



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 8, 2003

Joint Committee on Finance

Paper #529

Warren Knowles-Gaylord Nelson Stewardship 2000 Program (DNR -- Stewardship)

CURRENT LAW

The 1999-01 biennial budget act (1999 Act 9) provided \$460 million in bonding for a ten-year reauthorization of the Warren Knowles-Gaylord Nelson stewardship program beginning in 2000-01 for the purpose of acquiring land to expand recreational opportunities and protect environmentally sensitive areas. The annual bonding authority under the program was \$46 million, ending in fiscal year 2009-10. The 2001-03 biennial budget (2001 Act 16) increased the overall bonding authority to \$572 million and the annual bonding allocation from \$46 million to \$60 million beginning in 2002-03 (with \$45 million each year available for the land acquisition subprogram and \$15 million for property development and local assistance).

Currently, with the approval of the Natural Resources Board, the Joint Committee on Finance and the Governor, the Department can obligate up to the entire allocation under the land acquisition subprogram for large or uniquely valuable acquisitions. Funding of \$25 million has been utilized from the reauthorized program for the purchase of approximately 32,000 acres from Packaging Corporation of America in northern Wisconsin commonly referred to as the Great Addition. In addition, funding of \$13.5 million has been utilized for the first phase of a three-part \$25 million acquisition of 9,352 acres of land from Wisconsin Public Service Corporation for the Peshtigo River State Forest in Oconto and Marinette Counties.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The Natural Resources Board has approved an allocation plan for stewardship funding for fiscal year 2002-03. Of the \$45 million in the land acquisition subprogram this year, the Department will allocate \$37.75 million to DNR land purchases and \$7.25 million for non-profit conservation organizations (NCOs) grants. The allocation plan approved by the Board indicates that \$8.3 million of the Great Addition purchase (one-third of the purchase) and \$8.4 million for the Peshtigo River State Forest purchase would be applied against the 2002-03 land acquisition program allocation (leaving \$21.05 million for other DNR land purchases). Further, \$8 million is allocated for local assistance grants (the maximum allowed) and \$7 million for property development.

2. The state generally issues 20-year tax-exempt general obligation bonds to support stewardship purchases. Debt service for stewardship program bonding is primarily funded from a sum-sufficient, general-purpose revenue (GPR) appropriation in DNR. In addition, segregated funds from the conservation fund (primarily the forestry account) have been used to offset a portion of the GPR debt service costs beginning in fiscal year 1996-97. The following table shows state stewardship related debt service costs over the past seven years, estimates for 2002-03, and estimates for the 2003-05 biennium as included in SB 44. Costs did not increase significantly in 2001-02 primarily because of a state debt refinancing initiative to take advantage of lower interest rates and reduce short-term liabilities.

TABLE 1

Stewardship Bond Repayments

<u>Fiscal Year</u>	<u>SEG</u>	<u>GPR</u>	<u>Total</u>
1995-96		\$14,599,000	\$14,599,000
1996-97		16,034,000	16,034,000
1997-98	\$8,925,000	9,517,800	18,442,800
1998-99	8,925,000	10,130,100	19,055,100
1999-00	3,000,000	18,744,900	21,744,900
2000-01	3,000,000	21,334,700	24,334,700
2001-02	4,901,900	19,774,000	24,675,900
2002-03 ¹	8,400,000	22,533,000	30,933,000
2003-04 ^{1,2}	8,000,000	26,702,900	34,702,900
2004-05 ^{1,2}	8,000,000	30,162,700	38,162,700

¹Estimated.

²SB 44.

3. Since 1992, when DNR acquires land, the state pays aids in lieu of property taxes on the parcel to the city, village or town in which the land is located in an amount equal to the tax that

would be due on the estimated value of the property at the time it was purchased (generally the purchase price), adjusted annually to reflect changes in the equalized valuation of all land, excluding improvements, in the taxation district. The municipality then pays each taxing jurisdiction (including the county and school district) a proportionate share of the payment, based on its levy. Aids in lieu payments are made from a sum sufficient, GPR appropriation (\$3.9 million GPR in 2001-02 and estimated at over \$4.7 million GPR for 2002-03).

Level of Bonding Authorization

4. It has been argued that a reduction in the authorized level of stewardship bonding would decrease both state debt service payments and aids in lieu of property tax payments, both of which are primarily funded by GPR, below what has been anticipated for the biennium. Suggestions for how to accomplish this vary.

5. One possibility would be to reduce authorized bonding to its pre-Act 16 levels (\$46 million annually). This proposal would reduce total general obligation bonding authority for the Stewardship 2000 program by \$98 million to \$474 million (from \$572 million currently). If the annual authorized bonding authority for the stewardship program were reduced from \$60 million annually to \$46 million annually beginning in the 2003-04 fiscal year, subsequent bond issues related to stewardship acquisitions would decrease. Consequently, debt service costs would be reduced beginning in fiscal year 2003-04. Due to the timing of debt service payments and commitments of current stewardship funds, savings of approximately \$130,000 GPR in 2003-04 and \$920,000 GPR in 2004-05 could be expected. Savings would be expected to increase to \$2.2 million in 2005-06, and to reach a maximum GPR annual savings of around \$7.8 million in fiscal year 2010-11. The total reduction in debt service based on reducing bond issues by \$98 million would be roughly \$156 million over a 27-year period. Actual savings would depend on what the market conditions would have been at the time the bonds would have been issued under current law.

6. An additional consequence would be a savings in aids in lieu of property tax payments to local units of government. Because property does not become eligible for payments in lieu of taxes until the tax year after it is purchased, the first payments due on lands acquired during calendar year 2003 would not be made until January, 2005 (fiscal year 2004-05). If, under the reduction, the division of available bonding authority between subprograms was maintained as prior to Act 16, \$34.5 million (or 75% of available bonding authority) would be allocated for land acquisition and \$11.5 million would be allocated for property development and local assistance. Under this scenario, savings due to reduced aids in lieu of property taxes under the plan would be estimated at about \$85,000 in 2004-05. Savings would be expected to increase in future biennia, totaling up to \$255,000 in 2005-06, and \$415,000 in 2006-07. The following table illustrates the allotments to stewardship programs under this option.

TABLE 2**Stewardship Allotments for Authorized Bonding of \$46 Million Annually
(\$ in Millions)**

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Property Development	\$7.00	\$4.50	\$4.50	\$4.50
Local Assistance	<u>8.00</u>	<u>7.00</u>	<u>7.00</u>	<u>7.00</u>
Subtotal	\$15.00	\$11.50	\$11.50	\$11.50
DNR Land Acquisition	\$21.05	\$12.80	\$21.20	\$26.50
NCO Acquisition (estimated)	7.25	7.00	7.50	8.00
Great Addition Adjustment	8.30	6.40	0.00	0.00
Peshtigo River Adjustment	<u>8.40</u>	<u>8.30</u>	<u>5.80</u>	<u>0.00</u>
Subtotal	\$45.00	\$34.50	\$34.50	\$34.50
TOTAL	\$60.00	\$46.00	\$46.00	\$46.00

7. A second possibility would be to reduce authorized bonding to one-half of its current level (\$30 million annually). This proposal would reduce total general obligation bonding authority for the Stewardship 2000 program by \$210 million to \$362 million (from \$572 million currently). If the annual authorized bonding authority for the stewardship program were reduced from \$60 million annually to \$30 million annually beginning in 2003-04, subsequent bond issues related to stewardship acquisitions would decrease, generating savings in debt service payments of approximately \$280,000 GPR in 2003-04 and \$2.0 million GPR in 2004-05. Savings would be expected to increase to \$4.3 million in 2005-06, and to reach a maximum GPR annual savings of around \$16.7 million in fiscal year 2010-11. The total reduction in debt service based on reducing bond issues by \$210 million would be roughly \$334 million over a 27-year period. Again, actual savings would depend on what the market conditions would have been at the time the bonds would have been issued under current law.

8. Again, savings due to reduced aids in lieu of property tax payments would also be realized. If, under the reduction, the division of available bonding authority between subprograms was maintained, \$22.5 million (or 75% of available bonding authority) would be allocated for land acquisition and \$7.5 million would be allocated for property development and local assistance. Under this scenario, savings due to reduced aids in lieu of property taxes under the plan would be estimated at about \$150,000 in 2004-05. Savings would be expected to increase in future biennia, totaling up to \$445,000 in 2005-06, and to \$760,000 in 2006-07. The following table illustrates the allotments to stewardship programs under this option.

TABLE 3

**Stewardship Allotments for Authorized Bonding of \$30 Million Annually
(\$ in Millions)**

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Property Development	\$7.00	\$3.50	\$3.50	\$3.50
Local Assistance	<u>8.00</u>	<u>4.00</u>	<u>4.00</u>	<u>4.00</u>
Subtotal	\$15.00	\$7.50	\$7.50	\$7.50
DNR Land Acquisition	\$21.05	\$5.80	\$13.70	\$17.50
NCO Acquisition (estimated)	7.25	2.00	3.00	5.00
Great Addition Adjustment	8.30	6.40	0.00	0.00
Peshtigo River Adjustment	<u>8.40</u>	<u>8.30</u>	<u>5.80</u>	<u>0.00</u>
Subtotal	<u>\$45.00</u>	<u>\$22.50</u>	<u>\$22.50</u>	<u>\$22.50</u>
TOTAL	\$60.00	\$30.00	\$30.00	\$30.00

9. A third possibility would be to reduce authorized bonding to the level provided under the original stewardship program (\$23.1 million annually). This alternative would reduce total general obligation bonding authority for the Stewardship 2000 program to \$313.7 million (from \$572 million currently). If the annual authorized bonding authority for the stewardship program were reduced from \$60 million annually to \$23.1 million annually beginning in the 2003-04 fiscal year, subsequent bond issues related to stewardship acquisitions would decrease, generating savings in debt service payments of approximately \$345,000 GPR in 2003-04 and \$2.4 million GPR in 2004-05. Savings would be expected to increase to \$5.9 million in 2005-06, and to reach a maximum GPR annual savings of around \$20.6 million in fiscal year 2010-11. The total reduction in debt service based on reducing bond issues by \$258.3 million would be roughly \$412 million over a 23-year period. Again, actual savings would depend on what the market conditions would have been at the time the bonds would have been issued under current law.

10. Savings due to reduced aids in lieu of property tax payments would also be realized under this option. Under this reduction, \$16.1 million (or 70% of available bonding authority) could be allocated for land acquisition and \$7.0 million could be allocated for property development and local assistance. The current requirement that a minimum of \$3.5 million annually be provided for property development could be removed to provide additional grants under the local assistance subprogram. Under this scenario, savings due to reduced aids in lieu of property taxes under the plan would be estimated at about \$190,000 in 2004-05. Savings would be expected to increase in future biennia, totaling up to \$575,000 in 2005-06, and to \$970,000 in 2006-07. The following table illustrates the allotments to stewardship programs under this option.

TABLE 4

**Stewardship Allotments for Authorized Bonding of \$23.1 Million Annually
(\$ in Millions)**

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Property Development	\$7.00	\$3.00	\$3.00	\$3.00
Local Assistance	<u>8.00</u>	<u>4.00</u>	<u>4.00</u>	<u>4.00</u>
Subtotal	\$15.00	\$7.00	\$7.00	\$7.00
DNR Land Acquisition	\$21.05	\$1.00	\$9.00	\$13.10
NCO Acquisition (estimated)	7.25	0.40	1.30	3.00
Great Addition Adjustment	8.30	6.40	0.00	0.00
Peshtigo River Adjustment	<u>8.40</u>	<u>8.30</u>	<u>5.80</u>	<u>0.00</u>
Subtotal	<u>\$45.00</u>	<u>\$16.10</u>	<u>\$16.10</u>	<u>\$16.10</u>
TOTAL	\$60.00	\$23.10	\$23.10	\$23.10

Allocation of Bonding Authority Between Subprograms

11. Another alternative that could be considered, rather than reducing overall bonding authority, would be reducing the allocation provided for DNR land acquisition. This would be anticipated to generate savings in aids in lieu of property tax payments. Under the stewardship program, \$45 million of the \$60 million annual bonding authority is provided for land acquisition, either by the Department or as matching grants to non-profit conservation organizations to purchase land. The remaining \$15 million is allocated between property development and local assistance expenditures. It should be noted that cost estimates related to aids in lieu of property tax payments could be reduced by requiring DNR to reallocate some of its expenditure away from direct state acquisition and towards assisting partner organizations to acquire and manage the property through an increase in the availability of funds for matching grants to NCOs or to local units of government.

12. Under the local assistance subprogram, local units of government can apply for grants of up to 50% of eligible acquisition costs incurred for the purchase of property or easements. Funding obligated for local assistance may be used for: (a) grants for urban green space; (b) grants for local park aids; (c) grants for acquisition of property development rights; and (d) grants for urban rivers.

13. Under the local assistance subprogram, DNR awards a grant to the local unit of government to assist in the acquisition of property or easement. The local unit of government retains ownership of the parcel, relieving the state of the responsibility to pay aids in lieu of property taxes on the parcel. In addition, as owner, the local unit of government assumes responsibility for all

maintenance, upkeep, and development associated with the parcel. By increasing the amount allocated annually for local assistance grants, it could be argued that some goals of the stewardship program (such as the preservation of green space that may otherwise be lost to development) could be met at a reduced cost to the state (compared to direct acquisition by the Department).

14. Preservation of bonding authority for the stewardship program drew public commentary at several of the Joint Committee on Finance's public hearings on the budget bill, despite an absence of any proposal to reduce the program. The current stewardship program is an extension of the initial Warren Knowles-Gaylord Nelson Stewardship program first authorized in 1991. Funding for the reauthorized program under 1999 Act 9 was almost double what was provided under the original program (an increase from \$23.1 million annually to \$46 million). One reason given for increasing available bonding authority was the declining purchasing power of the program due to increasing property values, often driven by development pressure. Further, it is argued that rapidly escalating prices for conservation lands warrants a substantial state investment to permanently protect high-quality resources. Deferring purchase opportunities may mean some lands appropriate for state ownership will be developed or may not be affordable in the future. Annual bonding authority for the program was increased again under 2001 Act 16 (from \$46 million to \$60 million).

15. However, some public responses to the preservation of the stewardship program under the budget bill have drawn attention to the cost of acquiring, maintaining, and developing state land at a time when the overall fiscal health of the state is perceived as unstable. From this perspective, it may be desirable to consider the current allocation of bonding authority between acquisition of land by the department, acquisition of land by other organizations through matching grants, and available development funding in general.

16. Under the structure of the current program, any increase in bonding authority for matching grants to local units of government would be provided by allocating resources away from those currently used for DNR property development. From the perspective that increasing the amount of bonding available annually for local assistance grants (while maintaining land acquisition funds available for grants to NCOs) may allow DNR to achieve some of its conservation goals and priorities under the stewardship program at a reduced cost (in the form of ongoing maintenance and aids in lieu of property tax payments), it may be argued that additional funds should be allocated for this purpose directly from the allotment for DNR land acquisition (rather than requiring grants for local units of government to compete with property development demands for funding). If an additional \$5 million was transferred from the land acquisition program to local assistance grants, and at least \$8.5 million was made available for grants to NCOs in 2003-04, at least \$9.0 in 2004-05, and at least \$10 million annually thereafter, savings due to reduced payments of aids in lieu of property taxes could total \$50,000 in 2004-05, \$150,000 in 2005-06, and \$240,000 in 2006-07.

ALTERNATIVES

1. Reduce total general obligation bonding authority for the Stewardship 2000 program

to \$474 million (from \$572 million currently). Further, reduce annual bonding authorization levels from \$60 million to \$46 million, effective July 1, 2003. Of the amount authorized, \$34.5 million would be available for land acquisition, and \$11.5 million for property development and local assistance. In addition, delete \$130,000 GPR in 2003-04 and \$1,005,000 GPR in 2004-05 to reflect reestimated debt service and aids in lieu of property tax payments.

<u>Alternative 1</u>	<u>GPR</u>	<u>BR</u>
2003-05 REVENUE (Change to Bill)	\$0	- \$98,000,000
2003-05 FUNDING (Change to Bill)	- \$1,135,000	\$0

2. Reduce total general obligation bonding authority for the Stewardship 2000 program to \$362 million (from \$572 million currently). Further, reduce annual bonding authorization levels from \$60 million to \$30 million, effective July 1, 2003. Of the amount authorized, \$22.5 million would be available for land acquisition, and \$7.5 million for property development and local assistance. In addition, delete \$280,000 GPR in 2003-04 and \$2,150,000 GPR in 2004-05 to reflect reestimated debt service and aids in lieu of property tax payments.

<u>Alternative 2</u>	<u>GPR</u>	<u>BR</u>
2003-05 REVENUE (Change to Bill)	\$0	- \$210,000,000
2003-05 FUNDING (Change to Bill)	- \$2,430,000	\$0

3. Reduce total general obligation bonding authority for the Stewardship 2000 program to \$313.7 million (from \$572 million currently). Further, reduce annual bonding authorization levels from \$60 million to \$23.1 million, effective July 1, 2003. Of the amount authorized, \$17.3 million would be available for land acquisition, and \$5.8 million for property development and local assistance. In addition, delete \$345,000 GPR in 2003-04 and \$2,590,000 GPR in 2004-05 to reflect reestimated debt service and aids in lieu of property tax payments.

<u>Alternative 3</u>	<u>GPR</u>	<u>BR</u>
2003-05 REVENUE (Change to Bill)	\$0	- \$258,300,000
2003-05 FUNDING (Change to Bill)	- \$2,935,000	\$0

4. Maintain funding for the stewardship program at \$60 million annually (with a total bonding authority of \$572 million). Require DNR to provide at least \$13.0 million annually for local assistance grants and up to \$7.0 million for property development. Further, allocate \$40 million annually for the land acquisition program. Require DNR to provide at least \$8.5 million for grants to NCOs from available bonding authority under the land acquisition subprogram in 2003-04, at least \$9.0 million in 2004-05, and at least \$10 million annually thereafter. Savings of \$50,000 in 2004-05 would be realized from a reduction in aids in lieu of property tax payments.

Alternative 4	GPR
2003-05 FUNDING (Change to Bill)	- \$50,000

5. Maintain current law.

Prepared by: Rebecca Hotynski