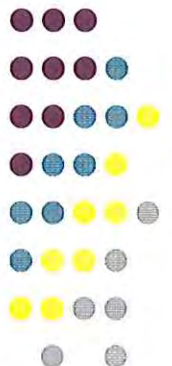




# Environmental Improvement Fund

Wisconsin Legislative Fiscal Bureau  
January, 2011



# Environmental Improvement Fund

Prepared by

Kendra Bonderud

Wisconsin Legislative Fiscal Bureau  
One East Main, Suite 301  
Madison, WI 53703

TABLE OF CONTENTS

Introduction..... 1

CHAPTER 1 -- CLEAN WATER FUND PROGRAM..... 3

    Project Eligibility and Priority..... 3

    Financial Assistance Criteria..... 5

    Loan and Grant Programs ..... 10

    Clean Water Fund Program Costs..... 18

    Provisions Applicable to Selected Municipalities ..... 21

CHAPTER 2 -- SAFE DRINKING WATER LOAN PROGRAM..... 23

    Project Eligibility and Priority..... 23

    Financial Assistance Criteria..... 25

    Program Funding..... 26

    Program Costs ..... 28

    Safe Drinking Water Loan Guarantee Program ..... 32

CHAPTER 3 -- LAND RECYCLING LOAN PROGRAM..... 34

    Project Eligibility and Priority..... 34

    Financial Assistance Criteria..... 34

    Program Funding..... 35

CHAPTER 4 -- ENVIRONMENTAL IMPROVEMENT FUND ADMINISTRATION..... 37

    Agency Responsibilities and Funding ..... 37

    Bonding Provisions..... 38

    Municipal Financing Requirements ..... 39

Appendices..... 41

    Appendix I -- A Glossary of Key Terms ..... 42

    Appendix II -- Description of Wastewater Treatment Systems..... 44

    Appendix III -- Biennial Finance Plan Process..... 46

    Appendix IV -- Components of Clean Water Fund Loan and Grant Programs ..... 48

    Appendix V -- Clean Water Fund Financial Assistance Agreements (As of June 30, 2010) ..... 49

    Appendix VI -- Safe Drinking Water Loan Program Financial Assistance Agreements  
    (As of June 30, 2010)..... 54



# Environmental Improvement Fund

## Introduction

The environmental improvement fund is comprised of three separate programs: the clean water fund program, the safe drinking water loan program and the land recycling (brownfields) loan program. The programs provide financial assistance for wastewater treatment, drinking water and contaminated land cleanup projects. This paper describes background about the programs, financial assistance criteria, components of the loan and grant programs, special provisions and program administration.

The clean water fund program provides financial assistance to municipalities for the planning, design and construction of surface water and groundwater pollution abatement facilities; primarily for municipal wastewater treatment. Enacted in 1987 Act 399, the clean water fund shifted the state's financing of wastewater treatment facility construction from grants to loans, and placed an increased emphasis on preventive maintenance for existing pollution abatement facilities. The clean water fund replaced the point source pollution abatement grant program, which provided grants to municipalities for wastewater treatment systems from 1978 through 1990. The clean water fund began providing assistance to municipalities in 1991.

The clean water fund administers financial assistance through the following programs: (1) a federal revolving loan program; (2) a state leveraged loan program; (3) a state direct loan and hardship program; (4) a federal hardship program; and (5) a small loan program. The state-only programs represent the Legislature's decision to exceed the federal financial commitment to surface water pollution abatement assistance. As of June 30, 2010, the clean water fund program had entered into 749 financial assistance agreements with

municipalities totaling \$3.3 billion.

The safe drinking water loan program was enacted in 1997 Act 27 to provide financial assistance to certain municipalities for the planning, design, construction or modification of public water systems, if the projects will facilitate compliance with national primary drinking water regulations under the federal Safe Drinking Water Act Amendments of 1996 (SDWA) or otherwise significantly further the health protection objectives of the Act. The safe drinking water loan program is also authorized to provide funds for a safe drinking water loan guarantee program to guarantee drinking water loans to borrowers who are not local governments and who meet certain conditions. (The loan guarantee program has not been implemented.) The safe drinking water loan program began providing assistance in 1998. As of June 30, 2010, the safe drinking water loan program had entered into 147 financial assistance agreements totaling \$366.9 million.

The land recycling (brownfields) loan program was enacted in 1997 Act 27 to provide financial assistance to certain local governments for the investigation and remediation of certain contaminated properties. The land recycling loan program is a subprogram within the clean water fund program and is funded from a reallocation of \$20 million of repayments of clean water fund loans. The program began providing assistance in 2000. As of June 30, 2010, the land recycling loan program had entered into ten financial assistance agreements totaling \$15.2 million (actual disbursements were less). Under 2009 Act 28, the program was authorized to lend up to the \$6.2 remaining available balance to the dry cleaner environmental response fund.

Table 1 shows project funding for each program within the environmental improvement fund. The

**Table 1: Environmental Improvement Fund, Financial Assistance Agreements by Biennium (\$ Millions)**

Biennium	Clean Water Fund Program	Safe Drinking Water Loan Program	Land Recycling Loan Program	Total
1997-99	\$214.9	\$53.0	-	\$267.9
1999-01	222.9	19.8	\$1.9	244.6
2001-03	502.9	20.0	8.0	530.9
2003-05	252.9	74.6	1.8	329.3
2005-07	380.9	42.9	2.7	426.5
2007-09	500.9	73.2	0.8	574.9
2009-10 *	278.7	84.8	0.0	363.5
2011-13 est**	664.2	112.7	0.0	776.9
2013-15 est**	373.0	94.1	0.0	467.1

\* Actual 2009-10. Additional financial assistance agreements will be entered into during 2010-11. DNR and DOA estimated 2009-11 project need as \$797.2 million for CWF and \$83.9 million for SDW projects.

\*\* DNR and DOA estimated project need in the September, 2010, biennial finance plan.

table shows the amount of financial assistance agreements entered into for each program by biennium. Table 1 also shows the estimated project demand for the 2011-13 and 2013-15 biennia, as estimated by the Department of Natural Resources (DNR) in September, 2010.

The clean water fund program and the safe drinking water loan program receive federal capitalization grants for a state revolving loan fund, for which Wisconsin provides a 20% match through issuance of general obligation bonds (with debt service costs paid by general purpose revenues (GPR) and interest on program loan repayments (SEG)). The clean water fund program is also funded through revenue bonds, general obligation bonds to pay for the subsidy component of the revenue bond program and repayments of clean water fund loans.

State debt service costs for the environmental improvement fund have increased from \$2.5 million in 1990-91 (the first year of the clean water fund program), to \$33.8 million in 2000-01 to \$50.5 million in 2008-09. In 2009-10, state debt service costs for the program were \$31.2 million because of the deferral of principal payments on the state's

general obligation debt programs. Environmental improvement fund state debt service costs are budgeted at \$56.4 million in 2010-11.

The Department of Administration (DOA) administers certain aspects of the financial management of the environmental improvement fund and DNR administers all other loan and grant provisions. The Wisconsin Housing and Economic Development Authority (WHEDA) is authorized to administer the safe drinking water loan guarantee program, but the program has not been implemented. The environmental improvement fund programs are authorized under s. 281.58 through s. 281.625 and s. 234.86, and administered through administrative rules NR 162, NR 166, NR 167 and ADM 35.

Other informational papers prepared by the Legislative Fiscal Bureau discuss additional aspects of the state's efforts to provide financial assistance to address surface water pollution concerns. (See the Legislative Fiscal Bureau's informational papers entitled, "Private Sewage System Replacement or Rehabilitation Grant Program" and "Nonpoint Source Water Pollution Abatement and Soil Conservation Programs.")

## CLEAN WATER FUND PROGRAM

---

### Project Eligibility and Priority

---

#### General Purposes for Assistance

The clean water fund program may provide financial assistance to municipalities for three general purposes. "Municipality" means any city, town, village, county, county utility district, town sanitary district, public inland lake protection and rehabilitation district, metropolitan sewerage district, or tribe. Although all three purposes are eligible; to date, the clean water fund program has not funded national estuary conservation plans. Eligible purposes include:

*Sewage Treatment.* Planning, designing, constructing, replacing or maintaining a treatment facility (defined as any devices and systems used in the storage, treatment, recycling and reclamation of municipal sewage or liquid industrial waste, including intercepting sewers, outfall sewers, and sewage collection systems).

*Nonpoint Source Pollution Abatement.* Implementing a nonpoint source pollution control management plan established under the federal Water Quality Act of 1987. Currently, state financial assistance for the abatement of nonpoint source pollution is primarily provided by a separate program. (See the Legislative Fiscal Bureau's informational paper entitled, "Nonpoint Source Water Pollution Abatement and Soil Conservation Programs.") Nonpoint source pollution is water pollution which is not attributable to a single, well defined point or origin but which is carried by rainfall or snowmelt from a variety of sources, such as from storm water runoff, farm fields, barnyards, construction sites, highways, city streets and parking lots. The clean

water fund program has entered into two financial assistance agreements for nonpoint source pollution abatement and 19 for storm water projects.

*National Estuary Conservation Plan.* Developing a conservation plan related to the national estuary program established under the federal Water Quality Act of 1987. Although the state clean water fund program has not yet provided assistance for this purpose, it was included in the state law to provide maximum flexibility if federal law changes were made. For Wisconsin, Great Lakes estuaries (the portions of the Great Lakes that extend inland to meet the mouth of a river) could become eligible for federal assistance.

Appendix I provides a glossary of key terms related to wastewater treatment. Appendix II includes a description of wastewater treatment systems.

#### Eligible Types of Projects

DNR and DOA are authorized to provide financial assistance for the following types of projects.

*Compliance Maintenance.* Projects to prevent a significant violation of an effluent limitation by a municipal sewage treatment facility.

*New or Changed Limits.* Projects to achieve compliance with an effluent limitation established after May 17, 1988, if the project is for a municipality that is not a violator of the specific limit that is changing. For example, if the limit for ammonia discharge is changing, as long as a municipality is complying with its existing permit with regard to ammonia, it is not considered a violator for the purposes of this eligibility requirement.

*Unsewered Communities.* Projects to provide treatment facilities and sewers for unsewered areas.

*Nonpoint and Storm Water.* Projects to abate nonpoint source pollution and to control urban storm water runoff.

*Violator.* Projects to plan, design, construct or replace treatments works that violate effluent limitations contained in an existing permit. "Violator" is defined as a municipality, that, after May 17, 1988, is not in substantial compliance with the enforceable requirements of its discharge permit, for a reason that the DNR determines is, or has been, within the control of the municipality.

### **Criteria Used to Prioritize Projects**

Administrative rule NR 162 establishes a priority ranking system which scores each project. The system ranks projects in the event funding is not available for all requested projects in a given year. The priority ranking system is based on the following:

a. The project type, which includes the following categories: (1) compliance maintenance for wastewater and storm water projects with permits; (2) new or changed limits; (3) unsewered; (4) non-permitted urban storm water runoff; and (5) violators of current permit limits.

b. The impact of the project on public health.

c. The impact of the project on water quality, including: (1) fish and aquatic life; (2) wild and domestic animals; (3) outstanding and exceptional resource waters; (4) local water resource priorities; and (5) other criteria related to the treatment of septage or leachate.

d. The population served by the project.

The priority system assigns a score to a project based on the criteria listed above. The priority system is designed to give emphasis to funding

compliance maintenance projects. For this reason, although project type, human health and water quality have approximately the same potential weight in the project score, project type has been the most important factor in determining priority ranking. On average, the four criteria make up the total priority score in the following proportions: project type (77%); human health (6%); water quality (16%); and population (1%). The highest scoring project type is a project that DNR determines is necessary to prevent a municipality from significantly exceeding an effluent limitation in a wastewater discharge elimination permit.

DNR is also required to give a higher priority than would otherwise be given to certain joint projects that will serve more than one municipality in small population areas. Effective December 1, 2003, NR 162 gives a slightly higher priority to such projects. However, DNR has not used this factor to assign priority points to a project.

To date, funding has been sufficient to fund all eligible clean water fund projects, except for those projects requested under the hardship program (discussed in a following section). Therefore, the project priority scores have only been used in the hardship program for the purpose of distributing available funding.

### **Emphasis on Prevention of Discharge Violations**

Facilities discharging waste to state waters are required to operate under a Wisconsin pollution discharge elimination system (WPDES) permit issued by DNR. These permits establish requirements a municipality must meet for each point source of pollution. If that standard is being exceeded at the time the permit is issued, the permit provides a compliance schedule, which is a legally binding step-by-step set of requirements regarding how and when a municipality is to achieve compliance with the permit.

*Compliance Maintenance Program.* In the 1970s and 1980s, Wisconsin provided grants to municipalities to help the state meet a federal Clean Water



Act mandate for fishable and swimmable waters. To protect the large public investment in the former grant program, DNR promulgated an administrative rule creating a compliance maintenance program. Its purpose is to encourage and, where necessary, require municipalities to take necessary actions to avoid water quality degradation and prevent violations of WPDES permit effluent limits.

*Annual Report.* Municipalities must submit annual reports to the DNR assessing the physical condition and performance of their sewerage systems. The report contains a point system component to identify whether voluntary or required actions are needed to maintain or improve the existing sewerage system. Under the point system, three action levels are established: (a) "voluntary range," where the municipality may initiate longer range planning for new, upgraded or additional treatment facilities; (b) "Department recommendation range," where DNR notifies the municipality that an operation and needs review is recommended; and (c) "Department action range," where DNR requires the municipality to complete an "operation and needs review," and to implement any needed action.

*Project Scoring.* Projects needed to maintain compliance with existing permit limitations receive the highest priority score in the category of project type and the largest interest rate subsidy (other than financial hardship projects).

*Revised Contaminant Limits.* In recent years, the federal and state standards setting contamination limits for both drinking water and surface water have become more stringent and have included contaminants not previously regulated. In response to federal and state requirements, DNR promulgates new or revised administrative rules for groundwater and surface water establishing new or modified limits for toxic substances, heavy metals, and other contaminants. To assist municipalities in achieving compliance with newly added permit limitations for substances such as

toxics, the program gives these project types priority second only to compliance maintenance projects when assigning priority scores.

---

## Financial Assistance Criteria

---

### Types of Financial Assistance

Under the clean water fund program, municipalities may receive financial assistance in the form of loans, refinancing, guarantees, purchase of insurance, credit enhancement or grants, as follows:

- a. Provide loans at or below market interest rates.
- b. Purchase or refinance the debt obligation of a municipality incurred for municipal treatment facilities that would otherwise be eligible under the clean water fund program.
- c. Guarantee or purchase insurance for municipal obligations for the construction or replacement of a treatment facility if the guarantee or insurance would improve a municipality's access to the credit market, or reduce the interest rate the municipality would otherwise receive.
- d. Provide grants under the financial hardship assistance program.
- e. Make payments to the Board of Commissioners of Public Lands to reduce principal or interest payments, or both, on loans made to municipalities by the Board for projects that would otherwise be eligible under the clean water fund program.
- f. Provide principal forgiveness for up to 50% of project costs for projects financed with federal funds received under the American Recovery and Reinvestment Act of 2009 (ARRA) and with the regular federal funding for federal

fiscal year 2010.

## **Limitations and Conditions on Financial Assistance**

Under certain circumstances, eligibility for financial assistance from the clean water fund program is restricted, as indicated below:

*Previous Compliance.* Any municipality that has failed to substantially comply with the terms of a federal or state grant or loan previously received for wastewater collection, transportation, treatment or disposal is ineligible.

*Reserve Capacity.* To be eligible for financial assistance, except a market rate loan, the amount of reserve capacity included in a project is limited to the future capacity which will be needed to serve the users of the project expected to exist within the sewer service area of the project 10 years after the project becomes operational. The amount of reserve capacity is also limited to the future capacity required to serve the need expected to exist outside of the sewer service area of the project area for septage that is reasonably likely to be disposed of in the project 10 years after the project becomes operational. Reserve capacity is extra wastewater system capacity not currently needed, but constructed to take future growth into consideration.

*Future Development.* Public sanitary sewer mains, interceptors and individual systems that exclusively serve future development are ineligible.

*Most Cost-Effective Alternative.* Financial assistance may be provided for a project only if that project is the most cost-effective alternative for the municipality.

*Sewer Lines.* Connection laterals and sewer lines that transport wastewater from individual structures to public sewers or to on-site treatment systems are not eligible.

*Violators.* The portion of a project designed to address a WPDES permit violation receives market interest rate loans or other assistance that result in reducing the interest rate to not less than the market rate. The purpose of this restriction is to encourage municipalities to develop plans and begin construction before any pollution limitation violations occur and thus minimize any harmful effects to the environment.

*Industrial Wastes.* Financial assistance for the portion of a project used to treat industrial wastes may only be provided at the market interest rate.

*Length of Loans.* The loan repayment period may be for no longer than 20 years after the date of the financial assistance agreement.

*Local Financial Administration.* To be eligible for a clean water fund loan, each municipality must: (a) establish a dedicated source of revenue for repayment of any financial assistance (except grants made under financial hardship provisions); (b) pledge any security required by DNR or DOA administrative rules; (c) develop an operation and maintenance program for the treatment facility; and (d) develop a system of user charges in compliance with federal law to ensure that each user of the treatment work pays its proportionate share of the operation and maintenance costs. (An exemption may be issued for a city or village that imposes a system of charges based on assessed property values, if it is served by a regional wastewater treatment plant operated by a metropolitan sewerage district.)

*Limit Per Municipality.* No municipality may receive funding that would exceed 35.2% of the total present value amount awarded during the biennium (the concept of "present value" is discussed in a following section).

*Unsewered Communities.* Construction projects in unsewered communities receive a reduced interest rate loan (70% of the market interest rate) only if two-thirds of the initial flow originating from the area in question, as of project start-up, is

from wastewater from residences that were in existence prior to October 17, 1972. This is known as the "two-thirds rule." Projects for unsewered communities that do not meet this criterion are eligible only for assistance at market rate interest or its equivalent. An unsewered municipality which is planning to use a treatment work in another municipality for disposal of its wastewater is not eligible for assistance until it has executed an agreement with that other municipality.

In several parts of the state, the high level of the groundwater table and the type of soil combine to create a large number of ineffective or failing septic systems. This can cause adverse public health effects since groundwater and surface water can be contaminated by untreated sewage. As a result, unsewered projects may receive relatively high priority scores because of the priority given the public health effects of groundwater and surface water contamination. DNR believes that some

communities have not applied for clean water fund financial assistance because they do not meet the two-thirds requirement. In addition, DNR believes that the further the October, 17, 1972, date moves into the past, the more likely it is that growing municipalities and subdivisions that seek funding for providing sewers in currently unsewered areas will not meet the two-thirds rule.

### Application Process

In order to be considered for clean water fund program assistance, a municipality must meet the application and construction deadlines listed in Table 2. A municipality may not submit more than one application for any single project in any 12-month period, except for applications for financial assistance for additional costs of an approved project. Regular projects are funded on a continuous funding cycle. Financial hardship assistance projects are funded on an annual cycle.

**Table 2: Application and Construction Deadlines for Clean Water Fund Program Financial Assistance**

Deadline	Action Required
<b>Regular Projects:</b>	
<u>Continuous Funding*</u>	
Six months before beginning of fiscal year in which financial assistance will be requested.	Municipality notifies DNR of its intent to apply for financial assistance.
Anytime during year.	Municipality submits regular application, design plans and specifications.
Within eight months of application acceptance.	Municipality signs CWF financial assistance agreement.
<b>Hardship: Annual Cycle</b>	
Six months before beginning of fiscal year in which financial assistance will be requested.	Municipality notifies DNR of its intent to apply for financial assistance. If a sanitary district, the municipality must also submit a map of sanitary district boundaries.
Before July 1 of the following year (six months later).	Municipality submits a hardship application, designs and specifications.
By approximately October of the following year (four months after application).	DNR publishes a funding list of applicants that applied for and qualify for hardship assistance.
Within eight months of publishing funding list.	DNR issues financial assistance agreement based on the project's eligibility, priority, and available funding.

\*If the administering agencies determine that the amount of present value subsidy, general obligation bonding authority and revenue bonding authority are insufficient to fund all projects for which applications will be approved during the biennium, the program would revert to an annual funding cycle. Funds would be allocated based on environmental priority scores. Municipalities would be required to submit complete applications by June 30 of affected years.

## Loan Interest Rates

The interest rate on a municipality's loan under the clean water fund program is determined by the type of project, the financial capability of the municipality and other special provisions. This section discusses how interest rates are established.

*Interest Rates and Project Types.* The statutes require that the loan interest rate set for each application be based on the type of project.

Current law establishes four interest rates as a percent of the market interest rate and specifies which project type receives which interest rate. The market rate is the interest rate of state revenue bonds. Table 3 lists the project types by interest rate. DNR and DOA may request the Joint Committee on Finance to modify the interest rates; however, no Committee action has been requested.

Compliance maintenance and new or changed limits projects receive the greatest subsidy (other than financial hardship assistance projects) because these projects receive the highest priority. For loans financed with funding allocated in biennia prior to 2009-11, the interest rate for these projects was 55% of the market interest rate. In 2009 Act 28, the state subsidy for these projects was decreased by increasing the interest rate to 60% of the market

interest rate.

Second priority of state subsidy is provided to loans for storm water or nonpoint source pollution abatement projects. As of November 1, 2010, the program has funded 19 urban storm water projects for \$20,535,100 and two nonpoint projects for \$868,100. Third priority is provided to unsewered projects that meet the two-thirds rule. Market interest rate loans are provided to the portion of a project: (a) designed to address a WPDES permit violation; (b) serving industrial flow; or (c) unsewered areas not meeting the two-thirds rule.

*Transition Loan Interest Rates.* As part of the transition from the point source grant program to the clean water fund program, a specific group of communities was guaranteed 2.5% interest rate loans. To receive this reduced interest rate for a project, the community, at the time of the transition to the clean water fund loan program, either had: (a) grant applications pending under the former grant program for the project; or (b) had a staged compliance schedule (affected only the Milwaukee Metropolitan Sewerage District).

Transition projects were required, in general, to meet the criteria of the point source grant program rather than the clean water fund loan program. Financial assistance agreements of \$345.0 million

**Table 3: Clean Water Fund Program Loan Interest Rates by Project Type**

Project Category	Percent of Market Rate	Current Rate	Estimated 2011-13 Biennial Finance Plan Rates
Compliance maintenance/ New and changed limits	60% of Market Rate	2.4%	3.00%
Storm water/nonpoint	65% of Market Rate	2.6%	3.25%
Unsewered	70% of Market Rate	2.8%	3.50%
Violator, reserve capacity, Industrial flow or unsewered not meeting two-thirds rule	100% of Market Rate	4.0%	5.00%
Transition	Not Applicable	2.5%	2.50%
Hardship	Variable	0.0 to 4.0%	0.0 to 5.0%
Hardship grants and principal forgiveness	Grant	Grant	Grant
Septage treatment and capacity	0.0%	0.0%	0.0%

have been entered into for eligible transition period projects as of January 1, 2011. Specific transition loan limitations exist for Milwaukee Metropolitan Sewerage District (MMSD). The total amount of transition loans that MMSD can receive during the duration of the clean water fund program is limited to \$230.9 million. The program entered into \$230.4 million in transition period project financial assistance agreements with MMSD as of November 1, 2001. No financial assistance agreements have been entered into under this provision since that time (through December of 2010). With \$287,000 in unused funds from prior agreements, a total of \$832,800 remains in unused transitional period project funding for MMSD. However, as of January 1, 2011, the interest rate for compliance maintenance or new and changed limits projects is lower (at 2.4%) than the 2.5% interest rate for transition projects, so it is unlikely the remaining transition project funding will be used by MMSD until interest rates for compliance maintenance projects increases above 2.5%.

*Hardship Project Interest Rates.* Projects that meet certain criteria are eligible for grants and loans (see section on financial hardship assistance). Interest rates may be as low as 0% and grants may be for up to 70% of project costs. A combination of grant and loan is provided to reduce the municipality's residential wastewater treatment charges to 2% of the median household income of the municipality.

*Septage Management Interest Rates.* 2005 Wisconsin Act 347 provides a 0% interest rate for the portion of a project loan related to septage receiving and storing facilities and capacity for septage treatment. As of November 1, 2010, the program has funded eight projects with \$2,598,500 in septage treatment costs.

*Principal Forgiveness.* Under the federal American Recovery and Reinvestment Act of 2009 (ARRA), and under federal provisions applicable to federal grants received by the state for federal fiscal year 2010 (state fiscal year 2010-11), the program may provide forgiveness of a portion of the loan principal.

*Estimated Interest Rates.* The interest rates paid by a municipality partly depend on the market rate, which changes with each state clean water fund revenue bond issue. Table 3 lists current interest rates and the planning rates estimated in the 2011-13 biennial finance plan prepared by DNR and DOA. (Appendix III describes the biennial finance plan process.) The percent of market rate listed in the table is based on the project category.

The actual interest rate for a specific project may be a composite of the interest rates listed in Table 3. This occurs if the project includes components that are associated with different interest rates. For example, an adjustment is often made for the project costs that are associated with industrial discharges. These costs would be funded at 100% of the market interest rate.

#### **Biennial Loan Cap -- "The Present Value Subsidy Limit"**

To provide a financial control mechanism, the law created a concept unique to the clean water fund program, termed a "present value subsidy" limit. This limit is a means for the Legislature to control the commitment of state financial assistance to municipalities in a biennium. Because it incorporates the debt service that will be paid on bond issuances, the present value subsidy limit reflects the total cost to the state, in current dollars, of subsidizing clean water fund program projects. The present value subsidy limit acts as a cap on the sum of all assistance provided through the clean water fund program in a biennium. To the extent that actual bond interest rates are greater or less than assumed rates, the number of projects that may be funded would decrease or increase.

*Definition Of Subsidy And Present Value Subsidy.* The "subsidy" is the amount provided by the clean water fund program for the purposes of: (a) reducing the interest rate of loans to a level below the market rate; and (b) providing financial hardship assistance grants. The subsidy is the difference between the debt service (principal and interest) that the state pays for the revenue bonds to finance the

**Table 4: Clean Water Fund Program Present Value Subsidy Limit**

Project Category	Authorized 2009-11 Biennium		Proposed (September, 2010) 2011-13 Biennial Finance Plan	
	Present Value (2009-10 Dollars)	Percent of Total	Present Value (2011-12 Dollars)	Percent of Total
Compliance Maintenance, New & Changed Limits (60% of market rate)	\$109,500,000	81.2%	\$85,600,000	77.7%
Storm water, Nonpoint (65% of market)	1,000,000	0.7	700,000	0.6
Unsewered (70% of market)	4,200,000	3.1	600,000	0.5
Market rate	0	0.0	0	0.0
Transition	0	0.0	0	0.0
Septage treatment or capacity	0	0.0	0	0.0
Hardship (and principal forgiveness in 2011-13)	<u>20,200,000</u>	<u>15.0</u>	<u>23,300,000</u>	<u>21.2</u>
<b>Total</b>	<b>\$134,900,000</b>	<b>100.0%</b>	<b>\$110,200,000</b>	<b>100.0%</b>

loan and the amount the municipality pays back into the fund.

The "present value subsidy" represents the cost, in 2009 dollars, to provide 20 years of subsidy for all financial assistance to be provided during the 2009-11 biennium. The 2009-11 biennial budget act established a present value subsidy limit of \$134.9 million by discounting the estimated subsidy costs at a statutory rate of 7% per year to July 1, 2009. The September, 2010, biennial finance plan proposes a present value subsidy limit for 2011-13 of \$110.2 million. The current and proposed present value subsidy limits are shown in Table 4.

The amount of present value subsidy is intended to be the equivalent of the amount the state would expend, but not be repaid, for a given project if that entire subsidy were provided in the year the loan was made, rather than over 20 years. Conceptually, the present value subsidy is the amount the state would need to invest today at a 7% annual rate of return to receive payments equal to the annual subsidy provided to municipalities.

*How The Present Value Is Established.* The amount of the present value subsidy limit is established in the statutes in each biennial budget. There are several factors that affect the present value, including the interest rate the municipality pays to the state, the interest rate the state pays for its bonds and the

expected discount rate. All these are incorporated by DNR and DOA in calculating the present value limit that is included in the biennial finance plan for consideration by the Legislature. The limit approved by the Legislature determines the present value subsidies for all clean water fund program obligations that could be made during the biennium, including amounts for financial hardship assistance.

*Distribution Of The Present Value Subsidy Limit.* The statutes require that the total present value subsidy limit be distributed as 85% for the basic loan commitments and 15% for financial hardship assistance. Table 4 lists the distribution of the present value subsidy among project categories. Table 4 shows the 2011-13 proposed present value subsidy limit for hardship assistance is greater than 15% (proposed as 21.2% of the total) because the category would also include principal forgiveness under ARRA for expenditure of the federal fiscal year 2010 grant.

---

## Loan and Grant Programs

---

The clean water fund program provides financial assistance to municipalities through loans and limited grants. The state's clean water fund program

is broader in scope than what is required to meet federal Water Quality Act requirements. The clean water fund program includes the direct federal revolving loan program and four state-only components: (1) leveraged loans; (2) proprietary loans; (3) hardship loans and grants; and (4) small project loans. Appendix IV provides an outline of the program components.

The amount of funding and interest rate received by municipalities is determined for all projects based on the program criteria previously discussed (such as project type and priority level), regardless of which loan program is used to finance the project. DOA selects the loan program to finance a project based on the following considerations: (a) all federal grant funding is used first, within federal guidelines and restrictions; (b) state revenue bond proceeds are used for as many non-federally funded projects as possible; and (c) state general obligation bond proceeds are used for loans which can not be funded under (a) or (b) due to funding availability or other financial considerations.

The program has entered into 749 financial assistance agreements totaling \$3.3 billion as of June 30, 2010, including \$112.3 million for hardship grant awards. Table 5 shows the amount of financial assistance agreements entered into in every fiscal year between 1990-91 (the first year the program entered into financial assistance agreements) and 2009-10. Appendix V lists the total amount of financial assistance agreements provided to municipalities.

The total amount of financial assistance received by individual municipalities has ranged between \$22,000 and \$1,089,024,100. The Milwaukee Metropolitan Sewerage District, the largest recipient of clean water fund loans, accounted for 32.7% of the financial assistance as of June 30, 2010.

### Direct Revolving Loans

One subprogram of the clean water fund program is known as the direct loan component.

**Table 5: Clean Water Fund Program, Financial Assistance Agreements by Fiscal Year**

State Fiscal Year	Grant Amount	Loan Amount	Total
1990-91	\$0	\$152,620,646	\$152,620,646
1991-92	10,144,503	252,605,656	262,750,159
1992-93	20,584,960	112,492,580	133,077,540
1993-94	11,469,235	76,354,193	87,823,428
1994-95	7,681,464	92,961,017	100,642,481
1995-96	14,587,588	82,654,586	97,242,174
1996-97	1,284,877	125,730,689	127,015,566
1997-98	1,956,066	92,745,736	94,701,802
1998-99	11,938,555	108,298,122	120,236,677
1999-00	0	109,097,750	109,097,750
2000-01	696,993	113,086,192	113,783,185
2001-02	16,733,379	288,301,555	305,034,934
2002-03	1,500,864	196,408,101	197,908,965
2003-04	1,791,314	75,359,841	77,151,155
2004-05	4,893,698	170,831,796	175,725,494
2005-06	1,695,582	215,063,483	216,759,065
2006-07	1,444,516	162,650,641	164,095,157
2007-08	80,000	277,435,251	277,515,251
2008-09	2,762,550	220,590,023	223,352,573
2009-10	<u>104,888,217*</u>	<u>173,900,158</u>	<u>278,708,375</u>
Total	\$216,054,361	\$3,099,188,016	\$3,315,242,377

\* Includes grants and principal forgiveness under the American Recovery and Reinvestment Act of 2009.

The federal Water Quality Act of 1987 makes grants available to states for a state revolving loan fund. The individual states that choose to participate receive a percentage of the total federal funds available each year. These funds can then be loaned by the states to municipalities to use for water quality planning and pollution abatement projects. These funds are termed "revolving" because the federal act requires that municipal repayments of these loans must be deposited back into the fund, thus providing a source of future loans for other municipalities.

*Intended Use Plan and Annual Report.* To receive the state's share of the capitalization grant, the state must provide an annual plan to EPA that identifies the intended uses of the amounts in its revolving loan fund for the following fiscal year. At the conclusion of each fiscal year, the state is required to provide an annual report to the EPA describing how the state has met the goals and objectives for the previous year. EPA reviews the state program

annually and audits the revolving loan fund, or requires the state to have an independently conducted audit. The state must demonstrate that the federal portion of the revolving loan fund and the state match are being maintained in perpetuity.

*Eligible Uses Of Federal Funds.* Federal law establishes three categories of eligible uses for federal funds: (a) the construction of publicly-owned treatment works; (b) control of nonpoint source pollution; and (c) national estuary conservation plans.

To be eligible for assistance from the revolving loan program, the municipality's project must be: (a) a publicly-owned treatment work; (b) consistent with areawide water quality management plans and nonpoint watershed plans; and (c) on the state's priority list.

*Conditions For State Receipt of Federal Capitalization Grants.* To receive federal capitalization grants, the state must contribute an amount equal to at least 20% of the federal grant amount. The state match is provided with general obligation bond proceeds. The state must also meet federal regulations related to procurement, accounting and financial management. State funding in the clean water fund program, other than the 20% state matching funds for the revolving loan program, is not subject to these restrictions. Funding received under ARRA was not subject to the state match requirements.

*Types Of Assistance Available To Municipalities.* In addition to restrictions on the broad categories of uses for capitalization grants, there are federal limitations on the types of assistance that may be provided to municipalities with the federal component of the clean water fund and the associated state match. States are not permitted to use the federal funds or the state match to provide grants to municipalities, other than under 2009 ARRA provisions and temporary provisions under the federal fiscal year 2010 grant. The funds may be used to:

1. Make loans, on the conditions that: (a) the loans are made at or below market interest rates; (b) the terms do not exceed 20 years; (c) the municipality that is the recipient of the loan must establish a dedicated source of revenue for repayment; and (d) the fund will be credited with all payments of principal and interest on all loans.

2. Buy or refinance the debt obligation of municipalities incurred after March 7, 1985 (the date the U.S. Senate began considering the Water Quality Act of 1987), for the purpose of constructing a treatment facility otherwise eligible under this program.

3. Guarantee, or purchase insurance for, local debt obligations if doing so improves the municipality's access to the credit market, or reduces its interest rate.

4. Provide loan guarantees for similar revolving funds established by municipalities.

5. Provide forgiveness of loan principal for projects funded under ARRA or the federal fiscal year 2010 regular federal funding.

*Federal Funding Levels.* In the Water Quality Act of 1987, Congress authorized initial funding with federal capitalization grants for state revolving loan programs for the period from federal fiscal year (FFY) 1989 through 1994. From FFY 1989 through 1994, Wisconsin received 2.7342% of the total available capitalization grant funds nationwide. As of January, 2010, the Clean Water Act had not been reauthorized. Federal funding in FFY 1995 through 2010 for state revolving loan programs has been provided through annual appropriations.

The revolving fund can be used to finance the costs of administering the fund, including only those activities related to federally funded projects. The state is permitted to set aside not more than 4% of federal grants received for these administrative purposes. Table 6 lists federal capitalization grants and annual appropriations



**Table 6: Revolving Loan Program Federal Grants and State Match**

Federal Fiscal Year	Federal Funding			Subtotal Federal	State Match	Federal and State Total
	Loans	Grants	Administration			
1989	\$24,479,500		\$1,020,000	25,499,500	\$5,100,000	\$30,599,500
1990	25,398,100		1,058,300	26,456,400	5,291,300	31,747,700
1991	53,437,900		2,226,600	55,664,500	11,132,900	66,797,400
1992	50,427,000		2,101,100	52,528,100	10,505,600	63,033,700
1993	49,883,600		2,078,500	51,962,100	10,392,400	62,354,500
1994	30,952,100		1,289,700	32,241,800	6,448,300	38,690,100
1995	28,379,500		1,332,000	29,711,500	5,942,300	35,653,800
1996	52,362,700		2,181,800	54,544,500	10,908,900	65,453,400
1997	16,175,000		674,000	16,849,000	3,369,800	20,218,800
1998	34,947,800		1,456,200	36,404,000	7,280,800	43,684,800
1999	38,382,500		1,599,300	39,981,800	7,996,400	47,978,200
2000	34,832,300		1,451,300	36,283,600	7,256,700	43,540,300
2001	34,522,500		1,438,400	35,960,900	7,192,200	43,153,100
2002	34,681,800		1,441,600	36,123,400	7,224,700	43,348,100
2003*	34,517,400	\$1,212,900	1,432,300	37,162,600	7,229,200	44,391,800
2004	34,395,400		1,433,100	35,828,500	7,165,700	42,994,200
2005	27,966,700		1,165,300	29,132,000	5,826,400	34,958,400
2006	22,726,900		947,000	23,673,900	4,734,800	28,408,700
2007	27,777,400		1,157,400	28,934,800	5,787,000	34,721,800
2008	17,660,700		735,900	18,396,600	3,679,300	22,075,900
2009**	17,660,600	103,748,300	2,935,900	122,144,800	3,679,300	128,024,100
2010 est.	33,600,000		1,400,000	35,000,000	7,000,000	42,000,000
2011 est.	<u>33,600,000</u>		<u>1,400,000</u>	<u>35,000,000</u>	<u>7,000,000</u>	<u>42,000,000</u>
Total	\$758,767,400	\$104,961,200	\$33,955,700	\$895,484,300	\$158,144,000	\$1,055,828,300

\* The federal rural communities hardship grants program provided \$1,212,900 in grants and \$142,900 in loans, and required \$67,800 in state match (5% instead of 20%).

\*\* The American Recovery and Reinvestment Act of 2009 provided \$103,748,300 for grants and \$2,200,000 for administration, and did not require a state match.

received to date, including: (a) federal grants for direct loans to municipalities; (b) federal funds provided for grants or principal forgiveness; (c) the 4% of federal grants allowed for administration; and (d) the required 20% state match provided from the issuance of general obligation bonds.

*ARRA Provisions.* Under the federal American Recovery and Reinvestment Act of 2009 (ARRA), DNR and DOA received a one-time grant of \$105,948,300. Of the total, \$103,948,300 was used to provide principal forgiveness for 50% of eligible project costs, and the remaining \$2,200,000 was allocated to program administration.

Under ARRA, Wisconsin was authorized to provide grants, principal forgiveness, or loans at different interest rates than the regular state

program. The state was required to: (a) give priority to projects that would be ready to proceed with construction within a short time frame (the program implemented this by requiring signed construction contracts to be submitted to DNR by October, 2009); (b) use at least 20% of ARRA funds for "green" projects that promote water or energy efficiency, are environmentally innovative, or use green infrastructure; (c) target funds to areas with high unemployment rates; and (d) consider the geographic distribution of projects.

DNR established an ARRA funding list through the following steps: (a) ranked all eligible projects by priority score; (b) allocated 20% of funds for green projects, in priority order; (c) allocated at least 25% of funds to projects in counties with an unemployment rate higher than the state average

unemployment rate, by priority score (some projects met both green project and high unemployment area criteria); (d) allocated funds to at least one project in each of the five DNR regions if not funded under (b) or (c); and (e) allocated all remaining ARRA funds based on project priority score, subject to the readiness to proceed criteria. DNR and DOA awarded all ARRA clean water funds during the fall of 2009.

DNR established a cap of 35.2% of ARRA clean water funds that could be received by any one municipality. This was done to be consistent with the statutory requirement for the regular program that restrict any one municipality from receiving more than 35.2% of the clean water fund present value subsidy available in any biennium.

*Federal Fiscal Year 2010 Provisions.* The federal capitalization grant for FFY 2010 includes the same requirements as included in ARRA related to principal forgiveness and priority for green projects and projects in areas of high unemployment.

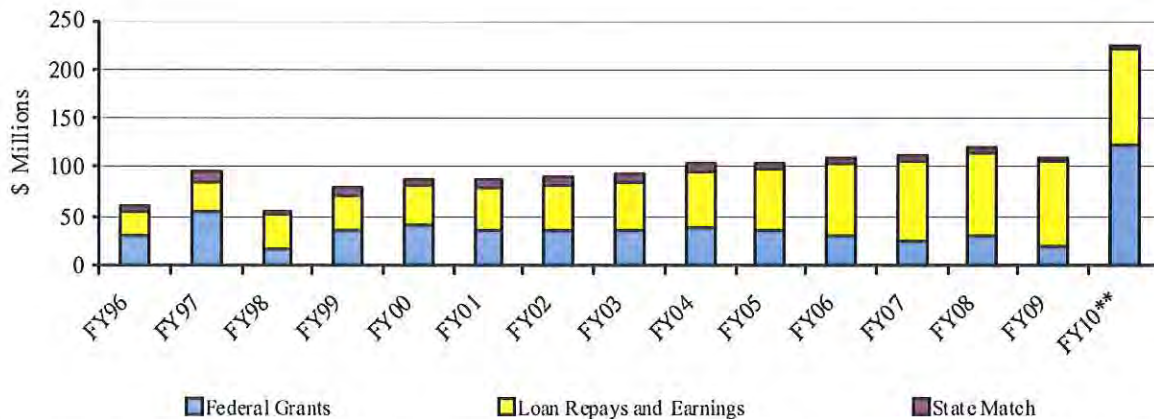
*Loan Repayments Held In Perpetuity.* One of the primary federal requirements the states must meet is to manage the direct revolving loan program so that the amount received in federal capitalization grants is available "in perpetuity" (for an indefinite period with no stated limit). This is accomplished

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.

The state is authorized to use up to half of the interest repayments received for loans that 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. State legislation has authorized the use of \$88.8 million in segregated loan repayments through 2009-10 to be used instead of general purpose revenues for general obligation bond debt service. In 2010-11, an additional \$9 million is appropriated for general obligation bond debt service. Use of segregated (SEG) revenue 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 general purpose revenue (GPR) debt service costs for general obligation bond debt service lengthens the time period that it would take for the revolving loan program to become a self-sustaining fund.

As loans are repaid, typically on a 20-year cycle, the funds become available for new loans. Funding available in a fiscal year for new loans is equal to the influx of new federal grants and state match

**Figure 1: Direct Revolving Loan Program Annual Funding Available, State Fiscal Years 1996-2010\***



\*Each state fiscal year includes the federal grant from the previous federal fiscal year, plus the state match, plus the loan repayments and investment earnings received.

\*\* FY10 includes \$103.7 million in one-time federal ARRA funds.

plus loan repayments. Figure 1 portrays the level of new financing occurring in each of the last 15 state fiscal years, from 1996 through 2010. Each fiscal year includes the federal grant from the previous federal fiscal year, plus the required state match plus loan repayments and investment earnings received. Figure 1 identifies the gradual increase in the proportion of new loans financed with revolving funds compared to new funding. The amount of revolving loans funded from loan repayments will continue to grow for approximately 20 years subsequent to the last addition of new funding.

*Disbursements.* Through June 30, 2010, the direct loan program had disbursed \$1.52 billion to 173 municipalities. Generally, funding commitments are disbursed over several years. Interest rates have ranged from 0.0% to 5.06%, and the weighted average interest rate for all loans is 2.78%.

### **Leveraged Loans**

The leveraged loan subprogram provides loans to municipalities using proceeds of state revenue bonds and general obligation bonds. The program utilizes the state's general obligation bond authority to "leverage" a larger amount of capital through the sale of state revenue bonds. Through this process, the program reduces the state's use of general debt service obligations.

*Revenue Bonds.* The state issues revenue bonds to provide the main source of capital to make loans to municipalities for eligible projects. Revenue bond proceeds also pay bond issuance and administrative expenses associated with issuance of the bonds. Municipalities borrow money, including at lower than market interest rates, and use the loans for the costs of planning, design and construction of pollution abatement facilities.

The repayment of revenue bonds comes from four sources: (a) municipality repayment of loans made through the program; (b) revenue bond proceeds deposited to the credit reserve fund (paid at the end of the repayment period) and earnings

on the credit reserve fund; (c) general obligation bond proceeds deposited to the subsidy reserve fund to pay the costs of below market interest rates; and (d) in cases of default, state aid otherwise paid to a municipality may be utilized.

*Subsidy Reserve Fund.* To meet conditions required for the sale of revenue bonds in the bond market, reserve funds are established. General obligation bonds are sold to create a subsidy reserve fund to pay the costs of the state subsidy to municipalities. The subsidy results because loans to municipalities are, in most cases, made at an interest rate below the market interest rate the state pays for its revenue bonds. The reserve fund is necessary to assure revenue bond holders that the subsidy costs are funded. The state's general fund pays debt service costs for the general obligation bonds that are in the subsidy reserve fund.

*Credit Reserve Fund.* A credit reserve fund is established with a portion of the proceeds of revenue bond issuances. The source of revenues for repayment of the bonds is repayments from municipalities that received clean water fund loans. The credit reserve fund provides security to the buyers of the state revenue bonds by providing a liquid asset from which payments to bond holders can be made in the event of default by a municipality. The reserve fund also enables the revenue bonds to be sold at a lower interest rate.

*State Aid Intercept.* Bond holders are also provided security for their investments through a state aid intercept provision. Under s. 281.59(11), in the event of default on a loan, the clean water fund has the authority to intercept state aid payments made to that municipality and use those funds to pay the bond holders. In addition, the state may apply an additional charge to the amount of property taxes levied by the county in which the applicable municipality is located.

*Disbursements.* Through June 30, 2010, the leveraged loan program had disbursed \$1.34 billion to 244 municipalities. Generally, funding commit-

ments are disbursed over several years. Interest rates have ranged from 0.0% to 5.8%, and the weighted average interest rate for all loans is 2.8%.

### **Proprietary Loans**

The clean water fund provides loans to municipalities through a proprietary loan portfolio. This method of financial assistance makes direct use of general obligation bond proceeds and is utilized when a project does not meet all the construction or financial criteria of the federal or leveraged loan programs and when the municipality is identified as otherwise eligible for assistance. It also funds the low-interest loan component of the hardship program (see the following section). In addition, because of specific restrictions on the use of revenue bond proceeds, such as a requirement that project refinancing must occur within 90 days of the issuance of the bond, the Department may temporarily finance projects through direct loans and subsequently transfer the project to the leveraged loan program under an upcoming bond issuance.

As of June 30, 2010, the program had loans outstanding for 64 projects with an aggregate principal balance of \$12,111,700. The \$189,200 average balance of the project loans is substantially smaller than the average leveraged loan, with an average of \$1.9 million, and the average direct revolving loan, with an average of \$3.8 million.

### **Hardship Financial Assistance**

The financial hardship assistance subprogram was included in the clean water fund program to address the concern that not all communities are equally able to bear the additional costs associated with treatment plant construction or rehabilitation. Particularly in small, rural communities, the cost per capita can be high because of the limited number of individuals financing the necessary capital investment. Information developed by DNR shows that user charges for wastewater services vary greatly across the state.

Through June 30, 2010, the clean water fund

program had entered into financial hardship assistance agreements with 90 municipalities totaling \$175,413,600. This included hardship grants totaling \$112,306,100 (including disbursements of \$105,741,800) and hardship loans totaling \$63,107,500 (including disbursements of \$62,089,500). These municipalities are noted in Appendix V.

*Eligibility and Ranking.* DNR is responsible for determining which communities receive financial hardship assistance and the form of that assistance. In making these decisions, DNR is directed to consider: (1) the project's placement on the priority list for funding; (2) the municipality's eligibility for financial hardship assistance; (3) the construction and operation and maintenance costs of the project; and (4) the total funding available to provide financial hardship assistance to all qualified applicants.

Eligibility for financial hardship assistance is determined based on the following two criteria:

1. The median household income of the municipality must be 80% or less (\$44,699 or less in 2008-09 through 2010-11) of the median household income of the state; and
2. The estimated total annual charges per residential user in the municipality that relate to wastewater treatment would exceed 2% of the median household income in the municipality without hardship assistance.

"Median household income" means median household income determined by the U.S. Bureau of the Census as adjusted by DNR to reflect changes in household income since the most recent federal census. In 2008, DNR received adjustment factors from the U.S. Department of Commerce to adjust 2000 Census data (1999 income) to 2006, and will apply the same factor to every municipality in a county. As of 2010-11, DNR continues to use the same adjustment factors. For municipalities that are sanitary districts, DNR obtains median household income information by: (a) obtaining a

map of the district boundaries from the sanitary district; (b) gathering census block data; and (c) providing census block numbers to the U.S. Census Bureau to obtain a special tabulation of median household income for the sanitary district.

"Residential user" means a structure or part of a structure, including a mobile home, that is used primarily as a home, residence or sleeping place by one person or two or more persons maintaining a common household and that uses a publicly owned treatment work. "Residential user" does not include an institutional, commercial, industrial or governmental facility.

*Types of Assistance.* The program provides financial hardship assistance that reduces residential user charges to an amount equal to 2% of the median household income in the municipality (or as close to 2% as is possible with the maximum assistance). Financial hardship assistance may include grants or loans at or below the market rate. The maximum financial assistance provided to a municipality, including hardship assistance, is a 70% grant with the remaining 30% of costs provided through a 0% interest rate loan. The municipality must pay at least 30% of the eligible costs of the project.

Financial hardship assistance is provided first in the form of a low-interest loan. Then if user charges still exceed 2% of the median household income, the program adds a grant. The program may not reduce the amount of financial hardship assistance provided to a municipality if the municipality also receives funding from another source unless the combination of the financial hardship assistance plus the other funding would reduce the residential user charges to less than 2% of the median household income in the municipality.

*Cap on Hardship Assistance.* Funding for financial hardship assistance is statutorily limited to 15% of the total present value subsidy authorized during a biennium. In 2009-11, this equals \$20.2 million of the \$134.9 million in total present value subsidy for

the biennium. The available funding for hardship assistance has been sufficient to fund all eligible requests for hardship assistance since 1998-99.

*Restrictions on Assistance.* The Department must comply with certain restrictions in making financial hardship awards. A municipality that is violating discharge permit pollution limitations may not receive financial hardship for that portion of the project designed to correct that violation.

All projects that receive financial hardship assistance must comply with all the criteria for general clean water fund assistance, and must be on the funding priority list. Any hardship projects that are on the financial hardship assistance funding list but do not receive funding, have not previously received funding and are in the top 20% of environmental priority ranking scores for clean water fund projects, shall receive top priority for financial hardship assistance in the following year.

### **Small Project Loans**

The small project loan subprogram was created in 1993 to provide an alternate funding source with a simplified application and review process for smaller municipal wastewater treatment projects. The maximum project cost is \$1,000,000. The program is intended to fund smaller projects, such as those that are requested: (a) to maintain compliance with current wastewater standards, such as the addition of equipment not involving major construction; and (b) to comply with a new or changed effluent limit. It has provided interest subsidies since June, 1995.

The small loan program utilizes an existing program operated by the Board of Commissioners of Public Lands. The Board receives revenues, managed through the State Trust Fund, which are invested or loaned to local units of government. Trust fund revenues are derived from state land sales, fines, escheated property and other sources. The majority of the Board's funds are invested in loans granted to school districts and municipalities.

Under the small loan program, a municipality obtains a loan from the State Trust Fund to fund a wastewater treatment project. The municipality also enters into an agreement with the clean water fund program to provide an annual subsidy of the State Trust Fund loan interest rate. The clean water fund program makes payments from the Clean Water Fund to the municipality for the interest rate subsidy. Units of government that are eligible for the clean water fund small loan program include: sewerage and sanitary districts; towns; villages; cities; counties; and public inland lake protection and rehabilitation districts.

Municipalities interested in the small loan program must submit an intent to apply form to the clean water fund program by December 31 prior to the calendar year in which the municipality applies for the interest subsidy. Municipalities may submit the application for the interest subsidy at any time during the year. Approval of an interest subsidy is made within eight months of the date the application is accepted. Assistance provided under the small loan program may not exceed the amount of subsidy that would have been provided if the loan would have been made directly by the clean water fund program.

Through June 30, 2010, the small loan program had provided interest subsidy of \$2,825,400 on 71 loans that have a loan amount of \$20,557,200. Subsidized interest rates provided by the small loan program have ranged from 2.365% to 4.5%, which reduced State Trust Fund interest rates that ranged from 3.00% to 6.75%.

### **Rural Communities Hardship Grant Program**

In 1999, DNR received a one-time grant of \$1,355,800 under the federal rural communities hardship grants program. DNR provided the required 5% state match (\$67,790) for wastewater treatment projects under the program by reallocating existing general obligation bonding authority (with GPR debt service).

Municipalities were eligible for federal assistance

for project costs which were eligible for assistance under the clean water fund program if the municipality met several criteria related to having a small and rural population, lacking centralized wastewater treatment or collection systems or needing improvements to onsite wastewater treatment systems to improve public health or reduce an environmental risk, and having a per capita annual income of residents to be served by the project that does not exceed 80% of the national per capita annual income.

DNR entered into one financial assistance commitment under the program of \$1,668,060 with the Fulton Sanitary District #2 in Rock County. The agreement included \$1,355,800 in federal rural hardship assistance (the full amount of available federal funds), \$67,790 in state match from general obligation bonding authority and \$244,470 in state hardship assistance. The project has been closed out.

---

### **Clean Water Fund Program Costs**

---

The clean water fund program provides state financial assistance to municipalities with the use of state general obligation bonds and state revenue bonds. General obligation bonds are repaid from the state's general fund taxes and loan repayments on clean water fund loans. Clean water fund revenue bonds are primarily repaid from the proceeds of municipal loan repayments rather than from state tax dollars.

The cost to the state under the clean water fund program accrues over time based on the debt service costs of the general obligation bonds. The debt service costs fund: (a) the costs of subsidizing interest rates; (b) the state match required for the receipt of federal grants; (c) direct (proprietary) state loans; (d) grants provided under the financial hardship program; and (e) program costs, including bond discounts, cost of bond issuance, some administrative expenses and capitalized

interest.

DNR and DOA are required to attempt to ensure that increases in state water pollution general obligation debt service costs do not exceed 4% annually and that state general obligation bond debt service costs for all state water pollution abatement programs are not greater than 50% of all general obligation debt service in any fiscal year. Water pollution abatement debt service is expected to be approximately 14.3% (\$101.9 million) of total statewide general obligation debt service in 2010-11 of \$711.5 million, which includes GPR debt service of approximately \$468.9 million. Water pollution abatement debt service includes debt service costs for the clean water fund, for the predecessor programs to the clean water fund program, and for nonpoint source water pollution abatement debt service for DNR and the Department of Agriculture, Trade and Consumer Protection (DATCP).

The total cumulative amount of debt service payments for clean water fund program general obligation bonds is shown in Table 7. Total debt service was \$47.8 million in 2008-09 for clean water fund program general obligation bonds and \$29.8 million in 2009-10 because of deferral of principal payments in the state's general obligation program. Clean water fund general obligation debt service is estimated at \$53.1 million in 2010-11. A portion of general obligation bond debt service has been paid since 1994-95 by loan repayments received from municipalities from loans that were originally provided from the proceeds of general obligation bonds, instead of using GPR for that portion of general obligation bond debt service. The use of loan repayments for general obligation bond debt service has totaled \$6 million annually between 2002-03 and 2008-09, \$15 million in 2009-10, and \$9 million in 2010-11.

#### Future and Current Costs

DNR and DOA are required to develop a biennial finance plan that includes estimates of costs for the program in the upcoming biennium. (See

**Table 7: Clean Water Fund Payments of General Obligation Bond Debt Service**

Year	Payment General Fund (GPR)	Payment from Loan Repayments	Total GO Debt Service Payment
1990-91	\$2,489,900		\$2,489,900
1991-92	6,536,600		6,536,600
1992-93	11,571,000		11,571,000
1993-94	15,213,000		15,213,000
1994-95	16,074,400	\$1,394,500	17,468,900
1995-96	18,083,300	1,858,300	19,941,600
1996-97	19,288,200	2,350,600	21,638,800
1997-98	21,863,100	4,000,000	25,863,100
1998-99	26,423,700	4,000,000	30,423,700
1999-00	27,639,800	4,000,000	31,639,800
2000-01	28,690,600	4,000,000	32,690,600
2001-02	23,698,300	10,200,000	33,898,300
2002-03	30,196,000	6,000,000	36,196,000
2003-04 *	14,868,100	6,000,000	20,868,100
2004-05 *	15,977,200	6,000,000	21,977,200
2005-06	36,248,800	6,000,000	42,248,800
2006-07	39,951,200	6,000,000	45,951,200
2007-08	39,780,200	6,000,000	45,780,200
2008-09	41,810,100	6,000,000	47,810,100
2009-10 **	14,815,000	15,000,000	29,815,000
2010-11 ***	<u>44,062,100</u>	<u>9,000,000</u>	<u>53,062,100</u>
Total	\$495,280,600	\$97,803,400	\$593,084,000

\* Principal payments were not made on certain clean water fund bond issues, but rather were restructured under 2003 Wisconsin Act 129. In addition, DOA reduced GPR debt service payments in 2003-04 and 2004-05 by lapsing approximately \$14 million per year from clean water fund program reserve funds to the general fund, and replacing the reserves with a surety bond.

\*\* Costs are lower than otherwise would have occurred because of the deferral of principal payments on the state's general obligation bond program.

\*\*\* Budgeted.

Appendix III for a description of the biennial finance plan process.) In the 2011-13 biennial finance plan, submitted in September, 2010, DNR and DOA projected program needs for the next four years (2011-12 to 2014-15), of an estimated \$1,037.1 million in 2010 dollars, based on the current scope of the program and current federal and state wastewater discharge requirements. To date, the program has been authorized \$2,363.3 million in revenue bond authority and \$777.0 million in general obligation bond authority to fund the state's portion of program costs.

In the 2011-13 biennial finance plan, DOA and

DNR estimated that \$39.7 million in additional general obligation bond authority and \$353.0 million in additional revenue bond authority would be needed in 2011-13 to meet estimated clean water fund program needs.

Through June 30, 2010, the clean water fund program signed financial assistance agreements with municipalities for 749 projects at a total value of \$3,315.2 million, including \$3,099.2 million in loans closed and \$216.1 million in grant awards. Appendix V shows these financial assistance agreements by municipality. Loans made under the land recycling loan program (discussed in a later section) are funded from repayments of loans under the clean water fund program, and are not included in these totals or the totals in Appendix V. Of the loans and grants awarded with signed financial assistance agreements, \$2,769.1 million in loans and \$180.5 million in grants have been disbursed. Municipalities are responsible for repaying all of the loan disbursements. The clean water fund program has received loan repayments from municipalities totaling \$1,708.6 million as of June 30, 2010. Interest rates ranged from 0% to 5.8% in 2010.

### Sources and Uses of Funds

Table 8 lists the total sources (\$4.73 billion) and uses of clean water fund program funds as of June 30, 2010. The sources of program funds include revenue bonds (\$1.46 billion), federal grant proceeds (\$828 million), general obligation bond proceeds (\$560 million), loan repayments (\$1.69 billion), investment income (\$191 million), and land recycling loan annual servicing fees (\$0.4 million). Uses of funds include loan and grant disbursements of \$2.96 billion, revenue bond debt service payments of \$1.15 billion, \$89 million from loan repayments for payment of general obligation bond debt service (instead of using GPR), \$71 million in program and administrative costs, and \$24 million in funds transferred to the safe drinking water loan program. In addition, commitments and reserves include \$206 million in loan credit and subsidy reserves, \$269 million in loans closed but not fully disbursed, and \$78 million in loan appli-

cations approved but not closed. This results in uses of funds and commitments which exceed total sources of funds by \$119 million, which can be considered a temporary funding shortfall. The program will issue currently authorized revenue obligations or general obligation bonds after June 30, 2010, and before the committed funds need to be

**Table 8: Clean Water Fund Program -- Sources and Uses of Funds through June 30, 2010**

<b>Sources of Funds</b>	Amount (millions)
Revenue Bonds	\$1,457.3
Federal Grant Proceeds 1989-2009	827.7
General Obligation Bond Proceeds and CWF Subsidy Bonds	559.8
Loan Repayments	1,694.9
Investment Income	191.2
Land Recycling Loan Servicing Fee	<u>0.4</u>
<b>Total Sources of Funds</b>	<b>\$4,731.3</b>
 <b>Uses of Funds</b>	
Uses – Financial Assistance Disbursements	
Loans from Revenue Bonds	\$1,199.6
Loans from Federal Grants	662.9
Loans from General Obligation Bonds	249.1
Loans from Loan Repayments	582.7
Loans from Investment Income	90.0
Hardship Grants	<u>180.5</u>
Subtotal	\$2,964.8
Uses - Other	
Revenue Bond Debt Service	\$1,149.2
General Obligation Bond Debt Service	88.8
Program, Administrative and Issuance Expense	70.9
Transfer to Safe Drinking Water Loan Program	<u>23.6</u>
Subtotal	\$1,332.5
Commitments and Reserves	
Loan Credit and Subsidy Reserves	206.4
Financial Assistance Agreements Closed but not Fully Disbursed	269.3
Financial Assistance Applications Approved but not Closed	<u>77.7</u>
Subtotal	\$553.4
<b>Total Funds Shortfall *</b>	<b><u>-\$119.4</u></b>
<b>Total Uses of Funds</b>	<b>\$4,731.3</b>

\*The program will issue currently authorized revenue obligations or general obligation bonds before disbursing committed but unexpended funds.



disbursed to municipalities.

The lines in Table 8 for financial assistance disbursements include the portions of closed loans that have been disbursed to the municipal recipient of the financial assistance. The line for financial assistance agreements closed but not fully disbursed includes the portion of the financial assistance agreement that has not been disbursed to the municipality, but will be during the remainder of construction during the next few years. The line for financial assistance applications approved but not closed, includes agreements that have been approved, and the present value subsidy limit has been allocated to the project, but the terms of the financial assistance agreement have not been finalized and the agreement has not been closed.

---

**Provisions Applicable to  
Selected Municipalities**

---

**One-Time Hardship Program Funding Priority  
for 2007-09**

2007 Wisconsin Act 20 provided the Chelsea Sanitary District in Taylor County with a one-time exemption from financial hardship assistance program eligibility and application deadline requirements. The Act required DNR and DOA to place the Chelsea Sanitary District at the top of the hardship priority funding list for 2007-08, before any other projects were funded. DNR and DOA were required to provide the Chelsea Sanitary District with a grant of up to \$80,000 in 2007-08 to be used for sanitary system improvements. Finally, the Act specified that the project would not be subject to the following requirements for a project receiving hardship assistance: (a) the median household income of the municipality must be 80% or less of the median household income of the state; (b) the estimated total annual residential wastewater user charges would exceed 2% of the median household income without the financial assistance; and (c) the municipality is to pay at least 30% of the costs

through a loan with an interest rate of as low as 0%.

**One-Time Hardship Program Funding Priority  
for 2003-05**

2003 Wisconsin Act 316 required DNR and DOA to restructure clean water fund financial hardship assistance that was provided to the Elcho Sanitary District (Langlade County) in 1999. The Act requires the departments to use the estimated operation, maintenance, and replacement costs shown in the financial assistance agreement entered into with the Elcho Sanitary District, rather than the mean operation, maintenance, and replacement costs that are normally used in DNR's calculation of wastewater treatment user charges. Act 316 also exempted the Elcho Sanitary District from the statutory requirement that a municipality must pay at least 30% of the eligible costs of the project. DNR and DOA implemented the act by restructuring the financial assistance agreement with the Elcho Sanitary District to convert \$597,100 of the original loan to a grant.

**One-Time Hardship Program Funding Priority  
for 1997-99**

1997 Wisconsin Act 27 made an exception to the requirement that the total present value subsidy limit be distributed as 85% for the basic loan commitments and 15% for financial hardship assistance by specifying that in 1997-99, \$20.16 million in present value subsidy be allocated for financial hardship assistance (22%) and the remaining \$70.4 million be allocated for basic loan commitments (78%). DNR was directed to allocate hardship assistance present value subsidy in 1997-98 in an amount sufficient to fund the Pell Lake Sanitary District and Lake Como Beach Sanitary District projects in Walworth County. The Act provided \$7.8 million in general obligation bonding authority for the projects.

1997 Act 27 provided that a town sanitary district would be allowed to submit a complete application for inclusion on the 1997-98 financial

hardship assistance funding list if specified conditions are met and if the application was submitted by the effective date of the bill. The Elcho Sanitary District in Langlade County was the only eligible sanitary district.

1997 Act 27 converted a \$213,000 no-interest loan awarded to the Village of Wheeler in Dunn County under the financial hardship assistance program into a grant and provided \$112,800 in general obligation bonding authority for the project.

1997 Act 27 prohibited DNR and DOA from providing financial assistance at less than the market interest rate during 1997-99 for a wastewater treatment expansion and sewer extension or interception that meets certain conditions. It was anticipated that the provision would apply to a proposed condominium development in the community of Fish Creek in Door County.

#### **One-Time Hardship Program Funding Priority for 1995-97**

1995 Wisconsin Act 27 forgave the interest on \$480,000 of the financial hardship assistance loan of the Village of Wausaukee in Marinette County and exempted the loan from the statutory requirement that industrial costs must be financed at the market interest rate.

1995 Wisconsin Act 452 provided \$4 million in additional general obligation bonding authority, provided \$3.4 million in additional present value subsidy in 1995-97 and directed DNR and DOA to approve up to \$4 million in financial assistance

during 1995-97 for a project of up to \$400,000 in financial hardship assistance in the Village of Wheeler in Dunn County and projects to serve two or more municipalities that met five specified conditions. Projects that met the conditions include a joint project by the Ithaca and Sextonville Sanitary Districts in Richland County and a project by the Hub Rock Sanitary District in Richland County that serves people living in the two towns of Henrietta and Rockbridge. The present value subsidy limit of 15% for hardship assistance did not apply to projects made eligible under Act 452.

#### **One-Time Hardship Program Funding Priority for 1994-95**

1993 Wisconsin Act 413 required that projects meeting a specific definition would receive a one-time exemption from all hardship program funding and eligibility limits, and be provided a 90% grant in the 1994-95 fiscal year. The Act provided \$4.4 million in general obligation bonding authority for eligible projects. A project in the Village of Pulaski in Brown County and a project in the Aurora Sanitary District in Florence County met this statutory definition.

The Act also required that certain projects be funded in 1994-95 prior to any other projects, regardless of the project's ranking under the program's priority value system. Four projects met the statutory definition, including projects in the Village of Lannon in Waukesha County, the Calumet Sanitary District, the Village of Amherst in Portage County, and the City of Wautoma in Waushara County.

*SAFE DRINKING WATER LOAN PROGRAM*

---

**Project Eligibility and Priority**

---

Under the federal Safe Drinking Water Act (SDWA) Amendments of 1996, EPA is authorized to award federal capitalization grants to states for drinking water projects and states are required to provide a 20% match in state funds to receive the federal grant. The state safe drinking water loan program provides assistance primarily to local governments (including cities, villages, towns, counties, town sanitary districts, public inland lake protection and rehabilitation districts and municipal water districts) for eligible projects to plan, design, construct or modify public water systems, if the projects will facilitate compliance with national primary drinking water regulations under the federal Safe Drinking Water Act or otherwise significantly further the health protection objectives of the Act. A "public water system" is defined as a system providing piped water to the public for human consumption if the water system has at least 15 service connections or regularly serves an average of at least 25 individuals for at least 60 days each year.

**Eligible Projects**

DNR and DOA are authorized to provide financial assistance to local governments for drinking water projects that have any of the following purposes:

a. Address SDWA health standards that have been exceeded or prevent future violations of rules related to contaminants with acute or chronic health effects;

b. Replace aging infrastructure if necessary to maintain compliance or further the public health protection goals of the SDWA;

c. Consolidate water systems;

d. Purchase a portion of another public water system's capacity if it is the most cost effective solution;

e. Restructure a public water system that is in noncompliance with the SDWA requirements or lacks the technical, managerial and financial capability to maintain the system if the assistance will ensure that the system will return to and maintain compliance with the SDWA; and

f. Create a new community water system or expand an existing community water system that, upon completion, will address existing public health problems with serious risks caused by unsafe drinking water provided by individual wells or surface water sources. A "community water system" is defined as a public water system that serves at least 15 service connections used by year-round residents of the area served by the public water system or that regularly serves at least 25 year-round residents.

**Ineligible Projects**

The following types of projects are ineligible for assistance under the program:

a. Construction or rehabilitation of dams;

b. Water rights, except if the water rights are owned by a public water system that is being purchased through consolidation as part of a

capacity development strategy;

c. Reservoirs, except for finished water reservoirs and those reservoirs that are part of the treatment process and are located on the property where the treatment facility is located;

d. Projects needed primarily for fire protection;

e. Projects for systems that lack the adequate technical, managerial and financial capability, unless assistance will ensure compliance;

f. Projects for systems determined to be significant noncompliers unless funding will ensure compliance with SDWA requirements;

g. Projects primarily intended to serve future growth;

h. Projects for systems owned by state or federal agencies; and

i. Projects or portions of projects that are not reasonably necessary and appropriate to address a public health concern.

### **Other Eligible Activities**

DNR is authorized to spend, with DOA approval, up to a total of 15% of the federal safe drinking water capitalization grant in any fiscal year for the following five activities authorized by the federal Safe Drinking Water Act (but not more than 10% of the federal capitalization grant for any one activity).

a. Provide a loan to the owner (whether or not a local government) of a community water system or a nonprofit noncommunity water system to acquire land or a conservation easement from a willing seller or grantor to protect the source of the water system from contamination and to ensure compliance with national primary drinking water regulations. A "noncommunity water system" is defined as a public water system

that is not a community water system.

b. Provide a loan to the owner of a community water system to: (1) implement voluntary source water protection measures in order to facilitate compliance with national primary drinking water regulations or otherwise significantly further the health protection objectives of the Safe Drinking Water Act; or (2) to implement a program for source water quality protection partnerships.

c. Assist the owner of a public water system to develop the technical, managerial and financial capacity to comply with national primary drinking water regulations (capacity development).

d. Delineate or assess source water protection areas (only available with federal fiscal year 1997 grant monies).

e. Protect wellhead areas from contamination.

DNR is authorized to spend, with DOA approval, up to a total of 10% of the federal capitalization grant in any fiscal year for the following four activities authorized by the federal Safe Drinking Water Act: (a) administration of a public water system supervision program; (b) technical assistance concerning source water protection; (c) development and implementation of a capacity development strategy required by the Act; and (d) development and administration of an operator certification program required by the Act.

DNR is authorized to spend, with DOA approval, up to a total of 2% of the federal capitalization grant in any fiscal year for technical assistance to public water systems serving 10,000 or fewer persons.

### **Criteria Used to Prioritize Projects**

DNR is required to establish a priority ranking system that scores each safe drinking water loan program project and is used to establish a list of

projects to be funded. The ranking system in administrative rule NR 166, effective August 1, 1998, includes the following priorities.

a. First priority is provided for projects that address an acute public health risk, especially risk related to a confirmed waterborne disease outbreak or confirmed microbial contamination (such as from giardia or cryptosporidium).

b. Second priority is provided for projects that address chronic and longer-term health risks to people who drink the water, especially risk related to organic chemical contamination.

c. Projects receive priority ranking points if the community they serve has financial need on a per household basis, including a population less than 10,000 and a median household income equal to or less than 80% of the state median.

d. Projects also receive priority if they correct secondary contaminant violations or system compliance needs.

e. Projects also receive priority if they have implemented activities that demonstrate specific technical, financial and managerial capacity of the public water system (such as enacting an emergency action plan, private well abandonment ordinance or wellhead protection plan and ordinance).

---

**Financial Assistance Criteria**

---

**Types of Financial Assistance**

DNR and DOA are authorized to use the following methods to provide financial assistance under the safe drinking water loan program.

**Table 9: Safe Drinking Water Loan Program Loan Interest Rates by Project Type**

Project Category	Percent of Market Rate	Current Rate	Estimated 2011-13 Biennial Finance Plan Rates
Financial need communities	33% of Market Rate	1.32%	1.65%
Regular eligibility	55% of Market Rate	2.20%	2.75%

a. Make loans with an interest rate of 55% of market interest rate for local governments that do not meet financial need criteria established in NR 166. Table 9 shows the program interest rates.

b. Make loans with an interest rate of 33% of market interest rate for local governments that meet the following financial need criteria established in NR 166: (1) the population of the local government is less than 10,000; and (2) the median household income of the local government is 80% or less (\$44,699 or less in 2008-09 through 2010-11) of the statewide median.

c. Purchase or refinance the debt obligation of a local government incurred after July 1, 1993, if the debt was incurred to finance costs of currently eligible projects.

d. Guarantee or purchase insurance for obligations incurred to finance the cost of eligible projects if the guarantee or insurance will provide credit market access or reduce interest rates.

e. Make payments to the Board of Commissioners of Public Lands to reduce principal or interest payments, or both, on loans made to local governments for projects that are eligible for financial assistance under the safe drinking water loan program. (DNR and DOA are not currently using the small loan program for safe drinking water loan projects.)

f. Provide principal forgiveness for 50% of project costs for projects financed with federal funds received under the American Recovery and Reinvestment Act of 2009 (ARRA) and with the

regular federal funding for federal fiscal year 2010.

DNR and DOA are authorized to jointly request the Joint Committee on Finance to modify the percentage of market interest rate for loans. To date, the agencies have not requested any change in the interest rates.

### **Application Procedures**

A local government is required to submit a notice of its intent to apply for financial assistance under the safe drinking water loan program at least six months before the beginning of the fiscal year in which it intends to receive financial assistance. DNR may waive this requirement upon written request by the local government. An applicant must submit an engineering report prior to submitting an application for financial assistance. After DNR approves the local government's engineering report, the local government must submit an application for financial assistance under the program to DNR on or before the June 30 preceding the fiscal year in which the applicant is requesting to receive financial assistance. (2009 Wisconsin Act 217 changed this date from April 30 to June 30.) Applicants are limited to one application per project per year. 2009 Wisconsin Act 384 allowed the program to establish a different date than June 30 as the deadline for submitting an application for financial assistance for financing from the federal fiscal year 2010 capitalization grant. DNR established August 31, 2010, as the deadline for these applications.

DNR approves applications for financial assistance after: (a) the project is ranked on the priority list; (b) DNR determines that the project meets eligibility requirements; (c) DOA determines that the project has pledged any required security, demonstrated the financial capacity to operate and maintain the project and demonstrated the ability to repay the loan; and (d) the Legislature has approved an amount of present value subsidy limit for the program for the biennium.

Local governments must, as a condition of

receiving financial assistance under the program: (a) establish a dedicated source of revenue to repay the financial assistance; (b) comply with applicable federal and state statutes and rules; (c) develop and adopt a program of water conservation as required by DNR; (d) develop and adopt a program of systemwide operation and maintenance of the public water system, including the training of personnel, as required by DNR; and (e) develop and adopt a user fee system. DNR and DOA may, at the request of an applicant, issue a notice of financial assistance commitment after the application has been approved and funding has been allocated for the project. The commitment shall specify the conditions that the applicant must meet to secure financial assistance and include the estimated repayment schedules and other terms of financial assistance. If a loan is not closed before June 30 of the year following the year in which funding is allocated, DOA shall release the funding commitment allocated to the project.

---

## **Program Funding**

---

### **Federal and State Funding**

The safe drinking water loan program is authorized \$45.4 million in general obligation bond authority to provide the required 20% state match to federal grants. The program has received federal capitalization grants totaling \$247.7 million for federal fiscal years (FFY) 1997 through 2009, received in state fiscal years 1997-98 through 2009-10. This includes \$37.75 million in federal grants received under the American Recovery and Reinvestment Act of 2009 (ARRA), for which no state match was required. The available amount of federal funds is anticipated to be \$23.4 million in FFY 2010 and \$23.4 million in FFY 2011. Table 10 shows the amounts of federal grant and state match by fiscal year.

DNR and DOA are required to develop a biennial finance plan that includes estimates of costs for

**Table 10: Safe Drinking Water Loan Program Federal Grants and State Match**

Federal Fiscal Year	Federal Funding			Subtotal Federal Funding	State Match	Total
	Loans and Set-Asides	Grants	Administration			
1997/1998	\$42,754,500	-	\$8,340,300	\$51,094,800	\$10,219,000	\$61,313,800
1999	9,607,300	-	400,300	10,007,600	2,001,500	12,009,100
2000	8,736,700	-	1,664,100	10,400,800	2,080,200	12,481,000
2001	8,772,800	-	1,671,000	10,443,800	2,088,800	12,532,600
2002	13,067,100	-	2,879,400	15,946,500	3,189,300	19,135,800
2003	12,994,900	-	2,855,800	15,850,700	3,170,100	19,020,800
2004	13,382,000	-	3,060,800	16,442,800	3,288,600	19,731,400
2005	13,731,900	-	2,676,000	16,407,900	3,281,600	19,689,500
2006	14,716,100	-	1,215,200	15,931,300	3,186,300	19,117,600
2007	14,181,900	-	1,749,100	15,931,000	3,186,200	19,117,200
2008	13,091,300	-	2,678,700	15,770,000	3,154,000	18,924,000
2009	12,962,100	\$37,750,000	2,807,900	53,520,000	3,154,000	56,674,000
2010 est.	13,135,100	7,019,700	3,244,200	23,399,000	4,679,800	28,078,800
2011 est.	13,135,100	7,019,700	3,244,200	23,399,000	4,679,800	28,078,800
<b>Total</b>	<b>\$204,268,800</b>	<b>\$51,789,400</b>	<b>\$38,487,000</b>	<b>\$294,545,200</b>	<b>\$51,359,200</b>	<b>\$345,904,400</b>

the program in the upcoming biennium. The 2011-13 biennial finance plan, submitted in September, 2010, estimated that \$14.1 million in additional general obligation bond authority would be needed in 2011-13 to match the estimated amount of federal funds to be awarded to Wisconsin for the safe drinking water loan program.

The Governor is authorized to transfer up to 33% of the federal capitalization grant received for the safe drinking water loan program to the clean water fund program, or to transfer an amount equal to up to 33% of the federal capitalization grant received for the safe drinking water loan program from the clean water fund program to the safe drinking water loan program. This would allow the state to transfer up to \$69,299,100 representing 33% of the \$210.0 million in federal safe drinking water capitalization grants for federal fiscal years 1997 through 2009 (excluding ARRA funds received). As of June 30, 2010, DOA and DNR transferred \$23,596,100 from clean water fund direct loan repayments to the safe drinking water loan program. This leaves a balance of \$45,703,000 that could be transferred from the clean water fund program to the safe drinking water loan program.

Funds transferred from the clean water fund are first used for refinanced projects on the current safe drinking water loan program funding list. Federal regulations generally require that capitalization grant funds loaned for refinanced projects must be disbursed over eight calendar quarters, or two years (the "eight quarters rule"). Funds transferred from the clean water fund are disbursed to accommodate project funding needs during the time that federal capitalization grants are not available under the eight quarters rule. Without the transferred funds, safe drinking water loans for refinanced projects would have to be disbursed over several calendar quarters, with a separate loan closing required for each quarter. Additional transfers would depend on the timing of funding of any refinanced projects on the safe drinking water funding list.

### Present Value Subsidy

The law created a present value subsidy limit to provide a financial control mechanism similar to that used for the clean water fund. The subsidy limit would represent the estimated state cost, in 2009 dollars, to provide 20 years of subsidy that would fund all loans to be made during 2009-11

under the program. The 2009-11 biennial budget established a present value subsidy limit of \$17.6 million in the 2009-11 biennium for the safe drinking water loan program. The present value subsidy limit could also be used for loans funded from the transfer from the clean water fund to the safe drinking water loan programs. The September, 2010, biennial finance plan proposes a 2011-13 present value subsidy limit of \$30.7 million for the 2011-13 biennium.

### ARRA Provisions

Under the federal ARRA provisions, DNR and DOA received a one-time grant of \$37,750,000. All of the funding was used to provide principal forgiveness for 50% of eligible project costs.

ARRA funding for safe drinking water projects was allocated in the same manner as ARRA funding for clean water fund projects. Priority was provided to: (a) projects ready to proceed; (b) "green" projects; (c) projects in counties with high unemployment; (d) consideration of at least one project in each DNR region; and (e) allocation by priority score.

DNR established a cap of 25% of ARRA safe drinking water funds that could be received by any one municipality. This was done to be consistent with the statutory requirement for the regular program that restricts any one municipality from receiving more than 25% of the safe drinking water loan program present value subsidy available in any biennium.

### Federal Fiscal Year 2010

The federal capitalization grant for FFY 2010 includes the same requirements as included in ARRA related to principal forgiveness and priority for green projects and projects in areas of high unemployment.

---

## Program Costs

---

### Intended Use Plan

Intended use plans were submitted to EPA by DNR and DOA every year between 1998 and 2010. The plans describe funds available for year and the intended uses of the funds. The federal program allows for several set-asides of funds for administration, source water protection, wellhead protection, technical assistance, state management of public water supply systems and other drinking water activities.

Table 11 shows the set-aside amounts from safe drinking water loan program funds. These set-aside amounts are being used as follows:

**Table 11: Safe Drinking Water Loan Program -- Administrative Set-Aside Allocations Through June 30, 2010**

Set-Aside Category	Allocated Amount
a. Administration	\$6,467,684
b. Source Water Protection	3,737,925
c. Wellhead Protection	2,056,572
d. Technical Assistance	3,999,792
e. Local Assistance - Capacity Development	729,240
f. State Program Management (Administration of Public Water Supply Systems, Capacity Development, and Operator Certification)	<u>10,974,206</u>
Total	\$27,965,419

a. The set-aside for administration represents less than the maximum 4% of the FFY 1997 through 2009 federal grants that may be used for administration by DNR and DOA.

b. The set-aside for source water protection represents the maximum 10% of the FFY 1997 federal grant that may be allocated to this use. (Subsequent federal grants may not be used for this purpose.) EPA approved the state's source water



assessment program plan in November, 1999. DNR completed source water delineations and assessments by EPA's extended completion deadline of December 31, 2004.

Examples of ways the funds were used are to: (1) model the regional hydrologic flow in several areas of the state; (2) identify significant potential sources of contamination; (3) collect digital local information for several potential sources of contamination; (4) correct discrepancies about well information in various DNR databases; (5) scan well construction reports into a format that can be displayed on a computer; (6) investigate the usefulness of groundwater age-dating techniques to help determine the susceptibility of groundwater systems to pathogens and other contaminants; (7) complete surface water system assessments for all 19 surface water systems in the state, provide the assessments to the systems, and post the information on the Internet; (8) conduct a technical peer review of a modeling tool designed to define three dimensional capture zones of certain types of wells in specified aquifer types; (9) conduct assessments of municipal groundwater systems; and (10) provide assessment information to DNR's source water protection partners. (These partners include municipal water system operators, counties, the Wisconsin Rural Water Association, the Department of Health Services, the Department of Commerce, the Wisconsin Geologic and Natural History Survey, the Natural Resource Conservation Service, university researchers, and consultants.)

c. Wellhead protection funds have been used to: (1) maintain current hydrogeologic models and support water table mapping and groundwater susceptibility efforts; (2) continue activities related to data management, mapping, and computer programming to track contaminant sources, public wells, other high-capacity wells, well construction reports, and groundwater quality, for use by DNR staff; (3) work with the Center for Watershed Science and Education (a collaboration of the UW-Stevens Point College of Natural Resources and the UW-Extension) and Wisconsin Geological and

Natural History Survey to sponsor three workshops to train teachers on the use of a groundwater sand tank model; (4) complete a two-year project to centralize access to groundwater information for use in comprehensive planning; (5) fund two wellhead protection projects by the Wisconsin Geological and Natural History Survey (to study potential virus pathways in deep municipal wells) and the University of Wisconsin - Madison (to study groundwater flow in Waukesha County); and (6) establish a comprehensive program to enhance, develop, and sustain water education programs in K-12 schools.

d. DNR has used the 2% technical assistance funds to: (1) develop operator handbooks for small systems; (2) contract with the University of Wisconsin-Extension to provide training sessions on new regulations affecting small systems; (3) contract annually since 2000 with the Wisconsin Rural Water Association to visit other-than-municipal systems and non-transient non-community systems to provide instruction and education; (4) contract with the Wisconsin Section of the American Water Works Association during 2001 through 2003 to establish 22 coalitions of small system operators to provide a forum for operators to discuss issues, network with other communities and receive information on new EPA regulations; (5) contract with the Wisconsin Rural Water Association during 2004 through 2007 to conduct meetings for the 22 municipal system coalition groups and 10 coalition groups of other-than-municipal and non-transient non-community system coalitions (OTM/NTNC); (6) revise and reprint the transient non-community and non-transient non-community operator handbooks; and (7) contract with the Wisconsin Rural Water Association during 2007 through 2010 to provide one-on-one and targeted technical assistance sessions to individual and small groups of municipal, OTM and NTNC water system operators (including 920 on-site one-on-one visits and 44 small group sessions in 2009-10) to address regulatory topics, water system operation and maintenance, use of the DNR website, self inspection, plan review, certification of opera-

tors, monitoring, violation follow-up, and follow-up on identification of water quality problems.

A non-transient non-community water system means a non-community water system that regularly serves at least 25 of the same persons over six months per year. Examples of non-transient non-community water systems include those serving schools, day care centers, and factories. A community water system means a public water system which serves at least 15 service connections used by year-round residents or regularly serves at least 25 year-round residents.

e. Local assistance capacity development funds are being allocated for the first time from the 2009 and 2010 set-asides to contract with county and local health agencies for inspection of transient non-community systems, including (1) conducting annual site visits; (2) collecting drinking water quality samples; and (3) conducting inspections of the system at least once every five years. DNR is contracting for services covering 47 counties and approximately 6,400 transient non-community systems (out of over 9,500 such systems).

g. State program management funds are being used for: (1) activities related to administration, coordination and policy development; (2) engineer and water supply specialist staff to conduct activities related to community, OTM, NTNC, and transient non-community (TNC) systems (systems that serve at least 25 persons per day at least 60 days out of the year, such as at commercial establishments, restaurants, motels, and campgrounds), such as performing sanitary surveys, plan reviews, inspections, enforcement, monitoring of submission of samples and reports from the systems, training of water system operators, review of water system capacity evaluations; (3) computer programming and equipment; and (4) administering the water system operator certification program, including initial and renewal certification of operators, coordination of training with external groups and operators, and fee and database management.

These funds must be matched by the state on a dollar for dollar basis, which is done with state general funds used to administer the public water system supervisory program. Program management funds also include capacity development and operator certification funds which were previously reported separately.

DNR uses capacity development funds to help public water systems achieve the technical, financial and managerial capacity to meet SDWA requirements. Capacity development funds have been used to: (1) prepare a capacity development strategy to address all existing public water systems; (2) hold public input sessions; (3) create a fact sheet and web page on capacity; (4) create a self-assessment document for use by other-than-municipal and non-transient non-community public water systems to help owners focus on technical, managerial and financial components of a public water system; (5) modify the sanitary survey process to incorporate technical, managerial and financial capacity development elements; (6) prepare reports related to the capacity development strategy for the Governor and EPA; (7) form a stakeholder work group for discussion and feedback on various elements of capacity development and review of the capacity development strategy; and (8) conduct capacity evaluations for new community and non-transient non-community systems prior to construction. As of September 1, 2010, 175 systems have undergone capacity evaluations before construction, including 48 community systems and 127 non-transient non-community systems, as part of a continuous process of evaluating systems before the systems go into operation.

Operator certification funds have been used to help other-than-municipal and non-transient non-community public water systems meet the requirement that the systems must have a certified operator by March, 2005. Funds have been used to: (1) modify DNR's existing operator certification administrative code to conform with EPA requirements; (2) contract with the Wisconsin Rural

Water Association to develop an operator certification course, reference manual, exam, course script and course evaluation; (3) contract with the Wisconsin Water Association to conduct classroom and on-line training of system operators; (4) update DNR website information for small systems related to continuing education opportunities and contract operator services; (5) develop a standard operational procedures manual for small system operators; (6) develop a newsletter for operators; (7) send letters to certified operators to provide information on issues such as continuing education credits; and (8) publish information regarding operator certification issues in relevant publications.

### Financial Assistance Agreements

DNR and DOA are required to establish a funding list in each fiscal year that ranks approvable loan applications in the same order that they appear on the priority list. If available funds are not sufficient to fund all approved applications, DOA is required to allocate funding to projects in the order that they appear on the funding list, except that: (a) up to 15% of the available funds in each fiscal year would be reserved for projects for public water systems that regularly serve fewer than 10,000 persons; and (b) no local government could receive more than 25% of the present value subsidy limit for the biennium.

The safe drinking water loan program has entered into 147 financial assistance agreements totaling \$366.9 million through June 30, 2010, including \$329.1 million in loans, and \$37.7 million in grants. Of this total, \$299.0 million in loans and \$26.7 million in grants have been disbursed. Municipal loan recipients are responsible for repaying the loans. As of June 30, 2010, the safe drinking water loan program has received \$103.3 million in loan repayments.

Table 12 shows the amounts of the financial assistance agreements by fiscal year from 1998-99 (the first year of financial assistance agreements under the program) through 2009-10. Appendix VI

**Table 12: Safe Drinking Water Loan Program, Financial Assistance Agreements by Fiscal Year**

State Fiscal Year	Loan	Grant	Total
1998-99	\$52,973,432		\$52,973,432
1999-00	454,324		454,324
2000-01	19,369,923		13,369,923
2001-02	4,710,641		4,710,641
2002-03	15,289,583		15,289,583
2003-04	32,811,206		32,811,206
2004-05	41,761,265		41,761,265
005-06	28,238,400		28,238,400
2006-07	13,197,707		13,197,707
2007-08	47,715,697		47,715,697
2008-09	25,509,966		25,509,966
2009-10	<u>47,090,398</u>	<u>\$37,750,001</u>	<u>84,840,399</u>
Total	\$329,122,542	\$37,750,001	\$366,872,543

lists the total amount of financial assistance agreements provided to municipalities during the same time period. The City of Oshkosh, the largest recipient of safe drinking water loans, accounted for \$36.3 million (9.9%) of the \$366.9 million in financial assistance agreements as of June 30, 2010. The City of Fond du Lac, with \$32.3 million in financial assistance agreements, accounted for 8.8% of the total financial assistance entered into as of June 30, 2010.

### Sources and Uses of Funds

Table 13 lists the total sources (\$431.2 million) and uses of safe drinking water loan program funds as of June 30, 2010. The sources of program funds include federal grant proceeds (\$248 million), general obligation bond proceeds (\$45 million), funds transferred from the clean water fund program (\$24 million), loan repayments (\$103 million) and investment income (\$12 million). Uses of funds include \$292 million in loan disbursements, \$27 million in grant disbursements (all under American Recovery and Reinvestment Act funding), \$23 million in administration and set-asides, \$46 million in financial assistance commitments, and \$44 million in unexpended funds that is available for commitment for financial assistance agreements or administrative expenses in 2010-11 and subsequent years.

**Table 13: Safe Drinking Water Loan Program Sources and Uses of Funds Through June 30, 2010**

Sources of Funds	Amount (Millions)
Federal Capitalization	
Grants - FFY 1997 thru FFY 2009	\$247.7
20% State Match from General Obligation Bonds	44.5
Loan Repayments	103.3
Investment Income	12.1
Transfer from CWF	<u>23.6</u>
Total Sources of Funds	\$431.2
<b>Uses of Funds</b>	
Uses – Financial Assistance Disbursements	
Loans from Federal Grants	\$182.0
Loans from General Obligation Bonds	44.5
Loans from Loan Repayments	57.7
Loans from Investment Income	8.0
Grants	<u>26.7</u>
Subtotal	\$318.9
Uses – Other	
State Administration and Set-Asides	\$22.7
Commitments:	
Financial Assistance Agreements	
Closed but not Disbursed	41.2
Financial Assistance Agreements	
Approved but not Closed	<u>4.7</u>
Subtotal	\$45.9
Unapplied Funds	<u>43.7</u>
Total Uses of Funds	\$431.2

**Debt Service Costs**

The cost to the state under the safe drinking water loan program accrues over time based on the debt service costs of the general obligation bonds. The debt service costs fund: (a) the costs of subsidizing interest rates; and (b) the state match required for the receipt of federal grants. Total general fund debt service was \$2.7 million in 2008-09 for safe drinking water loan program general obligation bonds and \$1.4 million in 2009-10 because of deferral of principal payments in the state's general obligation program. Safe drinking water loan program general obligation debt service is estimated at \$3.3 million in 2010-11. The total cumulative amount of debt service payments for safe drinking water loan program general obligation bonds is shown in Table 14.

**Table 14: Safe Drinking Water Loan Program Payments of General Obligation Bond Debt Service**

Year	Payment from General Fund (GPR)
1998-99	\$140,500
1999-00	948,700
2000-01	1,133,200
2001-02	1,139,700
2002-03	1,231,100
2003-04 *	666,000
2004-05	1,489,600
2005-06	1,989,700
2006-07	2,318,700
2007-08	2,539,400
2008-09	2,664,600
2009-10 **	1,401,100
2010-11 ***	<u>3,312,700</u>
Total	\$20,975,000

\* Principal payments were not made on certain SDW bond issues in May, 2004, but rather were restructured under 2003 Wisconsin Act 129.

\*\* Costs are lower than otherwise would have occurred because of the deferral of principal payments on the state's general obligation bond program.

\*\*\* Budgeted.

---

**Safe Drinking Water Loan Guarantee Program**

---

1997 Act 27 created a safe drinking water loan guarantee program to guarantee up to 80% of the principal of loans for projects that improve the quality of drinking water in water systems not owned by local units of government. The program was to be administered by the Wisconsin Housing and Economic Development Authority (WHEDA). Eligible loans would be guaranteed by funds deposited to the Wisconsin drinking water reserve fund, which consists of deposits from the safe drinking water loan fund, funds received for the program from any other source and the interest income from the fund. DNR, with the approval of DOA, was authorized to transfer funds from the safe drinking water fund appropriations. WHEDA was required to regularly monitor the fund to ensure a balance of at least one dollar for every \$4.50 in total outstanding guaranteed principal authorized under the program.

Prior to 1995, DNR and EPA negotiated policy and procedural issues related to the implementation of the program. In the fall of 2006, DNR indicated that EPA would require each small privately-owned water supply system that wanted to participate in the program to be scored according to the state's priority system and placed on a priority list with all other safe drinking water loan projects, requiring the borrower to incur costs for engineering and consulting activities. Funds would have to be allocated in the order of project priority,

meaning that loan guarantees would be issued once per year, based on the funding list.

DNR officials indicated that the Department has determined that EPA requirements would be so onerous that a safe drinking water loan guarantee program could not be implemented. As of January 1, 2011, the program has not been implemented and WHEDA has not guaranteed any safe drinking water loans under this program.

LAND RECYCLING LOAN PROGRAM

---

**Project Eligibility and Priority**

---

**Eligible Projects**

In 1997 Act 27, the land recycling loan program was created within the clean water fund program in the environmental improvement fund to provide financial assistance to local governments (including cities, villages, towns, counties, redevelopment authorities or housing authorities) for the investigation and remediation of contamination at sites or facilities owned by the local government if the contamination has affected, or threatens to affect, groundwater or surface water. Sites and facilities include approved and nonapproved solid or hazardous waste disposal facilities, approved mining facilities, waste sites or sites where a hazardous substance is discharged on or after May 21, 1978.

**Criteria Used to Prioritize Projects**

DNR is required to establish a priority ranking system that ranks each land recycling loan program project and is used to establish a list of projects to be funded. Project rankings are based on the potential of projects to reduce environmental pollution and threats to human health and, for sites and facilities that are not landfills, the extent to which projects will make land available for redevelopment after a cleanup is conducted rather than develop undeveloped land (such as agricultural cropland or green spaces).

Administrative rule NR 167, effective June 1, 1999, provides the highest priority to a site which has impacted one or more public water supply wells or private drinking water supply wells above

maximum contaminant levels in DNR administrative rules. Secondary priority is provided to sites: (a) which have impacted groundwater above groundwater standards; (b) which have soil or sediment contamination; (c) where an agreement has been executed between the municipality and a private developer; (d) that are larger than five acres in size; (e) that are in agreement with a municipally-adopted plan for renewal or redevelopment; or (f) that are within an area specially designated for tax incentives or targeted public funding.

---

**Financial Assistance Criteria**

---

**Types of Financial Assistance**

DNR and DOA are authorized to use the following methods to provide financial assistance under the land recycling loan program.

- a. Make loans with an interest rate of 0%.
- b. Purchase or refinance the debt obligation of a local government incurred after May 17, 1988, if the debt was incurred to finance the cost of a currently eligible project.
- c. Guarantee or purchase insurance for obligations incurred to finance the cost of eligible projects if the guarantee or insurance would provide credit market access or reduce interest rates.
- d. Make payments to the Board of Commissioners of Public Lands to reduce principal or interest payments, or both, on loans made to local governments for projects that are eligible for finan-

cial assistance under the land recycling loan program. (DNR and DOA are not currently using the small loan program for land recycling loan projects.)

### **Application Procedures**

A local government is required to submit a notice of its intent to apply for financial assistance under the land recycling loan program at least six months before the beginning of the fiscal year in which the local government will request funding. DNR may waive this requirement upon written request by the local government. A local government must submit an application for financial assistance under the program to DNR by the date established by DNR. DNR must establish at least two application deadlines per year. Applicants are limited to one application per project per year.

DNR may approve an application for financial assistance after: (a) the project is ranked on the priority list; (b) DNR determines that the project meets eligibility requirements; (c) DOA determines that the project has pledged any required security, demonstrated the financial capacity to operate and maintain the project and demonstrated the ability to repay the loan; and (d) the Legislature has approved an amount of present value subsidy limit for the biennium.

Local governments must, as a condition of receiving financial assistance under the program: (a) establish a dedicated source of revenue to repay the financial assistance; (b) comply with applicable federal and state statutes and rules; and (c) allow DNR access to the property to make inspections. DNR and DOA may, at the request of an applicant, issue a notice of financial assistance commitment after the application has been approved and funding has been allocated for the project. The commitment shall specify the conditions that the applicant must meet to secure financial assistance and include the estimated repayment schedules and other terms of financial assistance. If a loan is not closed within one year of the date on which funding is allocated, DOA shall release the funding commitment allocated to the project.

### **Sale of Sites Remediated Under the Program**

A local government must sell a site or facility remediated under the program for not less than fair market value if the loan is outstanding. A local government that sells a site or facility remediated under the program must apply the sales proceeds first toward any state land recycling loan balance, then toward the cost of the land plus the cost of remediation, third toward any state subsidy and finally any remaining funds are retained by the municipality. If the sale price is less than or equal to the cost of the land plus the cost of remediation, the sale proceeds first has to be applied to the remaining land recycling loan balance until the remaining balance is fully paid. If the sale price exceeds the cost of the land plus the cost of remediation, 75% of the excess has to be used to repay the subsidy until the subsidy is fully repaid. Any sale proceeds remaining after the subsidy is fully paid belong entirely to the municipality.

---

### **Program Funding**

---

#### **Funding Level**

The land recycling loan program is funded with up to \$20 million, which comes from reallocation of repayments of clean water fund program loans made with the proceeds of federal grants to the clean water fund program. If not used for the land recycling loan program, loan dollars would be used for clean water fund loans to upgrade or replace wastewater treatment plants to meet state and federal requirements.

Under 2009 Wisconsin Act 28, DOA and DNR were authorized to transfer up to \$6.2 million from the land recycling loan program to the dry cleaner environmental response fund (DERF) administered by DNR. The dry cleaner environmental response program provides reimbursement to owners for a portion of the costs of cleaning up discharges of dry cleaning solvents. (For more information about the dry cleaner environmental response program,

see the Legislative Fiscal Bureau's informational paper entitled, "Contaminated Land and Brownfields Cleanup Programs.")

DNR and DOA entered into a memorandum of understanding effective July 30, 2009, for the transfer of up to \$6.2 million. Amounts are transferred from the LRLP to DERF quarterly, based on the estimated amount of dry cleaner environmental response claims DNR expects to receive during the quarter. DOA assesses interest on the transferred funds at a rate no less than 0% and no greater than the EIF market interest rate (currently 4.0%). DERF is required to make a loan repayment to the land recycling loan program of at least \$1,000 per year, and repaid that amount in July, 2010. As of November 1, 2010, DERF owes the land recycling loan program \$3,168,200.

DNR and DOA are required to jointly charge and collect an annual service fee for reviewing and acting upon land recycling loan program applications and servicing financial assistance agreements. Statutes established the fee for 1997-99 as 0.5% of the loan balance. The fee for subsequent biennia is required to be established in the biennial finance plan for the environmental improvement program. DNR and DOA are required to specify a fee in the biennial finance plan that is designed to cover the costs of reviewing and acting upon land recycling loan program applications and servicing financial assistance agreements. No changes have been made in the service fee. As of June 30, 2010, DNR and DOA have collected annual service fees totaling \$388,800.

### Present Value Subsidy

The law created a "present value subsidy limit" to provide a financial control mechanism similar to that which is used for the clean water fund program. The subsidy limit would represent the estimated state cost, in 2009 dollars, to provide 20 years of subsidy to fund all loans to be made during 2009-11 under the program. The 2009-11 biennial budget act established a present value sub-

sidy limit of \$2.7 million for the land recycling loan program. However, no funds were available for the program during 2009-11 because the unallocated funds were designated for transfer to the dry cleaner environmental response program. The September, 2010, biennial finance plan proposes a 2011-13 present value subsidy limit of \$0.

### Financial Assistance Agreements

DNR and DOA are required to establish a funding list in each fiscal year that ranks approvable applications in the same order that they appear on the priority list. If available funds are not sufficient to fund all approved applications, DOA is required to allocate funding to projects in the order that they appear on the funding list, except that: (a) DOA is not allowed to allocate more than 40% of the funds allocated in each fiscal year to landfill remediation projects; and (b) no local government may receive more than 25% of the present value subsidy limit for the biennium.

Table 15 shows the \$15.2 million in financial assistance agreements entered into under the land recycling loan program. All agreements were entered prior to June 30, 2008. While the projects are funded from repayments of clean water fund loans, land recycling loans are not included in the Appendix V list of clean water fund financial assistance agreements.

**Table 15: Land Recycling Loan Program Financial Assistance Agreements as of June 30, 2010**

Municipality*	Amount **
Amery	\$628,758
Clintonville	1,035,461
Delavan	1,102,089
New Richmond	803,462
Plymouth	1,262,972
Sheboygan	2,738,949
Sparta	5,000,000
Tomah	1,000,000
West Allis	<u>1,647,200</u>
Total	\$15,218,891

\*All of these municipalities are cities.

\*\* Some agreements exceed the amount of the final loan disbursement. Remaining funds are available for other loans or for transfer to the dry clean environmental response fund.



*ENVIRONMENTAL IMPROVEMENT FUND ADMINISTRATION*


---

**Agency Responsibilities and Funding**


---

Funding for administration of the three programs within the environmental improvement fund is provided from segregated revenues generated from the repayment of clean water fund loans, safe drinking water loans and land recycling loans, interest earned on bond proceeds, and federal administrative grants. Appropriations for administration of the environmental improvement fund total \$6.0 million and 55.1 positions for 2010-11.

**Department of Natural Resources**

DNR is authorized \$5,033,600 and 48.5 positions in 2010-11 for administration of the environmental improvement fund programs. This includes: (a) \$2,007,600 environmental improvement fund SEG with 17 positions; (b) \$1,983,300 clean water fund FED with 20.5 positions; and (c) \$1,042,700 safe drinking water loan program FED with 11.0 positions. The Department manages all aspects of the environmental improvement fund program not specifically assigned to DOA. DNR's specific duties include the following.

1. Calculate project priority values.
2. Take the lead state role in relations with EPA, including agreements necessary to receive a capitalization grant for the clean water fund program and the safe drinking water loan program.
3. Cooperate with DOA in administration of the environmental improvement fund program.
4. Take the lead state role with municipalities

in providing environmental improvement fund information, and cooperate with DOA in providing such information.

5. Periodically inspect project construction under the environmental improvement fund to determine project compliance with construction plans and specifications approved by DNR.
6. Submit a biennial budget request for the environmental improvement fund program.
7. Establish eligibility requirements and determine eligibility for financial assistance.
8. Make commitments of financial assistance subject to a certification by DOA that the municipality has demonstrated that it is financially able to repay the loan, and that the assistance meets any terms and conditions established by DOA relating to financial management.
9. Approve applications, facility plans and construction plans and specifications.
10. Determine which applicants receive clean water fund financial hardship assistance and manage the clean water fund financial hardship program.
11. Determine annual funding policies.
12. Prepare a biennial list of the estimated need for wastewater, drinking water and land recycling projects.

**Department of Administration**

DOA is authorized \$970,100 SEG environmental

improvement fund with 6.6 positions in 2010-11 to provide financial management of the environmental improvement fund program. DOA responsibilities include the following.

1. Manage and implement certain financial aspects of the environmental improvement fund program.
2. Cooperate with DNR in administering the program.
3. Accept and hold any letter of credit from the federal government.
4. Manage environmental improvement funds with Building Commission authorization, issue clean water fund revenue bonds and distribute the proceeds of the clean water revenue obligations.
5. Establish terms and conditions of financial assistance, including the type of municipal obligation required for repayment. Before DNR and DOA can sign a financial assistance agreement with a municipality, DOA is responsible for certifying that the municipality demonstrated that it has the financial capacity to: (a) pay the debt service on its obligations; (b) meet operation and maintenance cost of the project for its useful life; and (c) meet the terms and conditions established.
6. Allocate the available present value subsidy to projects after DNR and DOA determine that the project and municipality meet eligibility requirements.
7. Disburse loans and collect municipal payments.
8. Direct the investments of the environmental improvement fund.
9. If necessary, audit or contract for audits of projects receiving financial assistance under the program.

## **Joint Responsibilities**

Joint responsibilities of DNR and DOA include the following:

1. Prepare a biennial finance plan.
2. Charge and collect service fees.
3. Determine conditions of financial assistance.
4. Establish the loan payment and repayment schedule.
5. Enter into a financial assistance agreement with a municipality.
6. Submit the required reports to the Legislature and Building Commission on program implementation.

DNR and DOA may jointly establish administrative service fees for the purpose of recovering the costs of administering the clean water fund program. These fees would be charged to municipalities that obtain loans through the program. By law, transition loan projects are exempt from payment of these fees. DNR administrative rules provide that financial hardship communities will not be required to pay service fees. At this time, no clean water fund program or safe drinking water loan program service fees have yet been established. The land recycling loan program charges an annual service fee equal to 0.5% of the loan balance.

---

## **Bonding Provisions**

---

The environmental improvement fund program contains several provisions related to the issuance of bonds, including private versus public sale of bonds, requirements for minority underwriter

participation and the moral obligation requirement that can be attached to a clean water fund loan.

### **Private Versus Public Sale**

General obligation bonds may be sold at a "private" sale to the clean water fund or safe drinking water loan program. Other sales must be "public." A public sale means that the state takes sealed bids for the bonds from all interested underwriters and awards the sale to the lowest bidder. A private sale means that the state may make the sale to an underwriter based on a negotiated price. The award does not have to be made to the lowest bidder and the state may deal with only one firm. Negotiated, or "private," sales are generally made in cases where, due to the complexity of the bond issue, there are few underwriters with the necessary expertise to fulfill the state's needs. Under current law, clean water fund revenue bonds can be sold at private or at public, competitive sale. The safe drinking water loan program does not sell revenue bonds.

### **Minority Underwriters**

The statutes require that at least 6% of revenue and general obligation bonds and operating notes be underwritten by minority investment firms. In addition, the statutes establish a requirement that at least 6% of the services of financial advisers in the sales of bonds and notes shall be awarded to minority firms. The law specifies that all bids or proposals by underwriters or syndicates of underwriters ensure that a portion of sales are to minority investment firms. If DOA is unable to achieve the 6% participation requirement, the Secretary of DOA is required to submit a report explaining the reasons to the Joint Committee on Finance. The 6% guideline has been achieved for current clean water fund bonds.

### **Moral Obligation**

The Building Commission is authorized to designate, by resolution, that a legislative moral obligation exists for certain loan obligations under

the environmental improvement fund. If payments from a municipality on any loan designated are insufficient, DOA could certify the amount of the insufficiency to the Secretary of DOA, the Governor and the Joint Committee on Finance. The Joint Committee on Finance would be required to introduce a bill with an appropriation of the amount needed to pay the revenue obligation. The statutes express the Legislature's moral obligation to make such an appropriation.

### **Investment Authority**

DOA may purchase or acquire, negotiate, sell or otherwise dispose of environmental improvement fund loans at the price and terms it establishes. Further, DOA is authorized to direct the Investment Board to make any investment of the environmental improvement fund if it provides a financial benefit to the fund, the action does not weaken the purposes of the fund and the Building Commission approves the investment action. The Investment Board is relieved of any obligations relevant to prudent investment in making the investments directed by DOA. The Department may also enter into agreements with the federal government, private entities or others to insure or, in any other manner, provide additional security for the state's revenue obligations.

---

## **Municipal Financing Requirements**

---

### **Repayment Methods**

Subject to the terms of the financial agreement between the municipality and the state, a municipality is statutorily authorized to repay environmental improvement fund loans from any legal means, including: (a) general funds; (b) proceeds of the sale of obligations; (c) proceeds of the sale of public improvements bonds; (d) proceeds of revenue obligations; (e) sewerage system user charges; and (f) proceeds of special obligation bonds. In

practice, municipalities repay environmental improvement fund loans through one of the following three ways, including: (a) tax levy; (b) sewerage or water system user charges; or (c) proceeds from special assessments levied for the project.

### **Loan Anticipation Notes**

If a municipality has received a commitment for an environmental improvement fund loan, but wishes to begin a project in advance of that loan, it may issue a loan anticipation note. This note could be refunded one or more times, and would be

structured so that the note could be retired when the clean water fund loan is received, but not later than five years after the original date of the original obligation.

### **Municipal Repayment Requirements**

DOA must notify DNR if a municipality fails to make a principal repayment or interest payment by its due date. DOA may then collect the amounts due by deducting them from any state payments due the municipality or may add a special charge to the amount of taxes levied on the county.

## APPENDICES

Several appendices provide additional program information. These include:

- Appendix I provides a glossary of key terms to assist with an understanding of program terminology.
- Appendix II describes the components of a wastewater treatment facility.
- Appendix III describes the biennial finance plan process for the environmental improvement fund that includes funding and statutory requests for the upcoming biennium
- Appendix IV provides an outline of the clean water fund loan and grant programs.
- Appendix V lists clean water fund financial assistance agreements as of June 30, 2010.
- Appendix VI lists safe drinking water loan program financial assistance agreements as of June 30, 2010.

## APPENDIX I

### A Glossary of Key Terms

*Advanced or Tertiary Wastewater Treatment.* Treatment of wastewater that is required beyond the generally-required secondary treatment.

*Areawide Water Quality Management Plans.* Plans prepared by the Department of Natural Resources (DNR) or a designated planning agency as required by the U.S. Environmental Protection Agency (EPA) and state statute for specific planning areas of the state. These areas are defined based upon water quality-related criteria. The plans: (1) define water quality problems in each area; (2) propose solutions to these problems; (3) delineate service areas for treatment of point source pollution; (4) identify local agencies which would be responsible for pollution abatement efforts; and (5) identify "best management practices" to be utilized in nonpoint source pollution abatement efforts. Each plan requires approval by the Governor and EPA.

*Collection System or Collector Sewer.* The type of sewer that generally runs beneath streets and collects sewage from individual homes and commercial or industrial establishments. Collectors should not be confused with lateral sewers, which are the pipes that join an individual home or establishment with a collector sewer and are privately owned and maintained. Generally, sewage flows from lateral sewers to collector sewers, to interceptors, then to the treatment plant.

*Community Water System.* A public water system that serves 15 service connections used by year-round residents of the area served by the public water system or that regularly serves at least 25 year-round residents.

*Compliance Maintenance.* A program and actions by municipalities to maintain compliance with a WPDES permit, intended to prevent violations of

discharge limits that cause degradation of water quality.

*Interceptor.* The type of sewer that receives sewage from collector sewers and transports it to a sewage treatment plant. Interceptors differ from collectors in that they generally do not receive sewage from individual homes or other establishments, but are only used for conveying sewage to a treatment plant.

*Lateral.* The type of sanitary sewer that conveys sewage from an individual residence or establishment to a public sewage collection system. Laterals are generally privately owned and maintained.

*New and Changed Limits.* This refers to pollution effluent limit changes that occur due to new or changed standards in the federal or state water pollution control laws. Examples are standards for toxic substances that are included in new rules on surface water pollution but were not a part of previous regulations except on a case-by-case basis.

*Noncommunity Water System.* A public water system that is not a community water system.

*Nonpoint Source Pollution.* Water pollution which is not attributable to a single, well defined point or origin but which is carried by rainfall or snowmelt from a variety of sources, such as from storm water runoff, farm fields, barnyards, construction sites, highways, streets and parking lots.

*Nonpoint Source Watershed Plan.* A plan developed for an area that has been selected to receive state funding through the nonpoint source pollution abatement grant program. It contains information on water quality and sources of nonpoint pollution as well as a program to correct the pollution.

*Point Source Pollution.* Water pollution emanating from a distinct, easily-definable source such as the end of a pipe.

*Present Value Subsidy.* The amount provided by the clean water fund for the purposes of: (a) reducing the interest rate of loans to a level below the market rate; and (b) providing financial hardship assistance grants. The subsidy is the difference between the debt service (principal and interest) that the state pays for the revenue bonds to finance the loan and the amount the municipality pays back into the fund. The "present value subsidy" represents the cost, in current dollars, of that subsidy. Conceptually, the present value subsidy is the amount the state would need to invest today at a 7% annual rate of return in order to make payments equal to the annual subsidy provided to municipalities.

*Primary Treatment.* The least complex and effective of three possible treatment levels, which relies on screen, filters and a settling process to mechanically remove pollutants. It is generally only 30-35% effective.

*Public Water System.* A system providing piped water to the public for human consumption if the water system has at least 15 service connections or regularly serves an average of at least 25 individuals for at least 60 days each year.

*Publicly-Owned Treatment Works.* The term used by EPA for a sewerage system, including collectors, interceptors, treatment facilities and other appurtenances owned by a governmental entity for the primary purpose of treating residential sewage.

*Sanitary Sewer.* Any pipe which conveys domestic wastewater (sanitary wastes) from its origin to a treatment site or discharge point.

*Secondary Treatment.* Wastewater treatment more sophisticated than primary treatment, which utilizes bacteria to consume organic pollutants. Proper secondary treatment eliminates 85-90% of the pollutants in wastewater.

*Sewage or Wastewater Treatment Plant.* The facility in a municipal sewerage system that removes pollutants before the wastewater is discharged into a lake, stream or the groundwater.

*Sewerage System.* A term used to describe the entire system of sewers and treatment facilities used to transport, treat and discharge sewage.

*Sludge.* The accumulated wastes removed from wastewater at the treatment stage and composed of a semi-liquid mass.

*Storm Sewer.* A pipe that collects rain run-off and conveys it to a lake or stream in order to prevent flooding in developed areas.

*Urban Storm Water Runoff.* Water runoff produced by established residential, commercial, industrial, institutional, and transportation land uses where the absorptive capacity of the earth is drastically reduced, due to the creation of impervious areas such as rooftops, sidewalks, street surfaces, parking areas, and other hard surfaces. These impervious land areas collect and quickly convey large quantities of rain water or snowmelt, which can cause flooding, damage to aquatic habitat, and the transport of a wide array of pollutants associated with urban activity.

*Wastewater Pollution Discharge Elimination System (WPDES).* A system administered by DNR that develops permits for each discharger and spells out what requirements the municipality must meet for each point source.

## APPENDIX II

### Description of Wastewater Treatment Systems

In general, there are two types of systems used to treat and dispose of sewage. The first is used in urbanized areas where the density of residences and commercial establishments allow a municipal government to capture economies of scale by building a centralized system which collects wastewater from a wide area, transports it to a central site, treats the wastewater and discharges it to a nearby lake, stream or land. The other alternative is an "on-site" system, used generally in areas where residential density makes a centralized sewage system too expensive, and relies on a collection and treatment system existing on a single property which discharges the treated wastewater into the ground.

With either system, the problems to be solved are the same. The first problem is the removal of domestic sewage wastes before they can become a health problem. The second problem arises once a means of removing the wastes has been devised. These wastes must be disposed of in a way that will not pollute either surface waters--lakes or streams--or the groundwater.

Where density allows, which is generally in an urbanized area, both cost factors and the need to transport a large amount of sewage away from population areas for health reasons tend to favor a centralized sewage collection and treatment system. The major components of such a system are: (1) the collection system; (2) the transport system; and (3) the treatment and discharge system.

#### The Collection System

Sewage is collected from individual residences by means of a lateral sewer, which runs from the residence to a collector sewer, usually in the street adjacent to the property. If the lateral is not directly owned by a municipality, it is likely to be the

resident's responsibility for maintenance purposes. The collector sewer is publicly-owned and serves many residences.

The sewage collection system runs parallel to, and sometimes is part of, another system, the storm water collection system. Storm water collection is necessary to remove rain and melting snow from developed areas to prevent flooding. In the older portions of some larger cities, both domestic wastes and storm water are discharged into the same pipe, which is called a combined sewer. This type of system was often installed in the late nineteenth century or the early twentieth century and many of these systems are still in place. Storm water is not generally treated, but is conveyed and discharged directly to a lake or stream. But with combined sewers, storm water mixes with the sewage already present in the pipe requiring all the water to be treated. Because storm water is generally much greater in volume, collection or treatment capacity may be exceeded, causing bypasses.

#### Transport System

Once sewage is collected from a residential or commercial area, it must be transported to the treatment plant, which may be located at considerable distance because of the need to treat the sewage near a suitable discharge point and, preferably, away from a residential area. Sewers that do the transporting (and do not receive individual lateral connections) are called interceptors. Interceptors can be any size, but are generally the largest pipes in the system. Interceptors transport the sewage to the treatment plant by gravity, if possible. Otherwise pump stations are used to move the sewage uphill where necessary. Sewers used to transport sewage against gravity are generally termed force mains.



## Treatment and Discharge System

Once conveyed to a central site, the sewage is treated and discharged. The treatment site is referred to as a sewage treatment plant, wastewater treatment plant or publicly-owned treatment works depending on the context. At present, most sewage is treated by a method known as secondary treatment, a system which uses bacteria to consume organic pollutants and uses screens, filters and a settling process to remove solids in the water. Frequently, the water will be disinfected as well. Once treated, the water is discharged through an outfall pipe to a surface water--a lake or a stream, or is spread on land for land disposal.

The solids removed from the water are termed "sludge." Sludge disposal, often the most difficult part of the process, can be done by land application as a fertilizer in an agricultural area, disposal in a sanitary landfill, or by processing into a fertilizer

which can be marketed commercially. The best-known example of commercial marketing is "Milorganite," a fertilizer produced by the Milwaukee Metropolitan Sewerage District.

If the volume of sewage is too great to be treated by a wastewater treatment plant, it can overload a plant and cause serious damage. Preventing this damage occasionally requires the provision of storage facilities, either by increasing the size of interceptor sewers or by building separate facilities. The "deep tunnels" of Milwaukee and Chicago are examples of storage facilities. If capacity is exceeded and storage is not provided, sewage is frequently diverted from the sewer system directly into a lake or stream untreated. This practice, which must be eliminated under federal and state law, is called a "by-pass" or an "overflow." It can be present in any system which has inadequate capacity, but is a common problem with systems which contain uncorrected combined sewer problems.

## APPENDIX III

### Biennial Finance Plan Process

The statutes require the Departments of Administration and Natural Resources to prepare a biennial finance plan for the environmental improvement fund. This plan is to be prepared and reviewed as follows:

*Project Needs List.* By May 1 of each even-numbered year, DNR is required to prepare and submit to DOA a biennial needs list that includes: (a) a list of wastewater treatment projects, drinking water projects and land recycling loan program projects that DNR estimates will apply for financial assistance during the next biennium; (b) the estimated cost and construction schedule of each project on each list; and (c) the estimated priority rank of each project on the priority list. The priority score is assigned by DNR on the basis of environmental priorities defined by DNR by administrative rules.

*Development of the Plan.* DOA and DNR are required to jointly prepare the biennial finance plan. The plan must incorporate several elements including: (a) an estimate of wastewater treatment, safe drinking water and land recycling loan project needs of the state for the four fiscal years of the next two biennia; (b) the total amount of financial assistance to municipalities for projects during the next biennium; (c) the sources of the financial assistance to be provided or committed to municipalities during the next biennium; (d) the extent to which the clean water fund program and the safe drinking water loan program would be maintained in perpetuity; (e) audited financial statements of the past operations and activities of the clean water fund program, the safe drinking water loan program and the land recycling loan program; (f) the estimated environmental improvement fund capital available in each of the next four fiscal years for the clean water fund program and the safe drinking water loan program; (g) the projected fund bal-

ance for the clean water fund and safe drinking water loan program for each of the next 20 years given existing obligations and financial conditions; (h) the amount of the present value of the subsidy that the state would provide; (h) a discussion of the assumptions made in calculating the present value subsidy; (i) the amount of any service fee to be charged to any applicant during the next biennium; and (j) the impact of the biennial finance plan on a guideline related to water pollution abatement debt service.

*Guidelines for Biennial Finance Plan.* The biennial finance plan is required to include information on the impact of the program proposed in the portion of the plan related to the clean water fund program on the guideline that all state water pollution abatement general obligation bond debt service costs should not exceed 50% of all general obligation debt service costs to the state.

*Legislative Action.* No monies may be expended from the environmental improvement fund unless the Legislature has approved the present value subsidy amount, the revenue bonding authorization and the general obligation bonding authorization as part of the biennial budget act. Further, DOA and DNR are directed to adhere to the present value subsidy amount adopted by the Legislature.

*Biennial Finance Plan Review.* By October 1 of each even-numbered year, DNR and DOA are required to submit copies of the biennial finance plan to the State Building Commission, the Joint Committee on Finance and the standing committees of the Legislature having jurisdiction over natural resources matters. Amendments to the plan reflecting the Governor's biennial budget recommendations must be provided to those committees and the Building Commission within 30 days after the

Governor's biennial budget submission. No later than 30 days after the Governor signs the biennial budget act, the plan, updated with any modifications, must be submitted to these committees and the Building Commission. The Building Commission has the authority to approve or disapprove any part of the plan other than the subsidy and bonding authorizations approved by the Legislature.

*Report to the Legislature.* No later than November 1 of each odd-numbered year, DOA and DNR are required to jointly submit a report to the Building Commission, Joint Committee on Finance and the appropriate standing committees of the Legislature. The report is to contain information on the operations and activities of the clean water fund program, the safe drinking water loan program and the land recycling loan program for the previous biennium.

**APPENDIX IV**

**Components of Clean Water Fund Loan and Grant Programs**

<b>DIRECT REVOLVING LOANS</b>	<b>PROPRIETARY LOANS</b>
<p><b>Purpose:</b> Loans to municipalities at or below-market rates of interest for construction of publicly-owned surface water treatment facilities.</p> <p><b>Funding Source:</b> Annual federal grants plus 20% state match made with general obligation bonds.</p> <p><b>Repayments:</b> Loan repayments made by municipalities are deposited to the revolving fund for future loans and for general obligation bond debt service.</p>	<p><b>Purpose:</b> Same purposes as direct revolving loans. Used if project does not meet requirements of other components of program.</p> <p><b>Funding Source:</b> State general obligation bonds.</p> <p><b>Repayments:</b> Loan repayments by municipalities are used to reduce general obligation bond costs.</p>
<b>LEVERAGED LOANS</b>	<b>SMALL PROJECT LOANS</b>
<p><b>Purpose:</b> Same purposes as direct revolving loans. Supplements the funding provided to the state through federal grants.</p> <p><b>Funding Source:</b> State revenue bonds fund loans and a credit reserve. State general obligation bonds fund the interest rate subsidy that municipalities receive.</p> <p><b>Repayments:</b> Loan repayments by municipalities pay debt service costs on revenue bonds. The state's general fund pays general obligation bond debt service.</p>	<p><b>Purpose:</b> Projects costing less than \$1,000,000.</p> <p><b>Funding Source:</b> State Trust Fund administered through the Board of Commissioners of Public Lands and state general obligation bonds.</p> <p><b>Repayments:</b> Municipality makes repayments to state trust fund. The state's general fund pays debt service on general obligation bonds associated with subsidy of interest rates.</p>
<b>HARDSHIP GRANTS AND LOANS</b>	
<p><b>Purpose:</b> Grants or reduced interest rate loans to communities with: (a) high per capita costs for construction or rehabilitation of treatment plants; and (b) median household income less than 80% of the state's median.</p> <p><b>Funding Source:</b> State general obligation bonds.</p> <p><b>Repayments:</b> Generally, a municipality must pay at least 30% of total project costs.</p>	

## APPENDIX V

### Clean Water Fund Program Financial Assistance Agreements as of June 30, 2010

Municipality	Amount	Municipality	Amount
<b>Adams</b>		<b>Columbia</b>	
Adams, City	\$2,464,069	Arlington, Village	\$1,661,852
<b>Ashland</b>		Cambria, Village **	603,350
Ashland, City*	11,684,694	Columbus, City	4,043,888
<b>Barron</b>		Harmony Grove - Okee SC	2,326,813
Chetek, City	527,883	Lodi, City	4,049,571
Crystal Lake SD #1*	299,316	Portage, City	5,508,632
Cumberland, City	927,675	Poynette, Village	2,287,561
Haugen, Village	284,539	Wisconsin Dells	2,856,201
<b>Bayfield</b>		Wisconsin Dells - Lake Delton SC	1,935,060
Bayfield, City*	9,761,995	Wyocena, Village	389,253
Iron River SD #1	716,537	<b>Crawford</b>	
Pikes Bay SD	1,620,600	Eastman, Village*	1,427,309
<b>Brown</b>		Gays Mills, Village	180,185
Allouez, Village **	3,247,604	Prairie du Chien, City	5,628,300
Bayshore SD	946,574	Seneca SD #1*	130,000
De Pere, City	916,322	Valley Ridge CWC*	6,185,231
Denmark, Village	2,959,295	Wauzeka, Village	128,137
Dyckesville SD	3,126,990	<b>Dane</b>	
Green Bay MSD **	118,925,331	Belleville, Village	9,251,632
Holland SD #1	1,379,790	Black Earth, Village	4,278,271
Morrison SD #1*	2,937,649	Blue Mounds, Village	1,152,260
Oneida Tribe of Indians*	1,507,211	Brooklyn, Village	2,928,182
Pulaski, Village*	5,091,382	Cambridge, Village	6,675,514
Royal Scot SD*	1,494,150	Cottage Grove, Village	7,188,424
Suamico, Village	9,939,969	Cross Plains, Village	8,287,064
Wrightstown SD #1	1,080,930	Dane, Village	1,227,831
Wrightstown, Village	6,225,722	Deerfield, Village	5,070,284
<b>Buffalo</b>		Madison MSD	118,568,740
Fountain City	450,556	Marshall, Village	7,744,261
Nelson, Village*	781,610	Mazomanie, Village	4,752,614
<b>Burnett</b>		Middleton, City **	74,677
Danbury SD*	1,105,020	Morrisonville SD #1*	824,608
St. Croix Chippewa Indians*	1,657,530	Mount Horeb, Village	3,435,694
Webster, Village	204,020	Oregon, Village	6,784,531
<b>Calumet</b>		Pleasant Springs SD #1	1,029,086
Brillion, City	1,064,130	Rockdale, Village	876,526
Chilton, City	5,736,871	Roxbury SD #1	939,610
Hilbert, Village	2,502,460	Stoughton, City	11,262,688
New Holstein, City	1,100,000	Sun Prairie, City	16,114,376
Sherwood, Village	2,710,650	<b>Dodge</b>	
<b>Chippewa</b>		Ashippun SD	4,488,890
Bloomer, City	6,693,500	Beaver Dam, City **	21,452,848
Chippewa Falls, City	5,335,107	Brownsville, Village	587,866
New Auburn, Village	311,524	Hustisford, Village	445,801
<b>Clark</b>		Iron Ridge, Village	1,440,700
Abbotsford, City	1,403,359	Juneau, City	1,365,108
Colby, City	2,837,013	Lebanon SD #1	605,529
Curtiss, Village	353,373	Lomira, Village	4,963,465
Greenwood, City	377,960	Mayville, City	1,482,543
Loyal, City	728,665	Portland SD #1	294,519
Neillsville, City	3,237,767	Waupun, City	6,249,200
Owen, City	417,910	<b>Door</b>	
		Egg Harbor, Village	508,048
		Ephraim, Village	1,629,117
		Forestville, Village	585,275
		Washington, Town*	658,367

## APPENDIX V (continued)

### Clean Water Fund Program Financial Assistance Agreements (As of June 30, 2010)

Municipality	Amount	Municipality	Amount
<b>Douglas</b>		<b>Iowa</b>	
Brule SD	\$367,167	Arena, Village	\$1,485,515
Gordon SD #1*	1,444,933	Avoca, Village	358,641
Lake Nebagamon, Village	1,538,776	Dodgeville, City	4,995,080
Oliver, Village	588,000	Highland, Village	824,848
Superior, City**	6,796,242	Iowa County	485,993
		Linden, Village	388,913
		Mineral Point, City	6,883,912
<b>Dunn</b>		<b>Iron</b>	
Elk Mound, Village*	419,030	Mercer SD #1*	4,769,971
Knapp, Village	668,732		
Menomonie, City	8,732,349		
Wheeler, Village*	359,745		
<b>Eau Claire</b>		<b>Jackson</b>	
Altoona, City**	710,450	Black River Falls, City	4,227,766
Fairchild, Village	575,000	Hatfield SD #1	1,134,541
<b>Florence</b>		<b>Jefferson</b>	
Aurora SD #1*	191,860	Blue Spring LMD	380,000
		Fort Atkinson, City	14,593,965
		Ixonia SD #1	1,339,941
		Jefferson, City	7,533,927
		Lake Mills, City	1,245,823
		Oakland SD #1	5,767,653
		Watertown, City	30,534,659
<b>Fond du Lac</b>		<b>Juneau</b>	
Calumet SD #1*	4,317,124	Camp Douglas, Village	526,091
Campbellsport, Village	404,690	Lyndon Station, Village	614,582
Consolidated S.D. #1	155,438	Mauston, City	2,904,892
Fairwater, Village	1,554,473	Necedah, Village	2,937,094
Fond du Lac, City**	61,428,333	New Lisbon, City	5,845,410
Mount Calvary, Village*	1,536,234	O'Dell's Bay SD #1	475,000
North Fond du Lac, Village	2,591,575	Union Center, Village*	995,704
Oakfield SD #1*	22,000		
Ripon, City	6,337,088		
<b>Forest</b>		<b>Kenosha</b>	
Crandon, City	1,537,025	Bristol, Town	6,363,516
Laona SD #1	746,282	Kenosha, City	33,143,758
		Salem, Town*	19,244,147
		Silver Lake, Village	2,318,400
		Twin Lakes, Village	6,481,219
<b>Grant</b>		<b>Kewaunee</b>	
Bagley, Village	229,081	Algoma, City	5,546,679
Blue River, Village	281,218	Kewaunee, City	1,684,316
Boscobel, City	1,336,536	Luxemburg, Village	3,178,375
Cassville, Village	441,558		
Cuba City, City	2,561,791		
Lancaster, City	1,688,158		
Montfort, Village	779,050		
Muscoda, Village	897,991		
Platteville, City	6,558,734		
Potosi, Village	291,485		
Potosi/Tennyson SC	1,543,111		
<b>Green</b>		<b>La Crosse</b>	
Albany, Village	535,762	Bangor, Village	1,587,060
Brodhead, City	6,548,945	Mindoro SD #1	1,113,920
Monroe, City	3,470,064	Onalaska, City**	99,309
Monticello, Village*	4,033,418	Rockland, Village	967,311
New Glarus, Village	10,885,368	St. Joseph's SD #1	1,562,042
		West Salem, Village	4,990,006
<b>Green Lake</b>		<b>Lafayette</b>	
Green Lake SD	8,673,929	Argyle, Village*	1,466,993
Green Lake, City	3,506,719	Belmont, Village	458,107
Little Green LPRD	1,898,268	Benton, Village	1,100,000
		Darlington, City	4,070,000
		Gratiot, Village	723,629
		Shullsburg, City	686,556

## APPENDIX V (continued)

### Clean Water Fund Program Financial Assistance Agreements as of June 30, 2010

Municipality	Amount	Municipality	Amount
South Wayne, Village*	1,387,982	<b>Oneida</b>	
<b>Langlade</b>		Lake Tomahawk SD #1	\$1,316,600
Antigo, City	\$4,316,557	Rhineland, City **	30,402,789
Elcho SD #1*	2,891,067		
<b>Lincoln</b>		<b>Outagamie</b>	
Merrill, City	4,044,352	Appleton, City **	16,945,143
Tomahawk, City	3,026,143	Bear Creek, Village	431,809
		Black Creek, Village	5,323,725
<b>Manitowoc</b>		Buchanan, Town **	77,370
Cleveland, Village	3,609,973	Combined Locks, Village **	433,024
Kiel, City	2,469,987	Freedom SD #1	2,748,197
Manitowoc, City	23,017,518	Garners Creek Storm Water Utility **	1,110,807
Mishicot, Village	4,105,629	Greenville SD #1	2,739,721
Reedsville, Village	2,768,023	Heart of the Valley MSD	40,884,163
Rockland SD #1*	885,930	Hortonville, Village	5,533,330
Saint Nazianz, Village **	289,069	Kaukauna, City **	56,394
Two Rivers, City	10,905,420	Little Chute, Village **	853,232
Valders, Village	1,537,527		
Whitelaw, Village	1,494,310	<b>Ozaukee</b>	
		Belgium, Village	3,855,306
<b>Marathon</b>		Saukville, Village	11,331,624
Athens, Village	2,428,846		
Brokaw, Village	969,429	<b>Pepin</b>	
Marathon City, Village	1,890,253	Pepin, Village	363,096
Mosinee, City	1,382,570		
Rib Mountain MSD	3,766,363	<b>Pierce</b>	
		Bay City, Village	1,223,535
<b>Marinette</b>		Ellsworth, Village	372,731
Coleman, Village	1,224,329	Plum City, Village	1,685,337
Crivitz, Village*	2,753,364	Prescott, City	5,348,532
Goodman SD #1*	3,591,667	River Falls, City	4,766,364
Marinette, City **	2,394,284	Spring Valley, Village	120,038
Niagara, City	180,905		
Wausaukee, Village*	3,219,189	<b>Polk</b>	
		Amery, City	2,430,760
<b>Marquette</b>		Cushing SD #1*	116,391
Montello, City	260,000	Milltown, Village	336,697
Packwaukee SD #1*	1,137,353	Osceola, Village	6,420,367
<b>Milwaukee</b>		<b>Portage</b>	
Bayside, Village	1,611,799	Almond, Village	530,199
Cudahy, City	885,875	Plover, Village	9,427,735
Milwaukee, City **	85,013,828	Rosholt, Village	662,272
Milwaukee MSD **	1,089,024,090	Stevens Point, City	16,579,444
Shorewood, Village	2,511,820		
South Milwaukee, City	7,931,361	<b>Price</b>	
Whitefish Bay, Village	8,328,641	Ogema SD #1	190,020
		Park Falls, City	1,468,574
<b>Monroe</b>		Phillips, City	2,233,227
Melvina, Village*	1,396,266	Prentice, Village	544,000
Oakdale, Village*	452,118		
Sparta, City	10,726,198	<b>Racine</b>	
Tomah, City	15,429,641	Bohners Lake SD #1	8,007,212
Warrens, Village	4,185,404	Burlington, City	23,977,333
		Caledonia, Village	4,465,344
<b>Oconto</b>		Dover, Town	1,787,182
Brazeau SD #1	793,405	Norway SD #1	6,227,685
Kelly Lake SD #1	2,438,725	Racine, City	97,364,490
Lena, Village	342,586	Union Grove, Village	8,705,940
Little Suamico SD #1	2,518,724	Western Racine Co. Sewer Dist	11,458,830
Oconto Falls, City	1,315,549		
Oconto, City	3,843,974		
Pensaukee SD #1*	4,264,592		

## APPENDIX V (continued)

### Clean Water Fund Program Financial Assistance Agreements (As of June 30, 2010)

Municipality	Amount	Municipality	Amount
<b>Richland</b>		<b>Sheboygan (continued)</b>	
Boaz, Village*	\$1,086,464	Little Elkhart Lake Rehab District*	\$2,173,589
Germantown SD*	342,270	Plymouth, City	4,585,500
Hub-Rock SD #1*	1,902,950	Random Lake, Village	1,919,396
Ithaca SD #1*	1,160,926	Sheboygan, City	10,573,193
Richland Center, City	6,997,928		
Sextonville SD*	641,864	<b>Taylor</b>	
		Chelsea SD*	\$80,000
<b>Rock</b>		Rib Lake, Village	291,288
Beloit, City	2,927,350	Stetsonville, Village	1,140,962
Beloit, Town	955,765	Westboro SD #1*	278,608
Clinton, Village	4,962,444		
Edgerton, City *	5,611,509	<b>Trempealeau</b>	
Evansville, City **	8,700,573	Arcadia, City	386,792
Footville, Village	1,645,467	Galesville, City	1,142,992
Fulton SD #2*	1,669,311	Independence, City	1,591,695
Janesville, City	32,718,030	Osseo, City	1,575,170
Milton, City	4,328,415	Trempealeau, Village	1,558,545
<b>Rusk</b>		<b>Vernon</b>	
Sheldon, Village*	292,323	Hillsboro, City	1,978,482
		Readstown, Village	178,000
<b>Saint Croix</b>		Stoddard, Village	555,571
Baldwin, Village **	645,190	Viroqua, City	3,062,954
Hammond, Village	4,100,924	Westby, City	416,803
Hudson, City	7,242,341		
New Richmond, City	3,320,105	<b>Vilas</b>	
North Hudson, Village	640,849	Eagle River, City	3,562,886
Richmond SD #1*	46,884		
Roberts, Village	3,193,935	<b>Walworth</b>	
Somerset, Village	2,980,623	East Troy, Village	10,101,675
		Fontana, Village **	5,113,918
<b>Sauk</b>		Genoa City, Village	4,226,574
Baraboo, City	5,303,884	Lake Como Beach SD*	15,502,380
Christmas Mountain SD	1,658,960	Pell Lake SD #1*	19,178,411
Ironton, Village*	1,145,445	Sharon, Village	634,801
Lake Delton, Village	22,133,301	Walworth County MSD	45,160,676
North Freedom, Village	498,048	Walworth, Village **	1,587,077
Prairie du Sac, Village	205,400	Whitewater, City **	7,124,043
Reedsburg, City	14,470,579		
Spring Green, Village	949,856	<b>Washington</b>	
		Hartford, City	13,168,455
<b>Shawano</b>		Hartford, Town*	3,143,418
Bowler, Village	114,748	Jackson, Village	6,130,258
Caroline SD*	312,016	Kewaskum, Village	9,423,144
Cloverleaf Lakes SD #1	1,021,778	Newburg, Village	1,549,070
Green Valley SD #1*	468,964	Silver Lake SD	3,461,172
Krakow SD #1	625,000	Slinger, Village	7,007,668
Mattoon, Village	398,340		
Shawano, City	2,361,297	<b>Waukesha</b>	
Wolf TPC	12,847,006	Brookfield SD #4	5,749,787
		Brookfield, City **	32,720,173
<b>Sheboygan</b>		Delafield - Hartland PCC	10,000,000
Adell - Onion River, Village*	989,061	Delafield, City	1,555,831
Adell, Village*	776,339	Dousman, Village **	6,535,035
Cedar Grove, Village	3,823,284	Lannon, Village*	12,459,777
Gibbsville SD	1,518,190	Lisbon SD #1	2,848,788
Hingham San Dist - Onion River*	678,833	Menomonee Falls, Village	886,867
Hingham SD*	79,082	Nashotah, Village	285,677
Howards Grove, Village	2,102,385	Oconomowoc, City	5,449,057
Kohler, Village	400,920	Oconomowoc, Town	6,819,232



## APPENDIX V (continued)

### Clean Water Fund Program Financial Assistance Agreements as of June 30, 2010

Municipality	Amount	Municipality	Amount
<b>Waukesha (continued)</b>		<b>Winnebago (continued)</b>	
Pewaukee, City	\$8,049,176	Menasha, Town **	\$5,313,516
Pewaukee, Village	8,191,015	Neenah SD #2*	3,056,893
Summit, Town	7,831,586	Neenah, City **	1,711,792
Sussex, Village	18,841,702	Neenah, Town **	255,841
Waukesha, City	42,071,787	Omro SD #1*	\$3,124,776
		Omro, City	3,510,030
<b>Waupaca</b>		Omro, Town **	46,181
Chain O'Lakes SD #1	\$2,081,670	Orihula SD	2,521,626
Fremont, Village	1,866,706	Oshkosh, City	28,376,484
Manawa, City	1,408,334	Sunset Point SD	685,894
Waupaca, City	12,422,741	Winneconne SD #3	2,078,897
Weyauwega, City	3,284,569	Winneconne, Village	1,668,622
		<b>Wood</b>	
<b>Waushara</b>		Hewitt, Village*	1,602,188
Hancock, Village	150,800	Marshfield, City	24,169,823
Poy Sippi SD	223,000	Nekoosa, City	2,435,469
Redgranite, Village*	5,537,215	Pittsville, City	2,768,052
Silver Lake SD	2,263,601	Port Edwards, Village	3,367,924
Wautoma, City*	3,233,999	Vesper, Village	1,724,160
		Wisconsin Rapids, City **	<u>39,160,280</u>
<b>Winnebago</b>		<b>Grand Total</b>	<b>\$3,315,242,377</b>
Black Wolf SD #1	4,327,485		
Butte des Morts CSD #1*	2,936,650		
Edgewood-Shangri La SD	1,011,312		
Grand Chute - Menasha West SC **	42,804,650		
Island View SD	2,764,149		
Menasha, City	3,810,294		

SD = Sanitary District  
 SC = Sewage Commission  
 TPC = Treatment Plant Commission  
 LMD = Lake Management District  
 CWC = Clean Water Commission

MSD = Metropolitan Sewerage District  
 CSD = Consolidated Sewerage District  
 RD = Rehabilitation District  
 LPRD = Lake Protection and Rehabilitation District  
 PCC = Pollution Control Commission

\* = Includes financial hardship assistance

\*\* = Includes financing under the federal American Recovery and Reinvestment Act of 2009

## APPENDIX VI

### Safe Drinking Water Loan Program Financial Assistance Agreements As of June 30, 2010

Municipality	Amount	Municipality	Amount
<b>Adams</b>			
Adams, City */**	\$900,937	<b>Eau Claire</b>	
Rome, Town	4,481,197	Augusta, City *	\$1,700,000
		Fairchild, Village *	165,000
<b>Ashland</b>			
Ashland, City *	3,328,766	<b>Fond du Lac</b>	
Butternut, Village */**	1,466,776	Fond du Lac, City	32,272,533
Glidden SD */**	175,754	Oakfield, Village	2,200,000
		Saint Cloud, Village	934,679
<b>Barron</b>			
Cameron, Village *	364,885	<b>Grant</b>	
Cumberland, City */**	2,401,220	Blue River, Village */**	462,194
Turtle Lake, Village */**	2,431,265	Dickeyville, Village	1,078,163
		Mount Hope, Village	386,498
<b>Brown</b>			
Holland SD #1 **	233,437	<b>Iowa</b>	
		Arena, Village	141,195
<b>Buffalo</b>			
Cochrane, Village *	454,324	Avoca, Village */**	248,000
		Highland, Village	322,322
		Rewey, Village *	123,713
<b>Calumet</b>			
Chilton, City	526,734	<b>Iron</b>	
Forest Junction SD	1,254,915	Hurley, City */**	197,333
Sherwood, Village **	1,980,380		
<b>Chippewa</b>			
Chippewa Falls, City **	5,198,379	<b>Juneau</b>	
New Auburn, Village *	832,266	Lyndon Station, Village */**	1,217,276
Stanley, City */**	1,810,082	Necedah, Village *	974,360
<b>Clark</b>			
Colby, City */**	474,110	<b>La Crosse</b>	
Greenwood, City *	469,140	Holmen, Village	1,365,000
Loyal, City */**	819,527	Rockland, Village	343,248
Thorp, City *	1,198,085	West Salem, Village	3,058,893
Withee, Village */**	2,104,250		
<b>Columbia</b>			
Arlington, Village	469,723	<b>Lafayette</b>	
Portage, City	121,379	Benton, Village *	601,600
Rio, Village **	420,823	Darlington, City */**	516,588
<b>Crawford</b>			
Prairie du Chien, City *	2,300,061	<b>Manitowoc</b>	
		Two Rivers, City **	5,272,655
<b>Dane</b>			
Cambridge, Village **	659,060	<b>Marathon</b>	
Deerfield, Village **	1,080,941	Stratford, Village	1,401,011
Oregon, Village	432,818		
Stoughton, City **	1,227,502	<b>Marinette</b>	
		Goodman SD #1 *	611,093
<b>Dodge</b>			
Brownsville, Village	428,997	Marinette, City **	24,663,725
Horicon, City **	1,365,935	Peshtigo, City	5,387,773
Hustisford, Village	1,057,341	<b>Milwaukee</b>	
Lomira, Village **	1,063,630	Milwaukee, City	19,358,172
		Oak Creek, City **	1,759,696
		South Milwaukee, City	7,757,831
		<b>Monroe</b>	
		Sparta, City *	1,229,543
		Tomah, City *	4,024,277
		Warrens, Village *	583,621

**APPENDIX VI (continued)**

**Safe Drinking Water Loan Program Financial Assistance Agreements  
As of June 30, 2010**

Municipality	Amount	Municipality	Amount
<b>Oconto</b>		<b>Sheboygan</b>	
Gillett, City	\$1,624,729	Cedar Grove, Village	\$576,593
Oconto Falls, City */**	1,918,407	Sheboygan, City	3,152,000
Suring, Village */**	1,609,144		
		<b>Taylor</b>	
<b>Oneida</b>		Rib Lake, Village */**	688,719
Rhineland, City *	1,198,751		
		<b>Trempealeau</b>	
<b>Outagamie</b>		Arcadia, City *	3,211,800
Greenville SD #1 **	4,431,687	Blair, City *	2,565,792
Seymour, City	708,225	Trempealeau, Village **	2,834,962
		Whitehall, City */**	3,451,980
<b>Ozaukee</b>			
Port Washington, City	3,403,700	<b>Vernon</b>	
		Viroqua, City *	1,017,329
<b>Polk</b>			
Osceola, Village **	298,874	<b>Walworth</b>	
		Delavan, City	2,739,708
<b>Portage</b>		Fontana, Village	1,664,500
Amherst, Village **	1,156,314	Williams Bay, Village	884,800
Plover, Village	3,326,712		
Stevens Point, City **	2,837,260	<b>Washington</b>	
Whiting, Village **	517,332	Germantown, Village **	1,942,940
<b>Price</b>		<b>Waukesha</b>	
Park Falls, City *	3,203,779	Eagle, Village	2,161,248
		Mukwonago, Village	2,513,797
<b>Racine</b>		Muskego, City **	907,948
Racine, City	29,261,322		
Union Grove, Village **	3,406,477	<b>Waupaca</b>	
		Clintonville, City *	3,714,825
<b>Richland</b>		Waupaca, City *	827,807
Cazenovia, Village */**	657,596		
Richland Center, City */**	1,731,933	<b>Wausara</b>	
Viola, Village *	399,454	Wautoma, City *	3,613,642
<b>Rock</b>		<b>Winnebago</b>	
Footville, Village	485,135	Algoma SD #1 **	14,196,701
Janesville, City	3,541,250	Menasha, City	13,520,161
		Nenah, City	26,389,967
<b>Sauk</b>		Oshkosh, City	36,321,726
Reedsburg, City **	770,327		
West Baraboo, Village **	1,422,982	<b>Wood</b>	
		Nekoosa, City	4,273,175
<b>Shawano</b>		Pittsville, City	<u>987,655</u>
Bowler, Village *	679,005		
Mattoon, Village *	229,742	<b>Grand Total</b>	<b>\$366,872,543</b>

SD = Sanitary District

\* = Includes financing at 33% of market interest rate based on financial need criteria

\*\* = Includes financing under the federal American Recovery and Reinvestment Act of 2009