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Federal Match Star Program Loans (Board of Commissioners of Public Lands)

[LFB Summary of the Governor's Budget Reform Bill: Page 18, #1]

CURRENT LAW

The Board of Commissioners of Public Lands is charged with overseeing the sale of certain public lands and investing the assets of four trust funds (Agricultural College Fund, the University Fund, the Normal School Fund and the Common School Fund) originally created from the proceeds of various land sales. The Common School Fund also receives annually certain monies from the counties under various fines and forfeitures provisions of the statutes. The balances in the largest of these funds (the Common School Fund) are used to provide low interest loans to municipalities primarily for a variety of capital improvement-related public purposes. Typically, the Board determines the purposes for which loans may be made, sets the interest rates and specifies the terms and conditions for the loans. Monies not immediately needed for loans are invested in the State Investment Fund (SIF), the state's cash management fund that is invested by the State Investment Board or used for the purchase of certain public bonds. Interest earnings on the invested balances in the Common School Fund and from interest payments on loans are distributed annually to the Department of Public Instruction for distribution to local school districts as school library aids.

GOVERNOR

Create a new type of loan, funded from available balances in the trust funds managed by the Board, under a new loan purpose called the federal match star program. Provide that loans could be made to any eligible municipality for the purpose of providing funds to the municipality for its required share of any federal discretionary grant where a local matching amount is required. Define a federal discretionary grant as one that is awarded directly to a municipality following a competitive process. Specify that loans could not provided under the program for matching costs for federal formula grants (defined as grants awarded under a federallyprescribed distribution formula) or state-administered pass-through federal grants (defined as grants awarded to the state initially, but then distributed by the state to municipalities for actual expenditure). Stipulate that the interest rate charged for loans under this new program would be the same percentage as received by the state for monies it places in the State Investment Fund (SIF). Require the Board, in consultation with DOA, to promulgate administrative rules to implement the program and to provide an annual report on the program to DOA and the Legislature. Limit the maximum amount of outstanding loans under the new program to a total of $50,000,000. Provide that the maximum loan term may not exceed five years and that no extension of a loan under this program may be granted. Specify that a loan under this program may be granted only if the proposed loan, along with all other indebtedness, does not exceed 5% of the valuation of the taxable property within the municipality, except that the limit for school districts would be 10%.

DISCUSSION POINTS

1. The total balances in the all of the funds except the Common School Fund as of June 30, 2001, were less than $20 million. The balance as of that date in the Common School Fund was over $448 million. Because the balance of that fund grows due to a separate income source (fines, forfeitures and escheats to the state), almost all of the loans provided by the Board come from this fund. The changes in the composition of the balance of the Common School Fund at fiscal year end for the last four fiscal years are shown in Table 1.

TABLE 1

Common School Fund
Composition of Ending Balance for Each Fiscal Year

Component	1997-98 Amount	1998-99 Amount	1999-00 Amount	2000-01 Amount
Cash in State Treasury	$2,710	$11,798	$6,229,750	$6,226,383
Investment Pool Deposits	138,090,000	225,327,000	188,727,000	99,593,000
Outstanding Loans -School Districts	92,975,918	66,046,586	75,236,596	68,866,991
-Municipalities	147,863,667	116,156,023	156,856,235	155,284,816
Investment in State Veterans Bonds				20,000,000
Investment in Lambeau Stadium Bonds				67,750,000
Lambeau Stadium Standby Bonds				30,443,836
Fund Balance at Fiscal Year End	$378,932,295	$407,541,407	$427,049,581	$448,165,026

2. Under the Board's general loan program, municipalities (towns, villages, cities, counties, public inland lake protection and rehabilitation districts, metropolitan sewerage districts, town sanitary districts, joint sewage districts, joint library boards, federated library systems and technical college districts) can apply for loans for capital expenditures. Such expenditures may be for buildings, roads, sewer construction, equipment, vehicles or other projects that are of benefit to

the public. School districts (and CESAs) may apply for loans for capital expenditures, buildings, athletic fields, equipment, distance education projects and other purposes that are of benefit to the public. The number and amount of new loans issued each fiscal year from both the Common School Fund (the vast preponderance of loans are made from this fund) and the Normal School Fund for the last ten fiscal years are shown in Table 2.

TABLE 2

Total Number and Amount of New Loans
(Includes All Trust Funds)

Fiscal Year	Total Number of New Loans	Total Amount of New Loans
1991-92	250	$51,281,137
1992-93	250	58,108,711
1993-94	277	74,696,637
1994-95	350	104,964,929
1995-96	125	44,443,785
1996-97	168	48,649,530
1997-98	144	47,191,034
1998-99	99	24,822,660
1999-00	168	60,645,230
2000-01	210	101,301,849

3. Under current law, the purposes for which loans may be made, the interest rate for loans and the terms and conditions for loans are primarily set by Board. For municipalities to receive a loan, the governing board of the municipality must adopt a resolution authorizing the application for a loan. For school districts, borrowing must be approved by a vote of the electors of the school district or, alternatively, a ten-year promissory note can be utilized if the application for such a note is approved by a majority of the school board of the district. There are no administrative rules currently promulgated for the loan program. Loan repayments are due annually on March 15th.. Under the statutes, the Board is also authorized to use the assets of the trust funds to purchase for investment purposes bonds issued by any of the following: (a) the state or any town, village, city, county or school district of the state; (b) local exposition districts; (c) the UW Hospitals and Clinics Authority; (d) local professional baseball park or football stadium districts; or (e) local cultural arts districts. General loans currently may made for up to 20 years and the current interest rates (recently lowered for the second time since July, 2001) are:

Loan Period	Interest Rate
Up to 5 years	4.0%
>5 years to 10 years	4.5%
>10 years to 20 years	5.0%

The current maximum loan amount per municipality for all loans per year is $3 million. The Board has also established a separate loan program for municipalities who wish to borrow funds to reduce their un-funded pension liability under the Wisconsin Retirement System. That program has an interest rate of 6.75% and a per year maximum loan amount of $2 million. Although interest rates are subject to change by the Board, the interest rate in effect at the time a loan is taken out is set for the term of the loan. The statutes provide that all trust fund loans shall bear and draw interest as a rate not less than 2% annually.

5. Since all interest earnings of the Common School Fund are distributed annually to school districts for school library aids, except for the amount of interest earnings used to cover the operating costs of the Board, the rates of interest charged and the resultant investment earnings have an effect only on the amount of funds available to be distributed for school library aids.

6. In discussions about the proposed federal match star program with Board staff, the following concerns about the proposal were raised: (a) having loans under this program tied to the SIF rate would inhibit the Board's ability to set and adjust rates for this portion of the overall loan portfolio; (b) setting a maximum on the amount of loans that could be issued under this program could affect the Board's ability to allocate overall loan funds if there is an expectation that up to $50,000,000 of trust funds principal has to potentially be available for this purpose; (c) although the SIF rate will vary over time depending upon economic conditions, the current SIF rate of 1.86% is considerably below the lowest loan rate of 4.0%; and (d) the Board would presumably have a preference to be able to initiate new loan programs on its own volition as trustees of the trust funds with fiduciary responsibilities.

7. The Department of Administration indicates that the reason for the proposal to statutorily create the federal match star program was that Wisconsin ranks very low in the amount of federal dollar received on a per capita basis and the Federal-State Relations office in DOA believes that one of biggest obstacles for local communities who wish to apply for federal grants is the lack of a ready source of matching funds. Therefore, in an effort to make funds available to local communities to be used to match federal grants, the Governor has proposed this new loan program using trust fund monies to provide low-interest loans to Wisconsin municipalities for this purpose. The $50,000,000 cap amount on loans for this purpose was seen as making that amount available for this purpose. The reason for the statutory tying of the rate for these loans to the rate being paid under the state investment fund (SIF) for short-term monies being held in that fund was to use what was seen as a competitive rate and that was, at the time the proposal was drawn up,

equivalent to the BCPL rate for five-year loans of 4.25% (since lowered to the present 4.0%). DOA further indicated that it is felt that local governments generally cannot anticipate when grant opportunities may arise and often do not have a source of match funds available when such opportunities do arise. DOA believes that the proposed loan program would give such communities a mechanism where they could borrow the match money in one year and begin making payments in the ensuing year.

8. The Department of Administration indicates that it does not have any actual count of the number of municipalities who have not been able to garner federal grants because of the lack of required matching funds nor does it have an estimate of how many municipalities would take advantage of the program. If the problem for municipalities of providing a match is simply one of timing, it could be presumed that there are municipalities for whom the ability to obtain this type of funding would be helpful. However, if the problem is not only one of timing, but also involves the question of the municipality allocating in its budget monies for such matching funds, then the repayment of principal and interest for such an expenditure purpose would still likely be an issue, but with the funding commitment (by obtaining the loan) already having been executed.

9. In terms of the overall proposal, the Committee could: (a) approve the Governor's recommendation; (b) delete the proposed statutory language and instead include a session law provision to require the Board of Commissioners of Public Lands to: (1) establish an additional loan purpose or program to accomplish the goals envisioned by the federal match star proposed by the Governor no later than 90 days after the effective date of the bill; and (2) report to the Governor, the Joint Committee on Finance and the Secretary of Administration on the structure and proposed operation of the new program within 30 days of the establishment of the program by the Board; or (c) make no change to current law at this time.

10. The Committee could also modify the proposal in the bill to make one or both of the modifications discussed below.

11. The staff of the Board has expressed a concern with regard to the aspect of the proposal that sets a cap on the total amount of loans that would be permitted under the program. That concern is that this might also be seen as an indication that the Board needs to have the financial ability in managing the overall assets of the trust funds (principally the Common School Fund) to fulfill at any time up to $50 million of loans for this purpose. The amount of demand for loans for this purpose is not known at this time. However, the staff indicates that the Board endeavors to manage the overall assets of the Common School Fund with the goal of obtaining the most favorable returns possible so as to maximize the monies flowing annually to schools as school library aids while at the same time having generally comparable loan rates with other lenders. As can be seen from Table 1, the amount of funds in the SIF (shown as investment pool deposits) has declined significantly from 1998-99 as the Board has had increases in the amount of outstanding loans and has used some $ 118 million of assets for the purchase of bonds.

12. The language of the bill clearly does not require the Board to issue up to $50 million of loans for this purpose. However, the argument could be made that the Board in its

overall responsibility for managing the assets of the trust funds should have flexibility to determine: (a) how much should be available for this purpose, depending upon the demand for this new type of loan purpose versus other loans; and (b) the overall amount of assets available for making loans at any time rather than setting a maximum that could be allocated for a given purpose or implying that there would always be that amount of monies available at all times for loans for this purpose. The Committee could modify the Governor's proposal to delete this provision.

12. The Department of Administration apparently choose the SIF rate as the rate to be used for loans under the federal match star program because it felt that this would be a rate that is generally sensitive to market conditions because the underlying investments that the State of Wisconsin Investment Board uses for the temporary cash balances placed in the SIF are investments of a short term nature. The cash balance amounts in the SIF that are available for investment vary daily as cash is added or withdrawn from the various accounts that have monies deposited in the SIF. These cash balance amounts are invested primarily in obligations of the U.S. government and its agencies and in high quality commercial bank and corporate debt obligations. The SIF rate is determined monthly for the basis of calculating earnings to be applied to all the various accounts that have money placed in the SIF. This rate is calculated following the end of the month.

13. Under the bill, the Board would presumably have to use the most current SIF rate for making loans as soon as the next monthly rate became known. The rates tend to change in small increments from month to month, but over the course of the last four calendar years, the monthly rate has ranged from a high of 6.479% to a low of 2.056%. More importantly, the monthly rate for last month was 1.876%, which is lower than the 2% floor that has previously been in effect for any trust funds investments. Investment earnings on the common school fund balance do not increase the overall corpus of the trust fund. Rather, after deducting from interest earnings the cost of the Board's operations (budget), the remaining earnings are distributed as school library aids. Essentially this means that the lower the earnings, the lower the amount of funds available to distribute as aids. At the same time, it can be noted that, as shown in Table 1, over the last four years the common school fund has had anywhere from $100 million to as much as $225 million at year- end in the SIF, where – under the bill – it would be earning the same rate as a loan made at the SIF rate. The difference, however, is that the amount of interest earned each month on the total balance will be the monthly SIF rate, whereas under the bill the rate for the life of a loan (up to five years) under the federal match star program would be whatever the most current monthly SIF rate was when the loan was issued. Thus, for example some loans might be at 2.0%, some at 3.0%, some at 3.2% and so forth. Whether the average rate of return on those loans would be the same as the overall rate of return if the same total amount of funds was retained in the in the SIF and earned the charging monthly interest rate is not known.

14. Two modifications to the Governor's proposal could be considered. One would be for the Committee to delete from the proposal the provision establishing a separate rate the federal match star program that would be set differently (by statute) from the way the rates for the other loan programs are set. If this change were adopted, the Board could still set a different rate for the loans under this program if it chose to do so, as it has done for the loans requested for payment of un-funded accrued actuarial liabilities under the WRS. An alternative modification would be for the

Committee to delete from the proposal the required use of the SIF rate and instead provide that the interest rate for the federal match star program would be 1% less than the rate established for general loans for the same loan term or such resultant lower percentage amount than the regular rate that is not lower than 2%.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation.

2. In lieu of the Governor's recommendation, include a session law provision requiring the Board of Commissioners of Public Lands to create a new loan program under the trusts funds to provide loans from trust fund assets for the same matching type purposes outlined in the Governor's proposal. Provide that the Board shall establish such a loan program within 90 days of the effective date of the bill. Require the Board to report to the Governor, the Joint Committee on Finance and the Secretary of Administration on the structure and proposed operation of the new loan program within 30 days of the establishment of the program by the Board.

3. Modify the Governor's proposal by:

a. Deleting the provision that would specify that the maximum amount of loans that may be in force at any time for the federal match star program would be $50,000,000.

b. Deleting the provision that the rate to be set for loans under the program be the monthly earnings rate for the State Investment Fund (thereby letting the Board of Commissioners of Public Lands set the interest rate); or

c. Specifying that the rate would be the rate set by the Board for general purpose municipal loans less 1% or that portion of 1% that does not result in a rate that is less than 2%.

4. Maintain current law.

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