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Environmental Loans

E-Bulletin Newsletter

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Upcoming Deadlines

September 30 Deadline for SFY 16 CWFP principal forgiveness applications & plans and specs.

October 16 Last day to request WAMS ID and DNR Switchboard access for ITA and PERF submittals.

October 31 Deadline for SFY 17 CWFP & SDWLP ITAs and PERFs. Must be submitted online.

Contact Information

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Rule Revisions Effective July 1

The rule revisions for chs. NR 162 (CWFP) and NR 166 (SDWLP) were published by the Legislative Reference Bureau and are effective as of July 1, 2015. A link to the new codes is available on our website, <http://dnr.wi.gov/Aid/documents/EIF/STATUTES/elcodes.html>.

More information detailing rule changes will be forthcoming in a future E-Bulletin newsletter. We continue to make progress with our webpage review efforts and updates.

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Status of SFY 16 SDWLP Applications

The DNR received 28 applications for projects seeking Safe Drinking Water Loan Program (SDWLP) funding. Those submittals are currently being assigned to project managers for completeness and timeliness reviews. When the reviews are complete, the project manager will send a letter to the applicant acknowledging the status of their application.

EL staff will then prepare a Draft SDWLP Funding List, which identifies, among other items, the funds available (loans and principal forgiveness) for each project. We anticipate having this list prepared and on the web in early August.

While we understand the communities for which applications have been submitted are eager to hear the status of their funding, we know you can appreciate how helpful your patience is so we can focus on completing the reviews and generating the draft Funding List.

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Reminder:

You must submit an Intent to Apply (ITA) & Priority Evaluation and Ranking Form (PERF) **online by 10/31/15** for SFY 2017 funding. A WAMS ID, needed for on-line submittals, must be obtained by 10/16/15.

Coming Soon: Fiscal Sustainability Plans (FSP)

EL staff are busy working on the procedures and form needed to implement the new, federal Fiscal Sustainability Plan (FSP) requirements for Clean Water Fund Program (CWFP) applications submitted after October 1, 2014.

The basic requirements for a Fiscal Sustainability Plan are:

- an inventory of critical assets that are part of the treatment works;
- an evaluation of the condition and performance of the inventoried assets or asset groupings;
- a certification that the assistance recipient has evaluated and will be implementing water and energy conservation efforts as part of the plan; and
- a plan for maintaining, repairing, and, as necessary, replacing the treatment works and a plan for funding such activities.

FSP Certification and Application Form

We're developing one form for both Fiscal Sustainability Plan certification and to apply for limited funding for FSP development to eligible municipalities. Applicants who are not requesting funding will only need to complete the certification section of the form.

The certification section of the form will be designed to accommodate both applicants that already have all the elements of an FSP in place as well as those who don't. For those that don't, the FSP will be required to be completed before the loan is closed out and the final disbursement made.



FSP Development Funding

For applicants who are requesting funding to help pay for the cost of FSP development, we will use the principal forgiveness (PF) methodology/affordability criteria as the basis (see the CWFP SFY 2016 Intended Use Plan for the methodology) and award funds as follows:

Municipalities with populations < 5,000:

- If the PF % that the municipality is eligible for is 30% or greater, then the CWFP would provide PF to cover 100% of the FSP development costs up to a cap of \$30,000.
- If the PF % that the municipality is eligible for is 15% to 25%, then the CWFP would provide PF to cover 50% of FSP development costs up to a cap of \$15,000.
- Any costs for FSP development in excess of \$30,000 would be covered at the eligible PF % up to an additional \$10,000. (The maximum a municipality with a population under 5,000 could receive is \$40,000 or \$25,000 depending on the PF % for which they are eligible.)
- Any FSP development costs in excess of the caps would be loan eligible.

Municipalities with populations ≥ 5,000:

- If the PF % that the municipality is eligible for is 30% or greater, then the CWFP would provide PF to cover 50% of FSP development costs up to a cap of \$30,000.
- If the PF % that a municipality is eligible for is 15% to 25%, then the CWFP would provide PF to cover 25% of FSP development costs up to a cap of \$15,000.
- Any FSP development costs in excess of the caps would be loan eligible.

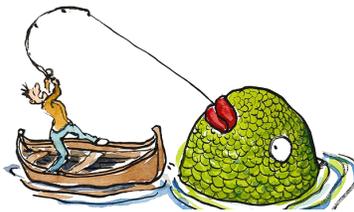
FSP continued on page 3

FSP continued from page 2

Any applicant that qualifies for PF will be eligible for FSP assistance, regardless of whether they are in the fundable range for PF on the funding list or not. The PF for FSP development will be a reimbursement that is disbursed as part of the CWFP loan. The eligible FSP development costs would be forgiven at the time of loan disbursement. Costs for FSP development incurred prior to the passage of WRRDA (June 10, 2014) will not be considered for PF reimbursement. This PF will be in addition to any other PF the municipality may be allocated, and is subject to a separate cap as detailed above.

We anticipate that the FSP Certification and Application form along with some guidance will be available in August. We will notify you when these are posted to our website. Be sure to check future E-Bulletins and other announcements for more information on FSP activities.

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Update: 2015-17 Biennial Budget

Several key changes to the Clean Water Fund Program (CWFP) were included in the 2015-17 Biennial Budget:

- Subsidy rate changed to 70% of the market interest rate (*from 75%*).
- Unsewered areas with 2/3 of residences in existence more than 20 years from the submittal date of the application will be eligible for funding (*previous language specified: prior to October 18, 1972*).

Affordability Criteria Modified in SFY 2016 SDWLP Intended Use Plan

Based on comments we received on the draft SDWLP Intended Use Plan (IUP), we are modifying the use of unemployment data in how we calculate principal forgiveness. Comments noted that annual unemployment data may be more reflective of actual unemployment in a county due to potential seasonal influences.

Therefore, the affordability criteria will include the use of the most recent unemployment data *for the county for the past 12 months*, rather than the last month. Both the SFY 2016 SDWLP and Clean Water Fund Program (CWFP) IUP will have the same language with respect to calculating principal forgiveness. We hope to have the final IUPs drafted by early August.

Our Intended Use Plans are available on our website by State Fiscal Year under the 'Project Lists' tab at: <http://dnr.wi.gov/Aid/LoanNews.html>.

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These changes take effect for SFY 2016 projects. Projects for which SFY 2015 CWFP applications are being processed will continue to close with the 75% subsidy rate.

Not included in the final budget (*initially in the Governor's budget proposal*):

- Allowing connection laterals to be eligible for CWFP funding.
- Allowing private drinking water systems or private owners of a community water system or a non-profit, non-community water system to be eligible for Safe Drinking Water Loan Program (SDWLP) funding.

Interest Rate Calculations

The 2015-17 Biennial Budget increases the subsidy provided by the state for Clean Water Fund Program (CWFP) projects. For State Fiscal Year (SFY) 2016 and SFY 2017 CWFP projects, the budget specifies that the interest rate will be 70% of the market rate. The percent of subsidy for the Safe Drinking Water Loan Program (SDWLP) remains unchanged.

Projects for which SFY 2015 funds are allocated will continue to have their interest rate calculated using the 75% subsidy provided in the 2013-15 biennium.

The current market rate as of July 1, 2015 for the CWFP and SDWLP is 3.25%, but it is subject to change on a quarterly basis. Our web site has been updated to reflect these new rates:

- interest rates tab on <http://dnr.wi.gov/Aid/EIF.html>
- <http://dnr.wi.gov/Aid/documents/EIF/Guide/Interest.html>

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Market Rate Interest – Being Nimble in a Changing Marketplace

By: Aaron Heintz
Finance Program Administrator, DOA

You may wonder why you are seeing more frequent changes to the market rate interest for the Environmental Improvement Fund (EIF) programs. The Department of Administration Capital Finance Office has modernized our approach to establishing the market rate for the EIF program. We realized that for the past several years our market rate was not competitive with interest rates available in the public markets. That is why last January we decreased the market interest rate from 3.5% to 3.0% and we are now reviewing current market conditions on a quarterly basis. The initial 0.5% decrease in market rate allowed many recent customers to see significant financial benefits.

Having our market rate competitive with interest rates available in the public market gives our customers clear benefits in knowing that the rates are not artificially high or low. The state offers below market rate loans to ensure that municipalities seeking funding from the EIF program are receiving an effective interest rate that, for most of them, is more competitive than any other source of municipal funding. In fact, for the Clean Water Fund Program (CWFP), the 2015-17 Biennial Budg-

et decreases the interest rates available to municipalities applying for CWFP loans. As a result, most CWFP loans will see their rates go from 75% of the market rate down to 70% of the market rate. Taking this reduction into account, the effective interest rate for most SFY 2016 CWFP loans will be 2.275%.

We recognize that the potential for market rate changes on a quarterly basis may result in less predictability in overall financial planning. We also note that it is critical for the fund to parallel current market conditions and that in today's world, those conditions are changing more rapidly than each quarter. We believe that assessing interest rate movement on a quarterly basis balances the need for predictability with the need to ensure our rates best reflect current market conditions.

The DOA will assess the current market rate each quarter and will notify DNR and our customers 30 days before changing the market rate. The market rate in effect at the time of the municipal bond meeting is the rate that is applied to the EIF loan.

If you have any questions on how market rate is determined, please contact me at 608-266-0739 or aaron.heintz@wisconsin.gov.

