



Legislative Fiscal Bureau

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2017

Joint Committee on Finance

Paper #479

Nonpoint Source Program Bonding (Natural Resources – Environmental Quality)

[LFB 2017-19 Budget Summary: Page 333, #6 and Page 334, #7]

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 by the nonpoint account of the segregated (SEG) environmental fund, including general obligation bonding revenues (BR), for which the principal and interest payments are supported by nonpoint SEG. Additional program funds also come from federal funds (FED) under the Clean Water Act. 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 with 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 \$5,900,000 in new general obligation bonding authority for TRM-NOD/NOI grants, and \$3,000,000 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 2009-11 biennium. During the previous biennial budget, DNR reported unallocated bonding authority of \$1.1 million for TRM-NOD/NOI grants, and \$2 million for the UNPS-MFC grants. The Legislature reduced bonding authority with the intention of utilizing unspent authority, but maintaining overall bond-funded grant capacity of \$7 million for TRM-NOD/NOI grants and \$5 million for UNPS-MFC grants during the biennium. The bonding amounts recommended by the Governor for 2017-19 would match levels provided under 2015 Act 55, but would be lower than provided in most preceding biennia for these programs.

Nonpoint Program New Bonding Authorizations

	<u>2009-11</u>	<u>2011-13</u>	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19 (Bill)</u>
Targeted runoff management	\$7,000,000	\$7,000,000	\$7,000,000	\$5,900,000	\$5,900,000
Urban nonpoint-municipal flood	<u>6,000,000</u>	<u>6,000,000</u>	<u>5,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>
Total Available	\$13,000,000	\$13,000,000	\$12,000,000	\$8,900,000	\$8,900,000

2. State funding for DNR nonpoint source pollution abatement programs is provided mostly through general obligation bonding. 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. 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. Beginning in 2017, UNPS grants will alternate between planning grants (SEG-funded) and construction grants (primarily BR-funded), with planning grants awarded for even-numbered years and construction grants awarded for odd-numbered years.

3. The use of bond proceeds for water pollution abatement programs is 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 floodproofing, 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, TRM and NOD/NOI projects require a recipient match of at least 30% against the typical

state cost-share rate of 70%. MFC and UNPS grants require at least a 50% match on up to 50% state funding. Certain maximum grant amounts also may apply.

4. Assuming new bonds are issued with 20-year terms, principal and interest payments (debt service) on \$8.9 million is estimated to total \$14.3 million over the life of the bonds, dependent on interest rates at the time of issuance. Annual debt service would average \$715,000 once all bonds are issued. Debt service on the bonds is paid from nonpoint SEG.

5. The Governor's recommendation would maintain the amounts authorized in the previous budget, but new authority combined with available uncommitted amounts would not reach the respective \$7 million and \$5 million capacity sought for the TRM-NOD/NOI and UNPS-MFC authorizations under 2015 Act 55. Approximately \$850,000 in bonding remains available for TRM-NOD/NOI grants. Combined with the Governor's proposal, \$6,750,000 would be available for TRM-NOD/NOI grants during the next biennium. For the UNPS-MFC program, approximately \$1.3 million in bonding remains uncommitted. Combined with the Governor's proposal, the total available for UNPS-MFC grants during the next biennium would be \$4.3 million.

6. The Committee could choose to adopt the Governor's recommendation [Alternative 1]. This would result in total available bonding authority, including previously unspent authority, of \$6,750,000 for TRM-NOD/NOI grants, and \$4,300,000 for UNPS-MFC grants.

7. The Committee could choose to reduce the Governor's recommendation by the currently available bonding amounts for total available bonding authority of: (a) \$5.9 million for TRM-NOD/NOI grants, consisting of \$850,000 in currently available bonding and \$5,050,000 in newly authorized bonding; and (b) \$3 million for UNPS-MFC grants, consisting of \$1,300,000 in currently available bonding and \$1,700,000 in newly authorized bonding [Alternatives 2a and 2b].

8. On the other hand, the Committee could choose to provide bonding authority of \$250,000 for TRM-NOD/NOI grants and \$700,000 for UNPS-MFC grants, in addition to the Governor's proposal [Alternatives 3a and 3b]. One or both alternatives would allow DNR to continue offering annual grants at or near levels customary for the programs, with available bonding authority of \$7,000,000 for TRM-NOD/NOI grants and \$5 million for UNPS-MFC grants.

9. It should be noted that requested funding for TRM grants exceeded funding by approximately \$1 million in the most recent grant cycle. Although UNPS grants were fully funded during the 2017 grant cycle, other recent annual construction grant requests under the program have exceeded available funding. UNPS grants have shifted to a biennial cycle, rather than yearly, citing limited funding. Given concerns about requested funding exceeding allocations, the Committee could choose to provide additional bonding authority of \$7,000,000 for TRM-NOD/NOI grants and \$5,000,000 for UNPS-MFC grants, as was typically provided prior to 2015 Act 55 [Alternative 4].

10. Deleting the Governor's recommendation would reduce bond issuance and future debt service obligations, which are currently supported by nonpoint SEG [Alternatives 5a and 5b]. However, with available bonding authority at \$850,000 for TRM-NOD/NOI grants and \$1.3 million for UNPS-MFC grants, reductions in available DNR grant funding would be significant during 2017-19, which may slow or impair local land and water conservation projects.

ALTERNATIVES

1. Adopt the Governor's recommendation to provide \$5,900,000 in additional bonding authority for the targeted runoff management program and \$3,000,000 for the urban nonpoint source and storm water management, and municipal flood control and riparian restoration programs.

ALT 1	Change to	
	Base	Bill
BR	\$8,900,000	\$0

2. Modify the Governor's recommendation in one or both of the following ways, to reduce additional bonding authority combined with unspent authority, such that total available bonding authority is equal to the Governor's recommendation:

a. Provide \$5,050,000 in bonding authority for TRM-NOD/NOI programs, for an estimated total available bonding authority of \$5.9 million; or

ALT 2a	Change to	
	Base	Bill
BR	\$5,050,000	- \$850,000

b. Provide \$1,700,000 in bonding authority for UNPS-MFC programs, for an estimated total available bonding authority of \$3,000,000.

ALT 2b	Change to	
	Base	Bill
BR	\$1,700,000	- \$1,300,000

3. Modify the Governor's recommendation in one or both of the following ways, to provide additional bonding authority, combined with unspent authority, such that total available bonding authority is equal to customary program levels:

a. Provide \$6,150,000 in bonding authority for TRM-NOD/NOI programs, for an estimated total available bonding authority of \$7,000,000; or

ALT 3a	Change to	
	Base	Bill
BR	\$6,150,000	\$250,000

b. Provide \$3,700,000 in bonding authority for UNPS-MFC programs, for an estimated total available bonding authority of \$5,000,000.

ALT 3b	Change to Base	Bill
BR	\$3,700,000	\$700,000

4. Provide bonding authority of \$7,000,000 for TRM-NOD/NOI programs and \$5,000,000 for UNPS-MFC programs.

ALT 4	Change to Base	Bill
BR	\$12,000,000	\$3,100,000

5. Delete one or both of the following proposed new bonding authorizations:

a. \$5,900,000 for TRM program bonding.

ALT 5a	Change to Base	Bill
BR	\$0	-\$5,900,000

b. \$3,000,000 for UNPS-MFC bonding.

ALT 5b	Change to Base	Bill
BR	\$0	-\$3,000,000

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