

(Base) Agency: DNR - Stewardship
CREP (State Conservation Reserve
Enhancement Subprogram)

Recommendations:

Paper No. 266: Shibilski Motion (or separate motion)

Comments: The resolution of papers 261 through 266 should be taken care of with the omnibus Shibilski motion. Possibly, papers 267 and 268 might also be rolled into the package.

Last I heard, Shibilski was still working it out with Panzer and Cowles as to whether CREP would be included in the omnibus Stewardship motion or acted on separately (i.e. is it a draw off the \$45 million a year or not).

Either way, this program is just short-term welfare for farmers unless we use it to purchase permanent conservation easements (rather than temporary ones, as DATCP wants). Plus, bonding for short-term leases and landowner practices may be illegal (see paragraph 6).

Nevertheless, we should access this federal money (i.e. approve state matching funds for CREP).

If the Shibilski motion fails (either his omnibus Stewardship motion, or a separate CREP motion), I would go for a combination of Alternatives 3 and 8(c).

I'll try to find out what Shibilski is up to here, or give his motion a quick read when it comes before the committee.

prepared by: Barry

NATURAL RESOURCES -- STEWARDSHIP

State Conservation Reserve Enhancement Subprogram
[Paper #266]

Motion:

Move to provide \$1.1 million GPR in 1999-00 and \$1.4 million GPR in 2000-01 in a biennial appropriation in DATCP for state participation in the Conservation Reserve Enhancement Program.

Note:

[Change to Base: \$2,500,000 GPR]
[Change to Bill: \$2,500,000 GPR]

MO#

BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE 10 NO 6 ABS

Diane Clarked

Senator Shibilski

NATURAL RESOURCES -- STEWARDSHIP

State Conservation Reserve Enhancement Program
[Paper #266]

Motion:

Move to adopt Alternatives 3 and 8b in Paper #266 to provide \$40 million in general obligation bonding to enable DATCP to participate in CREP and require that at least 50% of the acres enrolled in the program be under permanent easements. In addition, specify that after the first 50,000 acres of land have been enrolled in CREP, if less than 50% of the acreage is under permanent easement, DNR and DATCP are required to evaluate the effectiveness of CREP to determine if the program is meeting its water quality and wildlife habitat objectives. Specify that only the minimum federal eligibility standards, with respect to production and land ownership, need to be met in order for landowners to participate in CREP. Provide that CREP be structured in such a way that greater incentives be provided for permanent easements than temporary contracts. In addition, specify that DNR and DATCP jointly hold all easements under CREP and that the agencies may, with the agreement of the responsible parties, convey the easement to the county in which the easement is taken or to a qualified nonprofit organization.

[Change to Base: \$40,000,000 BR]

[Change to Bill: \$40,000,000 BR]

MO# _____

BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE 8 NO 8 ABS _____



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June 7, 1999

Joint Committee on Finance

Paper #266

State Conservation Reserve Enhancement Subprogram (DNR -- Stewardship)

[LFB 1999-01 Budget Summary: Page 472-6, #8]

CURRENT LAW

The 1996 Federal Agriculture Improvement and Reform Act authorized the Conservation Reserve Enhancement Program (CREP), a joint state-federal land retirement conservation program targeted to address significant agriculture-related environmental effects. CREP is a voluntary program under which financial incentives are provided to encourage farmers and ranchers to enroll in ten- to 15-year contracts or sell conservation easements to remove land from agricultural production to improve water quality, erosion control and wildlife habitat in specific geographic areas. Initially, states are limited to enrolling 100,000 acres in CREP. States are expected to provide at least 20 percent of the cost of the program.

The Governor of a state interested in participating in CREP must submit a proposal to the U.S. Department of Agriculture for use of the funding. A federal interagency panel reviews the proposal and sends comments to the Governor within 60 days. The Governor then transmits a revised proposal and draft agreement to the USDA, and the Governor and the Secretary of the U.S. Department of Agriculture negotiate and sign a final agreement.

BUILDING COMMISSION

Allocate funding from the Warren Knowles-Gaylord Nelson stewardship program and the Stewardship 2000 program to enable the state to participate in CREP.

Require DNR to submit a report to DATCP before September 30, 1999, in which DNR must identify an amount greater than \$4,000,000 from the Warren Knowles-Gaylord Nelson stewardship program that can be expended by DATCP for the state conservation reserve enhancement subprogram. Require DNR to specify the components of stewardship from which the amounts identified will be taken. Prohibit DNR from committing any of the amounts

identified in the report during the period from the date the report is submitted until June 30, 2000.

Require DATCP to identify the component of stewardship from which any amount committed for expenditure comes. Prohibit the sum of the amounts committed for expenditure for each component by DATCP to exceed the amounts identified by DNR. Require DATCP to commit these moneys for expenditure before July 1, 2000. Require DATCP, on or after July 1, 2000, to transfer the amount equal to the amount committed for expenditure from the state conservation reserve enhancement subprogram of Stewardship 2000 to the other subprograms that correspond to the purposes originally identified by DNR. After June 30, 2000, allow DNR to expend any amounts identified in the report not committed by DATCP on the identified components.

In addition, allocate the following base amounts for the state CREP subprogram under Stewardship 2000: (a) \$8 million in 2000-01; (b) \$12 million in 2001-02; (c) \$10 million in 2002-03; (d) \$10 million in 2003-04. Specify that if the total amount obligated for the state CREP subprogram on June 30, 2004, is less than \$40 million that DATCP may expend the unobligated amount in one or more subsequent fiscal years.

The administration estimates that this state funding could leverage up to an additional \$200 million in federal funds for the program.

DISCUSSION POINTS

1. Through March, 1999, seven states have had CREP plans approved by USDA. Among the objectives of these state CREP plans are: reduction of sedimentation and soil erosion in the Illinois River (Illinois), reduction of nutrient loading in Chesapeake Bay (Maryland), reduction of sediment and nutrients and mitigation of flood damage on the Minnesota River (Minnesota), reduction of nutrients and pathogens in the New York City watershed and erosion control in the Catskill/Delaware system (New York), and enhancement of riparian areas for restoration of salmon habitat (Oregon).

2. An interagency Wisconsin CREP team was formed with representatives from all levels of government to prepare the state's application to the program. DATCP staff indicate that a draft application is expected to be submitted to the Governor in June, 1999, with the formal application being sent to USDA in July, 1999. DATCP staff indicate that the federal review and negotiation process typically takes six or seven months to complete. In addition, USDA staff indicate it would take a month or two after negotiations are complete to finalize uniform procedures for sign-ups under the program. Thus, sign-ups under the program could begin in Wisconsin as early as the spring of 2000.

3. A draft plan for Wisconsin CREP participation from March, 1999, used to gather public input indicates that the state's effort would focus largely on improving water quality on those waters on the list of 550 impaired waters submitted to the Environmental Protection Agency for

which agricultural activities are a significant contributing factor. In addition, a portion of the proposed program would help restore wildlife habitat for species such as the prairie chicken and grassland songbirds that have experienced population declines in the state. Of the 100,000 acres proposed for enrollment, an estimated 85,000 would be related to water quality, while 15,000 would be for habitat restoration.

4. For both the water quality and habitat restoration projects, landowners would be offered the opportunity to voluntarily enroll their lands in one of the following plans under the draft program: (a) 10-year contracts with USDA; (b) 15-year contracts with USDA and the state; or (c) a combined 10-year contract with USDA followed by a conservation easement with the state. Under the draft plan, conservation easements would initially be capped at 25,000 acres.

5. Under the draft plan, landowners enrolling in ten-year CREP contracts would receive an annual payment from the federal government during the contract period. Landowners enrolling in a 15-year contract or conservation easement would receive a lump-sum payment from the state at the beginning of the contract and annual payments from the federal government. Under the draft plan, landowners would develop a management plan, which could include conducting limited haying and grazing, to provide for some economic use of the property. As part of state participation in CREP, the federal government anticipates a comprehensive monitoring and evaluation plan to measure state progress in meeting the designated project objectives.

6. The Building Commission recommended the use of bonding to fund the state share of participation in CREP. Some have raised concerns about the use of bonding for this purpose since a portion of CREP would be for short-term leases and landowner practices. Given that bonding is generally allowable only for long-term capital investments, use of the funds for CREP may be problematic.

7. If the use of bonding is a concern, general purpose revenues could be utilized for the state's participation in CREP. The same amount of funding that is recommended to come from the Stewardship 2000 program (\$40 million) could be provided through bonding, or through GPR in a continuing appropriation in 1999-00, with provisions that any unencumbered amount remaining as of June 30, 2004, lapse back to the general fund. In this way, the state would be able to provide USDA with evidence of a financial commitment for the state match for the CREP program while the application is being considered.

8. However, administration officials indicate that bonding would appear to be permissible for most of the uses identified in the draft plan. Shorter-term (10 year) bonding is anticipated for the 15-year contracts, while 20-year bonds would likely be issued for easements and other water quality activities (similar to state bonds currently issued under the nonpoint water pollution abatement program for installation of water quality practices). One concern raised by the administration is the use of bonding for short-term or annual habitat restoration work. Assuming USDA agrees to allow the use of federal monies for these activities, these concerns could be addressed in the state's CREP plan.

9. Some have raised questions of the appropriateness of using the stewardship program for CREP. Stewardship could be viewed as an appropriate source of funding for CREP given that the program focuses on water resources and habitat restoration in the state, which have been two of the components of the larger stewardship program. In addition, the proposed draft plan would place some emphasis on lengthening CREP contracts or purchasing permanent easements, which could be viewed as compatible with the longer-term focus of the stewardship program.

10. Others argue that the intent of the stewardship program is to provide permanent protection of natural resources. Under CREP, however, state and federal funds are used to purchase ten- to 15-year contracts. To the extent that CREP does not provide for permanent natural resource protection, it may be viewed as inconsistent with the intent of stewardship.

11. In addition, CREP funding would be used to enroll acres with the intent of improving the quality of impaired waters. Some have argued that stewardship funding should be used to acquire land surrounding more pristine bodies of water for permanent protection or purchase easements on higher quality streams which are threatened by agricultural and urban development, rather than focusing on impaired waters.

12. If the Committee chooses to utilize funding under stewardship for CREP, these concerns could be addressed by specifying that state funding could only be used to purchase conservation easements. This restriction could, however, reduce the flexibility that Wisconsin officials have sought for CREP. Restrictions on the use of state funding may also be raised by the federal government during negotiations over the state plan for CREP participation. The draft plan would cap permanent easements at 25,000 acres or 25% of the 100,000 acre program proposed. Rather than a 25% cap, the Committee could consider specifying a minimum level of permanent easement to be purchased.

13. One possible option for funding CREP would be to provide the funding outside of the structure of stewardship. This would enable the state to participate in the program while maintaining what is arguably the more traditional focus of the stewardship program. In addition, any issues regarding the structure of the bonding issued for shorter-term purposes or for contract extensions may be more-easily achieved and tracked under a separate program.

14. The Governor's Blue Ribbon Task Force on the Stewardship Program recommended the creation of a Natural Resources Federal Opportunity Fund that would be separate from, yet compliment, the stewardship program. This fund would be used to access federal dollars for projects that are judged to be consistent with stewardship goals and strategies. Given the variable nature of federal funding, the Task Force recommended that the fund be budgeted on a biennial basis depending on the opportunities available. In addition to CREP, the Task Force noted that funding from other federal programs (such as the Wetland Reserve Program, the Forest Legacy Program and the Conservation and Reinvestment Act) could become available to Wisconsin in the near future.

15. Consistent with the Task Force recommendation, funding for the state share of

CREP could be provided on a biennial basis. Under the Building Commission amendment, a total of \$8 million would be available for CREP in 1999-01. Also, consistent with other stewardship subprograms, under the amendment, DATCP would be able to obligate up to an additional 50% of the annual bonding authority for the CREP subprogram in 2000-01 (\$4 million) if the DATCP Board finds that the following apply: (a) moneys appropriated for the subprogram do not provide sufficient funding for the activity; and (b) delaying or deferring all or part of the cost to a subsequent fiscal year is not reasonably possible.

16. The Committee could provide \$4 million annually for initial participation in CREP. DATCP could then seek additional funding through separate legislation or the 2001-03 budget when the scope of the program is known and some data on participation is available. DATCP staff indicate that, while providing funding on a biennial basis for CREP would not preclude federal approval of the state's plan, it could be raised as an issue by the federal government during negotiations over the state plan for CREP participation and may result in the federal government reducing the amount of money it provides to be consistent with the state contribution. In addition, participation in future biennia could be jeopardized if ongoing funding were not provided.

17. Under the Building Commission amendment, DNR would be required to set aside \$4 million from the current stewardship program to allow for state CREP participation in 1999-00. This set-aside represents 17% of the annual allocation of \$23.1 million. The amount of the DNR set-aside utilized by DATCP in 1999-00 would be restored to DNR from the CREP subprogram of stewardship in 2000-01. Under a best-case scenario, signups under CREP would not begin until the spring of 2000. If there are any delays in the state's negotiations with USDA, signups may not begin until 2000-01.

18. Given the magnitude of the set-aside from the current stewardship program and the uncertainty of CREP funding needs in 1999-00, the Committee could choose to delete the provision. If bonding for CREP were not available until July, 2000, and the state plan was approved by the federal government before that, DATCP could either delay implementation by a few months or begin signups while stipulating that the lump-sum state payment would not be made to enrollees until July of 2000. However, if a separate program is established, bonding could be made available beginning in 1999-00.

19. A majority of the acres being proposed for enrollment under CREP would involve improvement of water quality in impaired waters. Such activity has traditionally been funded by the nonpoint source water pollution abatement program, which provides grants to local units of government for cost share grants for priority watershed areas, meeting water quality standards and competitively selected nonpoint projects. The majority of nonpoint funds are used for priority watershed projects in 62 active areas designated by the state as priority. DATCP also provides funding for the abatement of rural water pollution through the reduction of soil erosion and the management of animal waste. In prior Committee action on AB 133, \$72.1 million would be provided in the biennium for combined DNR and DATCP grant programs, of which \$43,975,000 is bonding for cost shares.

20. To the extent that the majority of the priority watershed areas are located in areas also specified in the draft plan for Wisconsin CREP participation, funding provided for combined DNR and DATCP grant programs could be used to fund the state share for CREP. Since 85% of the acreage anticipated to be enrolled under CREP would be related to water quality, 85% of the anticipated program funding (\$34 million) could be designated from nonpoint program funding to provide the state share of CREP. The remaining 15% of anticipated program funding (\$6 million) could be designated from Stewardship 2000 or as a separate bonding appropriation.

21. However, the nonpoint program does not require ten- or 15-year contracts or easements, which would be necessary to be eligible for CREP funding. While contracts, easements and best management practices instituted under the CREP program would improve the water quality in many priority watershed areas, providing funding from the nonpoint program may significantly decrease the amount of funding available for priority watershed and other projects located outside the areas designated for CREP. Further, some landowners may prefer to install best management practices without offering easements or removing land from production.

ALTERNATIVES TO BASE

Bonding Alternatives

1. Approve the Building Commission's recommendation to allocate \$40 million from the Warren Knowles-Gaylord Nelson stewardship program and the Stewardship 2000 program to enable the state to participate in CREP.
2. In addition to Alternative 1, delete the provision requiring DNR to set aside \$4 million from the Warren Knowles-Gaylord Nelson stewardship program for CREP.
3. Provide \$40 million in general obligation bonding in a natural resources federal opportunities fund to enable the state to participate in CREP.

Alternative 3	BR
1999-01 BONDING (Change to Base)	\$40,000,000
[Change to Bill]	\$40,000,000]

4. Consistent with the Task Force recommendations, provide \$8 million in general obligation bonding (\$4 million in 1999-00 and \$4 million in 2000-01) in a natural resources federal opportunities fund to enable the state to begin participation in CREP.

Alternative 4	BR
1999-01 BONDING (Change to Base)	\$8,000,000
[Change to Bill]	\$8,000,000]

GPR Alternatives

5. Provide \$40 million GPR in 1999-00 in a continuing appropriation in DATCP to enable the state to participate in CREP. Specify that any unencumbered funding in the appropriation as of June 30, 2004, lapse to the balance of the general fund.

Alternative 5	GPR
1999-01 FUNDING (Change to Base)	\$40,000,000
<i>[Change to Bill]</i>	<i>\$40,000,000]</i>

6. Consistent with the Task Force recommendations, provide \$4 million GPR annually in a natural resources federal opportunities appropriation to enable the state to begin participation in CREP.

Alternative 6	GPR
1999-01 FUNDING (Change to Base)	\$8,000,000
<i>[Change to Bill]</i>	<i>\$8,000,000]</i>

Nonpoint Alternative

7. Specify that nonpoint funding of up to \$34 million be used through 2003-04 to provide the state match for participation in CREP. Further, allocate a base amount of \$6 million in 2000-01 from one of the following sources for the state CREP subprogram.

- a. the stewardship program
- b. a separate BR appropriation

Alternative 7	BR
1999-01 BONDING (Change to Base)	\$6,000,000
<i>[Change to Bill]</i>	<i>\$6,000,000]</i>

Easement Alternative

8. In addition to any of the above, specify that state funding be used to purchase at least one of the following percentages of acreage to be permanent easements on land enrolled in CREP.

- a. 25%
- b. 50%
- c. 75%
- d. 100%

Prepared by: Russ Kava