



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #531

Shift Stewardship Debt Service to Forestry Account (DNR -- Forestry and Parks)

[LFB 2005-07 Budget Summary: Page 363, #1]

CURRENT LAW

The state generally issues 20-year tax exempt general obligation bonds to support stewardship purchases and grants. Debt service for stewardship bonding is primarily funded from a sum sufficient, general purpose revenue (GPR) appropriation in DNR. 1997 Act 27 created two additional appropriations to offset a portion of the GPR payment of stewardship debt service from the segregated conservation fund. Annual debt service payments of over \$8.9 million from the conservation fund (\$8.7 million from the forestry account and \$225,000 from the water resources account) were authorized in 1997-98 and 1998-99 for the payment of principal and interest related to the acquisition and development of state forests and recreational boating-related properties under the stewardship program. These appropriations sunset on June 30, 1999.

Under the Stewardship 2000 program, debt service is again funded from a sum sufficient, GPR appropriation in DNR. In addition, 1999 Act 9 shifted \$6 million SEG in debt service over the biennium (\$3 million for both 1999-00 and 2000-01) to the forestry account of the conservation fund. This shift was specified to be one-time only. Under 2001 Act 16, \$8 million in 2001-02 and \$4 million in 2002-03 was appropriated from the forestry account for debt service payments. Under 2003 Act 33, \$10 million in 2003-04 and \$10 million in 2004-05 was provided from the forestry account.

GOVERNOR

Provide \$20 million in 2005-06 and \$19.5 million annually beginning in 2006-07 from the forestry account to support debt service payments for the Warren Knowles-Gaylord Nelson Stewardship 2000 program.

DISCUSSION POINTS

1. Under current law, \$803 million in general obligation bonding has been authorized over a 20-year period (from 1990-91 to 2009-10) for the stewardship program. Total debt retirement payments over a period of 30 or more years are expected to approach \$1.3 billion. DNR debt service payments related to the stewardship and similar predecessor programs are expected to increase to \$43.9 million in 2005-06 and to \$47.9 million in 2006-07. While the majority of the debt service shown in the following table is related to the two stewardship programs, a portion of the payments are related to bonding mostly authorized prior to the creation of the first stewardship program for several similar recreational land acquisition programs and a local dam repair and removal grant program. Table 1 shows state stewardship related debt service costs since 1995-96. Costs did not increase significantly in 2001-02, declined in 2003-04, and are reduced from what would otherwise be expected in 2004-05 primarily because of state debt restructuring initiatives 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	8,400,000	19,187,700	27,587,700
2003-04	10,000,000	8,649,200	18,649,200
2004-05*	10,000,000	18,489,500	28,489,500
2005-06*	20,000,000	23,864,000	43,864,000
2006-07*	19,500,000	28,440,000	47,940,000

*Estimated.

2. As shown in the following table, the forestry account is anticipated to have a balance of over \$400,000 on June 30, 2007, under the bill.

TABLE 2

**Forestry Account Condition Under AB 100
(\$ in millions)**

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Opening Balance	\$16.21	\$11.32	\$2.76
Revenue	<u>91.62</u>	<u>98.47</u>	<u>106.49</u>
Total Available	\$107.83	\$109.79	\$109.25
Expenditures	\$75.25	\$85.41	\$85.95
Debt Service	<u>10.00</u>	<u>20.00</u>	<u>19.50</u>
Total Expenditures	\$85.25	\$105.41	\$105.45
Encumbrances/Reserves *	\$11.26	\$1.62	\$3.37
Closing Balance	\$11.32	\$2.76	\$0.43

*Includes continuing balances from assigned segregated revenue appropriations (such as recording fees, county severance, county severance loan payments, and closed acre payments in 2005-06 and 2006-07) and pay plan reserves.

3. The forestry account is largely funded (82% in fiscal year 2003-04) by revenues generated from the statewide forestry mill tax. This tax of 20¢ per \$1,000 of property value is collected with other property taxes. From the perspective that revenue to the forestry account is largely generated through a state-wide property tax, it may be reasonable to direct these funds to be used in place of GPR for debt service payments for state purchases of forested recreational lands. Further, the forestry account has been used on a "one-time" basis for the past eight years. Some would argue this use of funds should be made ongoing.

4. This would be the first biennium in which forestry account funding has not been used on a "one-time" basis to fund a portion of stewardship debt retirement costs. As a one-time appropriation, the SEG funding is not considered available for this purpose in future biennia unless it is again appropriated; rather, the sum sufficient GPR appropriation for debt retirement must pay these costs in the future. This practice has contributed to the structural deficit in the general fund under prior budgets. Providing forestry funding one biennium at a time has required deliberate action to maintain the payment of debt service and allowed for easier gubernatorial and legislative consideration of other forestry initiatives. An alternative would be to once again provide the payment on a one-time basis, allowing greater leeway in future budgets for forestry initiatives.

5. It could be argued that the stewardship program was funded with general obligation bonds to reflect the statewide recreational and conservation benefits of land purchases that were envisioned under the program regardless of the particular location or purpose of the purchase. Therefore, general fund support for the program was deemed appropriate. Shifting a portion of the debt service to the segregated conservation fund may be viewed by some as counter to the intent of the stewardship program.

ALTERNATIVES

1. Adopt the Governor's recommendation to provide \$20 million in 2005-06 and \$19.5 million annually beginning in 2006-07 from the forestry account to support debt service payments for the Warren Knowles-Gaylord Nelson Stewardship 2000 program.

2. Adopt the Governor's recommendation, however, specify that the payments would be one-time during the 2005-07 biennium.

3. Maintain current law.

<u>Alternative 3</u>	<u>GPR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	\$39,500,000	- \$39,500,000	\$0

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