



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #142

Nonpoint Source Program Bonding (DNR -- Environmental Quality)

[LFB 2015-17 Budget Summary: Page 323, #5 and 6]

CURRENT LAW

The Department of Natural Resources (DNR) administers several grant programs to prevent or reduce nonpoint source water pollution. The targeted runoff management (TRM) program provides financial assistance to projects addressing water quality concerns or impairments, primarily in rural or agricultural settings. TRM projects are funded mostly through general obligation bonding revenues (BR), the principal and interest payments on which are supported by the nonpoint account of the segregated (SEG) environmental fund. Additional program funds also come from federal funds (FED) under the Clean Water Act and state general purpose revenues (GPR). These sources also support a companion program to TRM that makes grants to animal feeding operations that have received a notice of discharge (NOD) or a notice of intent (NOI) to issue a notice of discharge for animal waste runoff that has entered state waters.

The urban nonpoint source and storm water management (UNPS) grant program provides financial assistance for planning or practices undertaken by urban municipalities, including those responsible for managing storm water discharges to waters of the state. The program is funded by a combination of nonpoint SEG-supported general obligation bonding and nonpoint SEG appropriations. The nonpoint SEG and bonding authority for the UNPS program each are shared with the DNR municipal flood control and riparian restoration (MFC) program, which provides municipalities with local assistance grants to conduct planning for flood control or mitigation projects, or grants to support acquisition and development activities. Acquisition and development activities may include: (a) property acquisition and removal; (b) floodproofing of structures; and (c) construction of facilities to collect, store, or convey water for flood control.

GOVERNOR

Provide \$7,000,000 in new general obligation bonding authority for TRM-NOD/NOI grants, and \$5,000,000 for UNPS-MFC grants.

DISCUSSION POINTS

1. The following table shows the additional amounts that have been provided to DNR for the TRM-NOD/NOI and UNPS-MFC bonding authorizations since the 2007-09 biennium. (Also included are amounts authorized in 2007-09 for priority watersheds, a nonpoint grant program that has since expired.) The bonding amounts recommended by the Governor for 2015-17 would be in line with amounts provided in the preceding biennia for the programs.

Nonpoint Program New Bonding Authorizations

| | <u>2007-09</u> | <u>2009-11</u> | <u>2011-13</u> | <u>2013-15</u> | <u>2015-17</u> |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
| Targeted runoff management | \$7,000,000 | \$7,000,000 | \$7,000,000 | \$7,000,000 | \$7,000,000 |
| Priority watersheds | 5,000,000 | 0 | 0 | 0 | 0 |
| Urban nonpoint-municipal flood | <u>6,000,000</u> | <u>6,000,000</u> | <u>6,000,000</u> | <u>5,000,000</u> | <u>5,000,000</u> |
| Total Available | \$18,000,000 | \$13,000,000 | \$13,000,000 | \$12,000,000 | \$12,000,000 |

2. In general, new bonding authority allows DNR to commit funding to new projects, which are completed over generally two- to three-year terms. State payments are made on a reimbursement basis. DNR reports it expects to begin the 2015-17 biennium with unobligated bonding authority of approximately \$1.1 million for the TRM-NOD/NOI programs and \$2.0 million for the UNPS-MFC programs, which would be available to commit to future projects.

3. TRM grants are issued in approximately equal amounts each year of a biennium. NOD/NOI grants are awarded from a reserve established for the calendar year, and DNR awards NOD/NOI grants in up to four grant cycles each year. MFC grants are issued once each biennium, and bonds issued for UNPS and MFC grants may vary annually and with available nonpoint SEG funding. However, average annual bond revenues expended for each program have been approximately equal in the last five full fiscal years.

4. The uses of bond proceeds for water pollution-abatement programs are restricted by provisions of the Wisconsin Constitution; such funds are largely restricted to use on structural improvements that would benefit state waters. Such practices may typically include: (a) stream bank restorations or facilities for manure storage under the TRM or NOD/NOI programs; (b) storm water detention ponds or infiltration systems under the UNPS program; and (c) structure flood-proofing, detention ponds or riparian improvements such as dam removal under the MFC program. The programs' bond proceeds also may fund acquisition of property or easements in some instances. In general, projects under the TRM, NOD/NOI, MFC and UNPS planning grants require a recipient match of at least 30% against the typical state maximum cost-share rate of 70%. UNPS construction

projects require at least a 50% match on up to 50% state funding. Certain maximum grant amounts also may apply.

5. The bill would reduce appropriations for TRM grants by \$200,000 GPR each year and appropriations for UNPS-MFC grants by \$813,200 nonpoint SEG each year. Without additional bonding authority, remaining funding for TRM and NOD/NOI grants likely would consist of federal grants to states under the Clean Water Act for nonpoint source pollution abatement. DNR allocated approximately \$1.8 million of these funds for TRM and NOD/NOI grants in the 2013-15 biennium. This funding varies, but it is not expected to increase in the future. Without additional bonding authority for UNPS-MFC grants, remaining funding for the programs under the bill would be \$1,000,000 nonpoint SEG over the biennium. In the absence of additional bonding authority, DNR would offer significantly less grant funding in 2015-17. (Other DNR nonpoint grant and contract appropriations are discussed in a separate budget paper.)

6. Assuming new bonds are issued with 20-year terms, principal and interest payments (debt service) on \$12 million in new debt would total approximately \$17 million over the life of the bonds, depending on interest rates at the time of issuance. Annual debt service would average approximately \$855,000 once all bonds are issued. Debt service on the bonds is paid from nonpoint SEG. However, overall nonpoint-related debt service is not expected to change substantially during the 2015-17 biennium. New bond issues are expected to be largely offset by debt service reductions for the former priority watershed program, as the bonds issued for this program are retired.

7. The Committee could adopt the Governor's recommendation [Alternative 1]. New bonding authority for the programs under the bill would be consistent with authorizations in recent biennia for DNR nonpoint source pollution abatement grants. Consideration also could be given to reducing the Governor's recommendation by the amounts available under each program. This would provide \$5,900,000 for the TRM-NOD/NOI bonding authority and \$3,000,000 for the UNPS-MFC bonding authority [Alternative 2]. Either alternative would allow DNR to continue offering annual grants at or near levels customary for the programs.

8. Deleting the Governor's recommendation would reduce bond issuance and future debt service obligations, which are currently supported by nonpoint SEG [Alternative 3]. However, with available bonding authority at \$1.1 million for the TRM programs and \$2.0 million for the UNPS-MFC programs, reductions in available DNR grant funding would be significant during 2015-17, which may slow or impair local land and water conservation projects.

ALTERNATIVES

1. Adopt the Governor's recommendation to provide \$7,000,000 in additional bonding authority for the targeted runoff management program and \$5,000,000 for the urban nonpoint source and storm water management and municipal flood control and riparian restoration programs.

2. Modify the Governor's recommendation in one or both of the following ways:

- a. Provide \$5,900,000 in bonding authority for the TRM-NOD/NOI programs; or

| ALT 2a | Change to Bill |
|---------------|-----------------------|
| BR | - \$1,100,000 |

- b. Provide \$3,000,000 in bonding authority for the UNPS-MFC programs.

| ALT 2b | Change to Bill |
|---------------|-----------------------|
| BR | - \$2,000,000 |

3. Delete one or both of the following:

- a. \$7,000,000 for TRM program bonding; or

| ALT 3a | Change to Bill |
|---------------|-----------------------|
| BR | - \$7,000,000 |

- b. \$5,000,000 for UNPS-MFC bonding.

| ALT 3b | Change to Bill |
|---------------|-----------------------|
| BR | - \$5,000,000 |

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