-2027)*	\$ 112,887,870
Projects to be Funded/Bond Proceeds (FYs 2023-2027)*	701,331,513
Allowance for Project Cost Increases and Costs of Issuance	<u>81,421,938</u>
Total:	895,641,321
Available Revenue Bond Authority (carried over from 2021-2023)*	485,155,000
Recommended Additional Revenue Bond Authority	372,000,000
Existing Revenue Bond Authority	2,551,400,000
Cumulative Revenue Bond Authority	2,923,400,000

Financial Assumptions

PROJECTS TO BE FUNDED (FYs 2024 and 25)

Wastewater Projects Eligible for 0% of Market Rate	\$ 66,800,000
Wastewater Projects Eligible for 33% of Market Rate	233,100,000
Wastewater Projects Eligible for 55% of Market Rate	572,900,000
Wastewater Projects Eligible for Market Rate	44,700,000
Safe Drinking Water Projects for 33% of Market Rate	89,600,000
Safe Drinking Water Projects for 55% of Market Rate	132,900,000
Total Project Costs	1,140,000,000

CAPITALIZATION GRANTS FROM THE US EPA (estimated)

Clean Water Fund Program	\$ 193,508,888
Safe Drinking Water Loan Program	223,113,956
Total Capitalization Grants	416,622,844

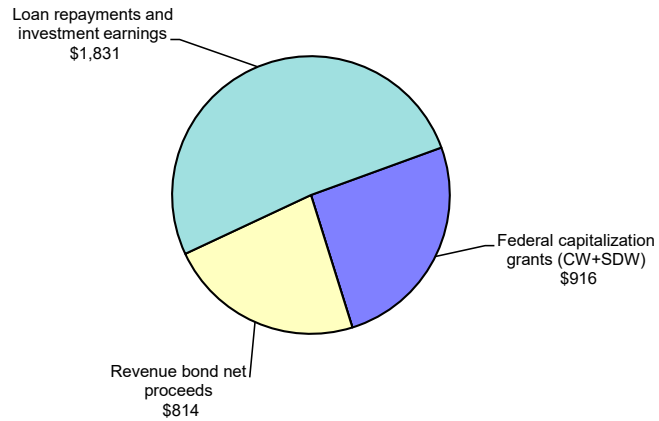
INTEREST RATES (at 5.0% estimated market rate)

Clean Water Fund Program Compliance Maint. and New/Changed Limits, Urban Storm, Nonpoint Source, and Unsewered @ 55% of market (Regular Rate)	2.750%
Clean Water Fund Program Hardship Rate (33%)	1.650%
Clean Water Fund Program Hardship Rate (0%)	0.000%
Safe Drinking Water Fund Program @ 55% of market (Regular Rate)	2.750%
Safe Drinking Water Fund Program Hardship Rate (33%)	1.650%

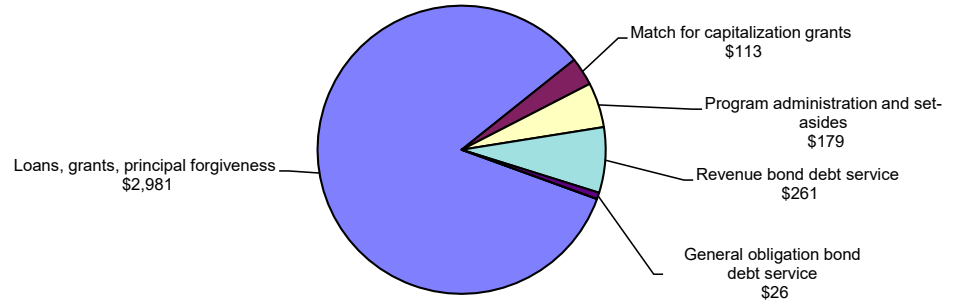
* To address future revenue bond authority, includes assumed issuance for remainder of FY2023 and assumed needs in FY2024 and FY2025 so that any bonding authority needed in the next biennium is addressed in this budget in the event of future budget delays.

STATE OF WISCONSIN
 ENVIRONMENTAL IMPROVEMENT FUND
 ESTIMATED SOURCES AND USES FOR 2023-25 and 2025-27 BIENNIA
 ATTACHMENT B TO 2023-2025 BIENNIAL FINANCE PLAN VERSION 2

Sources of Funds



Uses of Funds



SOURCES OF FUNDS

Federal capitalization grants (CW+SDW)	\$916
Revenue bond net proceeds	814
Loan repayments and investment earnings	1,831
TOTAL SOURCES	<u>\$3,561</u>

USES OF FUNDS

Loans, grants, principal forgiveness	\$2,981
Match for capitalization grants	113
Program administration and set-asides	179
Revenue bond debt service	261
General obligation bond debt service	26
TOTAL USES	<u>\$3,561</u>

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

OTHER RECIPIENTS OF ENVIRONMENTAL IMPROVEMENT FUND
BIENNIAL FINANCE PLAN FOR MARCH 2023

The Honorable Howard Marklein
Co-Chair Joint Committee on Finance
Room 316 East
State Capitol

The Honorable Mark Born
Co-Chair Joint Committee on Finance
Room 308 East
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Updated March 2023