



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #677

### **Urban Nonpoint and Flood Control Funding (DNR -- Water Quality)**

[LFB 2001-03 Budget Summary: Page 487, #6]

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#### **CURRENT LAW**

The 1999-01 biennial budget (1999 Act 9) created a statutory urban nonpoint program. The purposes of the urban nonpoint program are to: (a) manage urban storm water discharge of pollutants and runoff from existing and developing urban areas to achieve water quality standards, minimize flooding and protect groundwater; (b) coordinate urban nonpoint source management activities and municipal storm water discharge permits; and (c) provide for implementation of urban nonpoint source performance standards. Under the urban nonpoint program, DNR may provide local assistance grants for technical staff and administration of up to 70% of eligible costs with a grant recipient match of at least 30%. DNR may provide cost-share grants for up to 50% of eligible costs with a grant recipient match of at least 50%.

1999 Act 9 also created a municipal flood control and riparian restoration program within the urban nonpoint program. The program provides financial assistance to cities, villages, towns or metropolitan sewerage districts for the collection and transmission of storm water and ground water. Grants may be used for facilities and structures, including the purchase of perpetual flowage and conservation easement rights on land within a flood way and flood proofing of public or private structures remaining in a 100-year flood plain. DNR may provide grants for up to 70% of eligible costs for construction and real estate acquisition for a DNR approved project. DNR may also provide municipal flood control and riparian restoration program local assistance grants for up to 70% of eligible costs, including planning and design costs.

#### **GOVERNOR**

Provide an increase in general obligation bonding authority of \$11,000,000 for cost-sharing grants under the urban nonpoint source water pollution abatement and municipal flood

control and riparian restoration programs. In addition, change the \$2,000,000 per year urban nonpoint appropriation (converted from SEG to GPR under the bill) from annual to biennial.

**DISCUSSION POINTS**

1. As shown in the following table, a total of \$17 million was available for urban nonpoint and municipal flood control and riparian restoration grants in 1999-01. The statutes do not specify how much of the \$17 million be spent on either the urban nonpoint source water pollution abatement or municipal flood control and riparian restoration programs. However, according to DNR \$1 million in bonding was set aside for projects under the municipal flood control and riparian restoration program.

**Urban Nonpoint and Municipal Flood Control Grant Funding**

**1999 Act 9**

<u>Source</u>	<u>1999-00</u>	<u>2000-01</u>
SEG	\$2,000,000	\$2,000,000
BR*	<u>13,000,000</u>	<u>0</u>
Total	\$15,000,000	\$2,000,000

**Governor's Recommendation**

<u>Source</u>	<u>2001-02</u>	<u>2002-03</u>
GPR	\$2,000,000	\$2,000,000
BR*	<u>11,000,000</u>	<u>0</u>
Total	\$13,000,000	\$2,000,000

\*Available in either year of the biennium

2. The Department is in the process of promulgating administrative rules to administer the municipal flood control and riparian restoration program. It is anticipated that final rules will be presented to the DNR Board on May 23 and, with approval, will be submitted to the Legislature for review. Thus, cities, villages, towns and metropolitan sewerage districts could expect to be able to

apply for these grants beginning in 2001-02.

3. Of the amounts provided under 1999 Act 9, as of April 25, 2001, the Department has spent \$1,111,800 SEG for urban local assistance grants. This includes expenditures of \$807,100 in 1999-00 and \$304,700 through April 25, 2001. Therefore, \$2,888,200 in available expenditure authority remains in this annual appropriation, including unspent encumbrances of \$1,094,700 remaining from 1999-00 encumbered amounts of \$1,192,900. However, DNR only has \$1,689,800 in current local assistance grant obligations to be paid in 2001 and 2002 and between another \$507,600 and \$280,200 reserved for projects in future biennia. The amount set aside for future obligations is dependent on how DNR allocates future local assistance funding. If DNR provides grants strictly for local assistance related to projects that are receiving cost-share funding, the Department would encumber up to \$280,200 of current funding for local assistance grants in future years. However, if the Department also chose to fund costs such as for staff training and information and education, the Department would encumber up to \$507,600 of current funding. Thus, between \$690,700 and \$918,100 would remain in the appropriation to lapse to the nonpoint account of the environmental fund after all urban local assistance grant commitments are met. A greater lapse would be realized if DNR allotted future biennia costs out of appropriations for those future years.

4. Of the amounts provided under 1999 Act 9, as of April 25, 2001, the Department has spent \$4,110,800 BR for urban nonpoint cost-share grants. Therefore, \$8,889,200 in bonding authority remains. DNR has up to \$6,155,000 in outstanding urban nonpoint cost-share grant obligations to be paid in future years. Thus, at least \$2,734,200 BR would remain available after all outstanding DNR urban cost-share grant commitments are met.

5. The Department hopes to use the balance of the SEG appropriation that is not needed for urban local assistance (staffing and administration) grant obligations to pay for bondable cost-share projects (land acquisition or installation of pollution abatement practices) to keep the appropriated SEG from lapsing back to the environmental fund. In addition, at least \$2.7 million currently remains in unobligated bonding authority. Thus, if DNR used available SEG monies of \$918,100 for bondable cost-share projects, an additional \$918,100 in bonding authority would be unobligated, for a total of \$3,652,300. Further, the bill requires the transfer of \$5.1 million from the environmental fund to the general fund. DOA officials indicate the intent is to transfer the June 30, 2001, balance remaining in the nonpoint account to the general fund. The estimated balance of the nonpoint account on June 30, 2001, after considering expenditure authority from continuing appropriations and encumbrances, is \$4.4 million. However, if the unobligated urban SEG lapsed back to the fund, the nonpoint account would have at least \$5,046,700 available to lapse to the general fund.

6. DNR has spent a total of \$15.8 million on urban nonpoint projects since July, 1996, including \$3.9 million in local assistance and \$11.9 million in cost-sharing grants, or about \$800,000 SEG and \$2.4 million BR annually. Some would argue that since biennial expenditures for urban nonpoint projects have historically been considerably lower than what is authorized under the bill, less funding may be needed for the program. Others would counter that since the \$15 million provided under the bill is to fund both urban nonpoint and flood control projects, funding

provided under the bill may be needed. After a May 1 postmark deadline, as of May 7, 2001, DNR had received applications requesting \$7.4 million for urban cost-sharing and \$1.0 million for urban local assistance grants in 2002 and 2003. It is uncertain how many of these projects will meet eligibility requirements.

7. Since the municipal flood control program has not yet begun to provide funding for projects, the Department is uncertain of actual need in this program. However, DNR officials point to a survey in which localities roughly estimated their desire for state flood control funding at approximately \$28.9 million (70% of the total need). Some areas reported projects they would like to conduct, but did not include funding estimates for these projects. Therefore, actual requests could be higher. However some projects may not gain the local support needed to provide the 30% match of funding and many other projects would not be ready for implementation in this biennium, thus the 2001-03 need may be considerably lower. In sum, it is difficult to estimate the amount of funding that may be requested under the program in 2001-03.

8. Because the Department has at least \$2.7 million of unobligated bonding authority currently available for projects in the 2001-03 biennium, the Committee may wish to provide \$8.3 million in additional bonding authority rather than \$11 million, so that a total of \$11 million BR would be available in 2001-03 for urban nonpoint and flood control projects.

9. However, since DNR anticipates requests for urban nonpoint and municipal flood control grants may be higher than provided under the bill, the Committee could consider providing the full \$11 million BR for cost-sharing grants (at least \$13.7 million would be available in the biennium). Further, in its budget request to the Governor, DNR asked for \$13 million in bonding authority specifically for urban nonpoint grants and \$15 million in bonding authority specifically for flood control projects. As passed by the Legislature, the 1999-01 budget would have provided \$13 million in bonding authority and \$1 million SEG annually for a separate municipal flood control and riparian restoration program and would have designated \$15 million in bonding authority and \$2 million SEG annually for urban cost-share grants. The Governor's veto made a total of \$13 million BR and \$2 million SEG currently available for the two programs together.

10. Given a 20-year flat repayment structure, it is estimated the debt service on the issuance of an additional \$11 million in bonding authority would be approximately \$880,000 annually.

11. While DNR set aside \$1 million for municipal flood control projects, since rules guiding the program have yet to be promulgated, no funding for the program has been granted. However, some have expressed concern that under both the bill and current law, DNR has discretion over how much funding is provided for municipal flood control and how much is spent for urban nonpoint projects. While DNR anticipates splitting available funding between the two programs equally, the Committee may wish to specify a maximum percentage of funding that can be allocated to a program, to ensure that one program does not use most of the available funding. However, it also could be argued that DNR should be allowed to provide funding based on where it sees the greatest need.

**ALTERNATIVES TO BASE**

1. Approve the Governor’s recommendation to:

a. Provide an increase in general obligation bonding authority of \$11,000,000 for cost-sharing grants under the urban nonpoint source water pollution abatement and municipal flood control and riparian restoration programs.

<u>Alternative 1a</u>	<u>BR</u>
<b>2001-03 FUNDING</b> (Change to Base)	\$11,000,000
<i>[Change to Bill]</i>	<i>[\$0]</i>

b. Change the \$2,000,000 per year urban nonpoint appropriation from annual to biennial.

2. Provide an increase in general obligation bonding authority of \$8,265,800 for cost-sharing grants under the urban nonpoint source water pollution abatement and municipal flood control and riparian restoration programs. (A total of at least \$11,000,000 would be available due to remaining bonding authority from the 1999-01 biennium.)

<u>Alternative 2</u>	<u>BR</u>
<b>2001-03 FUNDING</b> (Change to Base)	\$8,265,800
<i>[Change to Bill]</i>	<i>-\$2,734,200]</i>

3. Require that of the amount provided for local assistance and cost-share grants under the urban nonpoint source water pollution abatement and municipal flood control and riparian restoration programs, one of the following percentages biennially be allocated for the municipal flood control and riparian restoration program (based on all funding of \$17,734,200 under the bill, including \$4 million GPR, \$11 million in new bonding authority and \$2,734,200 in current unobligated bonding authority):

- a. at least 25% (a minimum of \$4,433,500 under the bill)
  - b. at least 33% (a minimum of \$5,852,300 under the bill)
  - c. at least 50% (a minimum of \$8,867,100 under the bill)
  - d. at least 66% (a minimum of \$11,704,600 under the bill)
  - e. at least 75% (a minimum of \$13,300,700 under the bill)
4. Maintain current law.

<b>Alternative 4</b>	<b>BR</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$0
<i>[Change to Bill</i>	<i>- \$11,000,000]</i>

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