



## **Legislative Fiscal Bureau**

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

---

May 4, 2001

Joint Committee on Finance

Paper #431

### **Environmental Improvement Fund Debt Service (Environmental Improvement Fund)**

[LFB 2001-03 Budget Summary: Page 290, #2]

---

#### **CURRENT LAW**

The clean water fund program within the environmental improvement fund provides loans to municipalities for planning, design and construction of surface water and groundwater pollution abatement facilities, primarily for municipal wastewater treatment. Funding for a portion of subsidized low-interest loans is provided from the proceeds of general obligation bonds. Most of the general obligation bond debt service costs are paid by the general fund. In addition, the clean water fund expends \$4,000,000 SEG annually for general obligation bond debt service. The SEG comes from 50% of the interest repayments received for loans which were originally provided from the proceeds of general obligation bonds issued to provide the 20% state match to federal capitalization grants for the state clean water fund revolving loan program.

#### **GOVERNOR**

Provide a decrease of \$35,700 GPR in 2001-02 and an increase of \$4,323,900 GPR in 2002-03 for estimated increases in general fund debt service costs of general obligation bonds. In addition, provide \$2,000,000 SEG annually from the clean water fund program to increase from \$4,000,000 to \$6,000,000 annually the amount of general obligation bond debt service paid by loan repayments received from municipalities from loans that were originally provided from the proceeds of general obligation bonds. (The amount of GPR used for general obligation bond debt service is reduced by a corresponding \$2,000,000 annually under the bill.)

## **DISCUSSION POINTS**

1. Total clean water fund debt services costs under the bill increase from \$34.0 million in 2000-01 to \$35.2 million in 2001-02 and \$39.0 million in 2002-03. Under current law, \$4.0 million in each year would be paid from SEG loan repayments. Under the bill, the use of SEG loan repayments would increase to \$6.0 million in each of 2001-02 and 2002-03.

2. One of the primary requirements states must meet to receive federal clean water fund capitalization grants is to manage a revolving loan program so that the amount received in the federal capitalization grants is available in perpetuity. This is accomplished through the requirement that all repayments of loans made from federal grants plus the state match be credited to the revolving fund for future loans. However, the state is authorized to use half of the interest repayments received for loans which were originally provided from the proceeds of general obligation bonds issued to provide the 20% state match to federal capitalization grants for general obligation bond debt service.

3. Use of SEG loan repayments for future loans reduces the future reliance of the program on general obligation bond issuance for loan financing. The use of SEG loan repayments to replace GPR debt service costs lengthens the time period that it would take for the revolving loan program to become a self-sustaining fund.

4. When the use of SEG loan repayments for debt service was authorized in 1993 Wisconsin Act 16, a corresponding amount of GPR was transferred to the clean water fund, and the provision was intended only to reduce state record-keeping requirements associated with federal arbitrage limitations for general obligation bond proceeds. In 1995 Act 27, the use of SEG loan repayments was increased to the current \$4,000,000 annually, and the GPR reimbursement was eliminated. This provision reduced the long-term revolving component of the clean water fund.

5. The 2001-03 environmental improvement fund biennial finance plan prepared by DOA and DNR indicated that the clean water fund program would issue a cumulative total of approximately \$844 million (in current dollars) of general obligation bonds and would become self-supporting in approximately 16 years. The Governor's recommendation would defer the end date for general obligation bond issuance by approximately four years, use an additional \$40 million in SEG loan repayments for debt service over the 20-year period and require additional general obligation bonds of perhaps \$90 million to be issued over that time. However, the exact change is difficult to quantify because of the uncertainty of forecasting long-term interest rates and wastewater project needs over the next 20 years.

6. The recommended \$4,000,000 increase in the use of SEG loan repayments for general obligation bond debt service will increase the need for general obligation bonding authority by approximately \$1,000,000 and for revenue obligation authority by approximately \$4,200,000. The Governor's bill includes the additional general obligation bonding authority but not the revenue obligation authority. DOA officials indicate that the additional revenue obligation authority will probably not be needed in the 2001-03 biennium since loans are disbursed as project costs are

incurred over a few years.

7. In the 1999-01 biennium, the debt service costs funded by municipal loan repayments are approximately 12.2% of the total general obligation bond debt service costs. Under the bill, municipal loan repayments would fund approximately 16.2% of the total general obligation bond debt service costs in the 2001-03 biennium.

8. In order to comply with federal requirements, the amount of SEG repayments used for debt service may not exceed the amount of debt service on general obligation bonds issued to provide the 20% state match to the federal capitalization grants. The amounts available from SEG loan repayments might continue to increase after the 2001-03 biennium for four or five additional years. After that time they would likely level off or decline as loans made in the early 1990s mature and principal repayments exceed interest repayments.

9. DOA believes that an additional \$2,000,000 in SEG loan repayments could have been transferred to pay GPR debt service costs in 2000-01 but the appropriation does not allow it. Thus, at least an additional \$2,000,000 SEG beyond the amounts included in the bill is available to be used for GPR debt service on a one-time basis. The bill could be amended to allocate an additional \$2,000,000 in SEG loan repayments for debt service on a one-time basis in 2001-02. Additional general obligation bonds of approximately \$600,000 and revenue obligations of approximately \$2,100,000 would have to be issued over several years to replace the use of \$2,000,000 in loan repayments for loans. The bill provides approximately \$1.3 million more in general obligation bonding authority than necessary for current estimates of need and interest rates; thus, it may not be necessary to provide additional authority under this alternative. The bill could be amended to provide the additional revenue obligation authority. However, it may not be needed until after the 2001-03 biennium, when loans are disbursed as project costs are incurred.

10. It appears that the cumulative amount of municipal loan repayments in the SEG loan repayments appropriation account that has not been used for GPR debt service and is within the amount of general obligation bond debt service on bonds issued for the state match is at least \$4,200,000. Additional general obligation bonds of \$1,300,000 and revenue obligations of approximately \$4,400,000 would have to be issued over several years to replace the use of \$4,200,000 in loan repayments for loans. The bill could be amended to allocate \$4,200,000 in additional municipal loan repayments for GPR debt service on a one-time basis in 2001-02. In addition, the bill could also be amended to authorize \$4,400,000 in additional revenue obligation authority to provide the same amount of funds for clean water fund projects in the 2001-03 biennium as under the bill. Alternatively, revenue obligation authority could be provided in a future biennium.

11. If the current use of \$4,000,000 annually of SEG loan repayments for general obligation bond debt service is maintained, GPR costs under the bill would increase by \$2,000,000 annually but over the long-term a greater amount of loan repayments would be used for new loans instead of using additional general obligation bond proceeds.

**ALTERNATIVES TO BASE**

**A. Debt Service and Loan Repayments**

1. Approve the Governor’s recommendation to: (a) provide a decrease of \$35,700 GPR in 2001-02 and an increase of \$4,323,900 GPR in 2002-03 for estimated increases in general fund debt service costs of general obligation bonds; and (b) provide \$2,000,000 SEG annually from the environmental improvement fund to increase from \$4,000,000 to \$6,000,000 annually the amount of general obligation bond debt service paid by loan repayments received from municipalities from clean water fund loans that were originally provided from the proceeds of general obligation bonds.

<b>Alternative A1</b>	<b>GPR</b>	<b>SEG</b>	<b>TOTAL</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$4,288,200	\$4,000,000	\$8,288,200
<i>[Change to Bill]</i>	\$0	\$0	\$0]

2. Adopt Alternative A1 and, in addition: (a) provide \$2,000,000 SEG clean water fund program loan repayments in 2001-02 to be used for clean water fund program general obligation bond debt service; and (b) provide a corresponding decrease of \$2,000,000 GPR in 2001-02 for general obligation bond debt service.

<b>Alternative A2</b>	<b>GPR</b>	<b>SEG</b>	<b>TOTAL</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$2,288,200	\$6,000,000	\$8,288,200
<i>[Change to Bill]</i>	- \$2,000,000	\$2,000,000	\$0]

3. Adopt Alternative A1 and, in addition: (a) provide \$4,200,000 SEG clean water fund program loan repayments in 2001-02 to be used for clean water fund program general obligation bond debt service; and (b) provide a corresponding decrease of \$4,200,000 GPR in 2001-02 for general obligation bond debt service.

<b>Alternative A3</b>	<b>GPR</b>	<b>SEG</b>	<b>TOTAL</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$88,200	\$8,200,000	\$8,288,200
<i>[Change to Bill]</i>	- \$4,200,000	\$4,200,000	\$0]

4. Maintain current law.

<b>Alternative A4</b>	<b>GPR</b>	<b>SEG</b>	<b>TOTAL</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$8,288,200	\$0	\$0
<i>[Change to Bill]</i>	\$4,000,000	- \$4,000,000	\$0]

**B. Revenue Bond Authority**

1. Provide an additional \$4,200,000 in revenue obligation bonding authority. (This

would provide authority in the 2001-03 biennium to fund the estimated need resulting from adopting the Governor's recommendation under Alternative A1.)

<b>Alternative B1</b>	<b>BR</b>
<b>2001-03 BONDING</b> (Change to Base)	\$4,200,000
<i>[Change to Bill]</i>	<i>\$4,200,000]</i>

2. Provide an additional \$6,300,000 in revenue obligation bonding authority. (This would provide authority in the 2001-03 biennium to fund the estimated need resulting from adopting Alternative A2.)

<b>Alternative B2</b>	<b>BR</b>
<b>2001-03 BONDING</b> (Change to Base)	\$6,300,000
<i>[Change to Bill]</i>	<i>\$6,300,000]</i>

3. Provide an additional \$8,600,000 in revenue obligation bonding authority. (This would provide authority in the 2001-03 biennium to fund the estimated need resulting from adopting Alternative A3.)

<b>Alternative B3</b>	<b>BR</b>
<b>2001-03 BONDING</b> (Change to Base)	\$8,600,000
<i>[Change to Bill]</i>	<i>\$8,600,000]</i>

4. Take no action. (This would be consistent with the Governor's recommendation.)

Prepared by: Kendra Bonderud