



## Legislative Fiscal Bureau

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2017

Joint Committee on Finance

Paper #477

### **Transfer Revenue from Environmental Management to Nonpoint Account, and Nonpoint Account Transfer Reduction (Natural Resources – Environmental Quality and Miscellaneous Appropriations)**

[LFB 2017-19 Budget Summary: Page 322, #5 (part); Page 332, #3; and Page 307, #4]

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#### **CURRENT LAW**

The segregated (SEG) environmental fund consists of the environmental management account and the nonpoint account. The two accounts are statutorily designated as one fund but are tracked separately for budgetary purposes. Both accounts rely heavily on revenues from several state solid waste tipping fees. The nonpoint account also receives revenue from a sum-certain general purpose revenue (GPR) transfer under "Miscellaneous Appropriations" with base funding of \$11,143,600 annually. A separate budget paper #475 entitled "Environmental Fund Overview" describes revenues and expenditures under the two accounts.

#### **GOVERNOR**

Reduce the sum-certain GPR transfer to the nonpoint account of the environmental fund by \$3,152,500 GPR annually. Offset the GPR reduction by transferring \$3,152,500 in each of 2017-18 and 2018-19 from the environmental management account to the nonpoint account, on a one-time basis. Specify that the funds be considered to be received by the nonpoint account for debt service payments on projects funded under the Department of Natural Resources' (DNR) rural and urban nonpoint source pollution abatement grant programs.

#### **DISCUSSION POINTS**

1. The bill specifies that the transferred funds be used for debt service related to DNR rural and urban nonpoint source pollution abatement grant programs because the statutes do not

differentiate the two accounts. The administration indicates it chose to include \$3,152,500 as the amount in the bill because it is the budgeted amount of debt service expenditures for urban nonpoint source grants in 2016-17.

2. Under the bill, it is estimated the environmental management account will have a June 30, 2019, available balance of \$9.3 million, including Committee action through May 25, 2017. Thus, it is expected there would be sufficient revenues to make the one-time transfers to the nonpoint account as recommended under the bill. In addition, it is anticipated the environmental management account will have ongoing revenues that exceed ongoing expenditures, that is, it will be in a positive structural balance during the biennium. While the nonpoint account would be in a structural deficit under the bill, account balances are sufficient to sustain anticipated expenditures during the biennium. The nonpoint account is estimated to have a June 30, 2019, available balance of \$3.1 million under the bill.

3. The administration intends for the provision to spend the atypically large environmental management account balance and preserve GPR for other programs. It could be argued that the transfer from the environmental management account to the nonpoint account is a reasonable use of high balances in the same segregated fund to reduce these programs' dependence on GPR. This rationale is consistent with actions taken in previous biennia to support nonpoint SEG-funded programs, including instances in which budget acts made reductions in GPR appropriations for nonpoint programs. For example, transfers from the environmental management account of \$650,000 in 2013-14 and \$1,300,000 in 2014-15 were intended in part to support additional nonpoint SEG for county land and water conservation staffing grants, as GPR for the same purpose was reduced during the biennium. Given recent practice, the Committee could consider adopting the Governor's proposal [Alternative 1].

4. The transfer from the environmental management account to the nonpoint account is intended to offset the reduction in the GPR transfer to the nonpoint account. However, the environmental management transfer would be made on a one-time basis during the biennium, and the reduction in the GPR transfer would be made on an ongoing basis. Thus, the nonpoint account is expected to have adjusted base expenditures that exceed revenues by approximately \$4.4 million annually during the 2019-21 biennium.

5. The table below outlines May, 2017, estimated principal and interest payments on environmental fund SEG-supported general obligation bonding. Relative to the bill, reestimates would reduce budgeted expenditures on debt service in the environmental management account by \$48,000 over the biennium, and in the nonpoint account by \$682,400 over the biennium. The modification would adopt this change.

## Environmental Fund Debt Service Reestimate

	2017-18 <u>Governor</u>	2017-18 <u>Estimate</u>	2017-18 <u>Change</u>	2018-19 <u>Governor</u>	2018-19 <u>Estimate</u>	2018-19 <u>Change</u>	Total Biennial <u>Change</u>
Environmental Cleanup – EM	\$2,695,800	\$2,688,200	-\$7,600	\$2,640,000	\$2,642,400	\$2,400	-\$5,200
Contaminated Sediment Cleanup – EM	1,971,800	1,940,800	-31,000	2,011,400	2,012,100	700	-30,300
Pollution Abatement – EM	6,146,900	6,146,900	0	7,046,900	7,046,900	0	0
Administrative Facilities – EM	700,800	694,600	-6,200	732,000	725,700	-6,300	-12,500
Administrative Facilities – NP	105,700	104,700	-1,000	110,300	109,400	-900	-1,900
Priority Watersheds – NP	6,242,600	6,211,500	-31,100	5,741,700	5,796,800	55,100	24,000
Rural Nonpoint – NP	2,551,000	2,329,400	-221,600	2,709,600	2,492,700	-216,900	-438,500
Urban Nonpoint – NP	3,415,600	3,280,000	-135,600	3,573,500	3,464,800	-108,700	-244,300
DATCP Nonpoint – NP	<u>4,309,100</u>	<u>4,234,900</u>	<u>-74,200</u>	<u>4,516,500</u>	<u>4,569,000</u>	<u>52,500</u>	<u>-21,700</u>
Total	\$28,139,300	\$27,631,000	-\$508,300	\$29,081,900	\$28,859,800	-\$222,100	-\$730,400

EM: Environmental management account

NP: Nonpoint account

6. The administration indicates it recommended the offset of the GPR reduction with the environmental management account transfer on a one-time basis because it is not confident environmental management revenues would continue to provide a surplus in the long-term. Given the uncertainty in future environmental fund balances, the Committee could consider modifying the Governor's proposal to provide that the GPR reduction also be on a one-time basis. This would reduce the GPR transfer in the 2017-19 biennium, while also providing for continued base funding in the future [Alternative 5].

7. Conversely, the Committee could consider modifying the Governor's proposal to provide that environmental management account funds also be transferred on an ongoing basis, rather than one-time [Alternative 2]. Another way of providing an ongoing transfer of revenue from the environmental management to the nonpoint account would be to increase the nonpoint tipping fee for municipal and non-high-volume industrial waste and decrease the environmental repair tipping fee deposited in the environmental management account by the same amount. This would not change the total amount per ton of solid waste tipping fees deposited in the environmental fund, but would change the statutory amount of the fee deposited in each of the two accounts. If the environmental repair tipping fee for municipal solid waste and non-high-volume industrial waste were decreased by \$0.60 per ton, from \$2.50 to \$1.90 per ton, effective for fees assessed in the spring of 2018 for calendar year 2017 waste disposed of in landfills, the nonpoint tipping fee could be increased by \$0.60 per ton, from \$3.20 to \$3.80 per ton. This would decrease environmental management account revenue by approximately \$6,150,000 during the 2017-19 biennium (\$3,060,000 in 2017-18 and \$3,090,000 in 2018-19) and increase nonpoint account revenue by the same amount [Alternative 3]. It is anticipated that the ongoing annualized revenue change in the two accounts would be similar to the 2018-19 amount. However, if adoption of Alternatives 2 or 3 were to eliminate the structural balance of the environmental management account, any permanent transfer may warrant reconsideration during 2019-21 budget deliberations.

8. In fiscal years 2013-14 through 2016-17, the GPR transfer to the nonpoint account was

budgeted at \$11,143,600 annually, and it has exceeded \$10.5 million each year since 1997-98. The GPR transfer originated from an automobile title transfer fee deposited into the nonpoint account. At the time, the fee was chosen in recognition of nonpoint source water pollution attributable to the state's transportation infrastructure and vehicle operation. In 1997, statutory changes required the fee be deposited into the transportation fund, and it was replaced with a GPR transfer equal to collected fees. The 2007-09 biennial budget act later established a sum-certain GPR transfer consistent with historical amounts of title fee transfer revenue. It could be argued that the GPR transfer remains an appropriate mechanism to fund nonpoint source pollution abatement, given that general fund revenues are received from diverse sources and nonpoint source pollution is attributable to a wide variety of activities.

9. Some may suggest that the environmental management balance should be used for contaminated land cleanup programs or to increase recycling grants to local governments rather than reallocating that account balance to use for nonpoint programs. For example, some have argued that a higher percentage of the \$7.00 per ton recycling tipping fee should be used to increase state financial assistance for local recycling programs closer to the levels exceeding \$24 million during 1993 through 2011. Others have argued that the state should increase funds spent from the environmental management account for cleanup of brownfields and other contaminated properties where there is no responsible party able to clean up the property, and to assist local governments in undertaking such projects as part of economic redevelopment projects.

10. Given the rationale for current funding sources to each account, the Committee could consider deleting the Governor's proposal to reduce the GPR transfer to the nonpoint account and associated transfer from the environmental management account [Alternative 6].

11. The Committee could also consider providing funding to the nonpoint account with a transfer from the segregated agrichemical management fund (ACM) or agricultural chemical cleanup program fund (ACCP). The funds are supported by various fees and surcharges, collected by the Department of Agriculture, Trade and Consumer Protection (DATCP), on agricultural chemicals and commercial feed manufactured, distributed, or sold in Wisconsin. The ACM provides funding for administration of DATCP agrichemical programs, including environmental quality programs related to groundwater. The ACCP provides reimbursement grants to eligible farms and businesses that remediate sites contaminated with fertilizers or pesticides. During the 2015-17 biennium, the ACCP provided transfers of \$1,000,000 annually to the nonpoint account.

12. While the bill provides a number of changes to agrichemical licenses and surcharges, both funds are expected to maintain significant balances during the next biennium. Under the bill, it is estimated that the ACM would have a balance of \$8.3 million and the ACCP would have a balance of \$5.3 million on June 30, 2019. While both funds have considerable balances, changes to the fee structure are anticipated to reduce or eliminate structural surpluses in the accounts in the coming biennium; thus, an ongoing transfer would not be sustainable if such provisions were enacted.

13. DATCP officials and others have argued in the past against transferring or appropriating ACCP and ACM SEG for purposes other than DATCP agrichemical programs. Supporters of this position argue that fees and surcharges are assessed to cover costs related to

administration and regulation of the industry, as well as reimbursing cleanups related to agrichemicals. Fee payers see fees as acceptable because money paid into the funds is provided for programs that directly benefit contributors.

14. Farmers contribute to the ACCP and ACM, primarily as pass-through fees on pesticides and fertilizer. It could be argued fees and surcharges deposited into the ACCP and ACM are appropriate funding sources for the nonpoint account because they match contributors with beneficiaries and have similar program goals. Nonpoint SEG-supported programs support agricultural operations through funding for county conservation staff and cost-sharing of best practices, which provide support to farmers. Further, these activities seek to limit the impact of nonpoint source runoff from improperly applied or insufficiently contained synthetic fertilizers and animal manure. While the inputs to nonpoint-related runoff are assessed fertilizer tonnage and commercial feed inspection fees that are deposited into the ACCP and ACM, their impacts are in part addressed by nonpoint programs. If the Committee wished to match funding sources for nonpoint programs to their beneficiaries, it could consider providing ACCP and ACM SEG to the nonpoint account on a one-time basis during the 2017-19 biennium, instead of environmental management account SEG [Alternative 4].

## MODIFICATION

Reestimate principal and interest payments on environmental management account SEG-supported general obligation bonding by -\$48,000 over the biennium, and nonpoint account SEG-supported general obligation bonding by -\$682,400 over the biennium.

**Explanation:** These changes would update the bill to reflect May, 2017, debt reestimates.

	Change to	
	Base	Bill
SEG (EM)	- \$48,000	- \$48,000
SEG (NP)	<u>- 682,400</u>	<u>- 682,400</u>
Total	- \$730,400	- \$730,400

## ALTERNATIVES

1. Approve the Governor's recommendations to: (a) reduce the GPR transfer to the nonpoint account by \$3,152,500 GPR annually; (b) transfer \$3,152,500 from the environmental management account to the nonpoint account in each of 2017-18 and 2018-19, on a one-time basis; and (c) specify that the funds be considered to be received by the nonpoint account for debt service payments on projects funded under DNR's current rural and urban nonpoint source pollution abatement grant program.

ALT 1	Change to	
	Base	Bill
GPR	- \$6,305,000	\$0
SEG-REV	- \$6,305,000	\$0

2. Approve the Governor's proposal, as modified to provide that the transfer of \$3,152,500 annually from the environmental management account to the nonpoint account be ongoing, rather than one-time.

ALT 2	Change to	
	Base	Bill
GPR	- \$6,305,000	\$0
SEG-REV	- \$6,305,000	\$0

3. Approve the Governor's recommendation to reduce the GPR transfer to the nonpoint account by \$3,152,500 annually during the 2017-19 biennium. In addition, decrease the environmental repair tipping fee for municipal solid waste and other non-high-volume industrial waste by \$0.60 per ton, and increase the nonpoint tipping fee by \$0.60 per ton, on an ongoing basis effective with tipping fees assessed in 2018 for the calendar year 2017 wastes disposed of in Wisconsin landfills. (This alternative would be expected to decrease environmental management account revenue by \$6,150,000 during the biennium, including \$3,060,000 in 2017-18 and \$3,090,000 in 2018-19, while increasing nonpoint account revenue by the same amounts.)

ALT 3	Change to	
	Base	Bill
GPR	- \$6,305,000	\$0
SEG-REV	- \$6,305,000	\$0

4. Approve the Governor's recommendation to reduce the GPR transfer to the nonpoint account by \$3,152,500 annually during the 2017-19 biennium. Delete the transfer from the environmental management account to the nonpoint account. Further, transfer \$1,500,000 ACCP SEG and \$1,652,500 ACM SEG annually during the biennium to the nonpoint account of the environmental fund on a one-time basis.

ALT 4	Change to	
	Base	Bill
GPR	- \$6,305,000	\$0
SEG-REV	- \$6,305,000	\$0

5. Approve Alternative 1 or 4. In addition, direct the Department of Administration, for purposes of preparing the 2019-21 biennial budget, to establish as the adjusted base amount a GPR transfer of \$11,143,600 each year to the nonpoint account. (This alternative would provide that the GPR transfer reduction be one-time during the 2017-19 biennium.)

6. Maintain current law.

<b>ALT 6</b>	<b>Change to</b>	
	<b>Base</b>	<b>Bill</b>
GPR	\$0	\$6,305,000
SEG-REV	\$0	\$6,305,000

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