



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #280

Safe Drinking Water Loan Program Bonding Authority (Environmental Improvement Fund)

[LFB 2015-17 Budget Summary: Page 149, #1]

CURRENT LAW

The safe drinking water loan program was created within the environmental improvement fund in 1997 Act 27 to provide low-interest loans to municipalities for planning, designing, constructing, or modifying public drinking water systems, if the projects will facilitate compliance with national primary drinking water regulations under the federal Safe Drinking Water Act. The program provides loans using proceeds of federal capitalization grants and a 20% state match provided with general obligation bond proceeds. All of the general obligation bond debt service costs are paid by general purpose revenues (GPR). The safe drinking water loan program is currently authorized a cumulative total of \$60,200,000 in general obligation bonding authority.

GOVERNOR

Provide an increase in general obligation bonding authority of \$7.5 million for the safe drinking water loan program.

DISCUSSION POINTS

1. The safe drinking water loan program uses all of the authorized general obligation (GO) bonds to provide the 20% state match to the federal capitalization grant under the Safe Drinking Water Act. The biennial budget act has historically authorized the amount of GO bonds anticipated to be needed to provide the 20% match needed to maximize receipt of federal grants during that biennium. Any previously authorized but unused GO bonding authority is carried forward to the subsequent biennium. The federal government requires the state to have the entire

20% state match in place before it can accept the federal safe drinking water grant.

2. The bill is based on the DOA and DNR September, 2014, biennial finance plan estimate of a total need of \$9.6 million for GO bonding authority to provide the 20% state match to approximately \$48 million in federal capitalization grants (estimated at \$16 million per year for the three federal fiscal years 2015, 2016, and 2017). Based on the DOA and DNR estimate of \$2.1 million in available previously authorized but unused GO bonding authority carried forward from 2013-15 to 2015-17, the bill provides \$7.5 million of additional GO bonding authority. DOA and DNR estimate that approximately \$148 million in project costs could be funded during the 2015-17 biennium. This includes funding from federal grants, state match, carry forward balance from 2013-15, and loan repayments from previously made loans.

3. The administration requested 20% match sufficient to match \$48 million of federal grants over three years rather than two so that any potential delay in adoption of a state budget, or any increases in federal capitalization grants above estimated amounts, would not delay having sufficient general obligation bonding authority in place to accept the federal capitalization safe drinking water grant.

4. In his 2013-15 biennial budget, the Governor proposed bonding sufficient to match \$48 million of federal funding (three years at \$16 million each). In the 2013-15 final budget act, the Legislature provided a reestimated amount of bonding sufficient to match an estimated \$39 million of federal funding over two years (an estimated \$17.8 million for each of two years, plus a contingency of 20% of one-year's grant). The actual federal safe drinking water capitalization grants for federal fiscal years 2013 and 2014 totaled \$29.95 million (\$14.52 million and \$15.43 million), and are being used to finance projects during the 2013-15 biennium.

5. The two years of grants received for federal fiscal year 2015 and 2016 will fund safe drinking water projects during the 2015-17 biennium. In January, 2015, DNR received EPA's notification that the final federal fiscal year 2015 federal grant will be \$15.43 million. The President has proposed a federal fiscal year 2016 grant of \$20.24 million for the state. It is probable that federal grants will not exceed \$35.7 million for the two years, equaling the sum of the actual FFY 2015 grant and the President's proposed FFY 2016 grant.

6. A reestimate could be made of the amount of GO bond authority needed to provide a 20% match for two full years of federal grants, based on recent estimates of potentially available amounts. For example, instead of providing bonding sufficient to match \$48 million of federal funding (three years of \$16 million annual federal grants as estimated in September, 2014), a reestimate could provide bonding sufficient to match approximately \$37.7 million of potential federal funding. This would include \$15.43 million for the actual federal fiscal year 2015 grant amount, \$20.24 million for federal fiscal year 2016 under the President's budget, plus a 10% contingency of \$2.02 million for the second year. Based on this reestimate, the total GO bonding need would be \$7.5 million, and, after subtracting the \$2.1 million in unused previous authorization, \$5.4 million in new GO bonding authority could be provided instead of \$7.5 million under the bill, a decrease of \$2.1 million [Alternative 2].

7. If actual federal grants are substantially higher than estimated, it is possible that some safe drinking water projects would have to wait to finalize financial assistance agreements until

2017-19, or until a bill would be passed to authorize additional bonding authority sufficient to receive the federal fiscal year 2016 grant in state fiscal year 2016-17. Any general obligation authority provided, but not needed, in the 2015-17 biennium, would carry forward to be available for use in 2017-19.

8. If no additional general obligation bonding authority for the safe drinking water loan program is approved [Alternative 3], the state could use the \$2.1 million in bonding authority carried forward from 2013-15 to provide a 20% state match to approximately \$10.5 million in federal grant funds. However, this would not be sufficient to provide the necessary match to receive the full federal fiscal year 2015 grant of \$15.43 million, but could allow for a partial federal grant. The state is required to have the state match in place before it can draw on any of the federal grant funds, and must spend all of the state match before it can spend any of the federal grant. The program would be able to make loans with up to approximately \$116 million in funds available from the carry forward balance from the previous year, loan repayments, and investment income, but would not be able to take full advantage of federal funds for the program.

9. Safe drinking water federal capitalization grants authorize the state to provide up to 30% of available funds as principal forgiveness. For the federal fiscal year 2015 grant that would be received if the state provides sufficient bonding authority to provide a 20% state match, \$4,627,500 of the \$15,425,000 in federal funds will be provided as principal forgiveness. DNR and DOA provide up to 10%, 30% or 50% of eligible project costs as principal forgiveness, based on the population and median household income of the municipality. Municipalities with smaller and lower-income households receive the larger percentages of principal forgiveness. If the state doesn't receive any federal grants, it will not be able to provide principal forgiveness to applicants.

ALTERNATIVES

1. Approve the Governor's recommendation to provide an increase in general obligation bonding authority of \$7,500,000 for the safe drinking water loan program.

2. Approve an increase in general obligation bonding authority of \$5,400,000 (based on estimated federal funding of \$37.7 million over two years instead of \$48 million over three years) for the safe drinking water loan program.

ALT 2	Change to Bill
BR	- \$2,100,000

3. Delete provision. There would be no new bonding authorized for the safe drinking water loan program. The state would only be able to accept limited federal capitalization grants in 2015-17.

ALT 3	Change to Bill
BR	- \$7,500,000

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