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Joint Committee on Finance

Paper #615

Rural Nonpoint Source Water Pollution Abatement (Natural Resources -- Water Quality)

[LFB 2023-25 Budget Summary: Page 468, #17 and 18]

CURRENT LAW

The Department of Natural Resources (DNR) administers several grant programs to reduce or prevent 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), with debt service supported by the nonpoint account of the segregated (SEG) environmental fund. Additional program funds also come from nonpoint SEG and federal (FED) funds under Section 319 of the Clean Water Act.

In 2021-23, \$6,500,000 in SEG-supported general obligation bonding for rural nonpoint source water pollution abatement grants is provided to support the TRM program. Bonding amounts are used for the required 70% state cost-share for the installation of structures in rural settings to improve water quality by preventing soil erosion and animal waste runoff. Bonding also support grants under a companion program to TRM, which makes grants to animal feeding operations that have received a notice of discharge (NOD) or notice of intent (NOI) to issue a notice of discharge for animal waste runoff that has entered state waters.

The Wisconsin Constitution requires bonds be used for permanent improvements that benefit the state's waters. Therefore, practices such as cover cropping, nutrient management planning, strip cropping, pesticide management, residue management, and lake sediment treatment cannot be supported by bonding. In each biennia since 2017-19, an additional \$100,000 nonpoint SEG on an ongoing basis has been provided for TRM grants to support implementation of these types of "soft" practices.

DISCUSSION POINTS

Nonpoint SEG-Supported Bonding

1. 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. 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. 2021 Act 58 provided \$6,500,000 in SEG-supported general obligation bonding for rural nonpoint source water pollution abatement grants.

2. Assembly Bill 43/Senate Bill 70 would provide \$10 million in SEG-supported general obligation bonding for rural nonpoint source water pollution abatement grants. DNR reports that demand has been high for TRM grants and in the last two grant cycles, 53% of requests were awarded. Table 1 shows the total number of TRM grant applications submitted, total requested funding, and the percent of total requested funding awarded since 2010. DNR notes that the change in demand seen from 2016 to 2020 is likely attributed to a downturn in the agricultural economy and the beginning of the COVID-19 pandemic.

TABLE 1

Targeted Runoff Management Awards

<u>Calendar Year</u>	<u>Grant Application Received</u>	<u>Total Requested Funding</u>	<u>Total Awarded Funding</u>	<u>Percent of Demand Met</u>
2010	64	\$6,448,868	\$5,159,094	80%
2011	63	6,869,945	4,602,863	67
2012	46	8,365,250	5,019,150	60
2013	38	5,802,029	4,873,704	84
2014	41	5,972,704	3,583,622	60
2015	38	7,501,893	2,700,681	36
2016	28	4,217,727	2,994,586	71
2017	25	4,849,852	3,879,882	80
2018	26	3,836,985	3,836,985	100
2019	15	3,800,077	3,686,075	97
2020	7	2,697,610	2,697,610	100
2021	37	9,868,350	5,230,226	53
2022	29	7,337,329	3,888,784	53

3. Table 2 shows the total number of NOD grant applications submitted, total awarded funding, and the percent of demand met since 2010. In 2023, DNR has allocated \$1 million of available bonding authority for NOD grants. DNR reports that the change in demand for NOD grants in 2020 and 2021 can be attributed to effects of the COVID-19 pandemic, similarly to TRM, as fewer

state and county staff were able to perform inspections to detect discharges of agricultural waste. DNR reports that in addition to potential increasing demand in the future, the increasing cost of construction has reduced the ability for NOD to cover as many projects.

TABLE 2

Notice of Discharge Grant Awards

<u>Calendar Year</u>	<u>Grant Application Received</u>	<u>Total Awarded Funding</u>	<u>Percent of Demand Met</u>
2010	8	\$653,021	72%
2011	11	1,184,185	88
2012	10	1,315,050	68
2013	15	1,547,992	70
2014	15	2,055,812	48
2015	15	1,793,082	45
2016	10	1,065,524	91
2017	8	492,203	100
2018	9	2,637,770	60
2019	12	3,330,914	70
2020	3	1,527,857	100
2021	5	1,004,793	100

4. There is currently approximately \$1.2 million in bond revenue available for TRM projects. The available funding is due to underspending in 2022 and DNR states that the amount will be used to fund 2023 NOD and 2024 TRM grant awards.

5. Given demand for bonding supporting NOD and TRM grants in recent biennia and recent inflationary trends impacting capital projects, the Committee could consider providing \$10 million in SEG-supported general obligation bonding for rural nonpoint source water pollution abatement grants [Alternative A1]. Alternatively, the Committee could consider providing \$6,500,000 in bonding authority, consistent with what was provided in the 2021-23 biennium [Alternative A2]. The Committee could also consider providing \$8.8 million or \$5.3 million, each of which would reduce the preceding alternatives by the bonding amount currently available [Alternatives A3 or A4]. The Committee could also take no action and not provide additional bonding authority for rural nonpoint source projects in the 2023-25 biennium [Alternative A5].

Nonpoint SEG Grants

6. Best management practices such as cover cropping, nutrient management planning, and strip cropping cannot be supported by bonding. The Department primarily uses nonpoint SEG for nonpoint source TRM grants to encourage implementation of "soft" practices. Since the state must offer 70% cost sharing to require implementation of most agricultural conservation practices, SEG, GPR, or FED has been a necessary component of the TRM and NOD/NOI grant programs. Currently,

\$100,000 nonpoint SEG each year is provided to offer cost-sharing required for implementation of nonstructural practices as part of TRM and NOD/NOI grants on an ongoing basis.

7. DNR reports that the current nonpoint SEG allocation of \$100,000 annually is insufficient to support all TRM requests and grants have been oversubscribed for several years. Assembly Bill 43/Senate Bill 70 would provide \$400,000 nonpoint SEG annually for nonstructural practices or staff costs associated with TRM grants.

8. DNR contends that additional pressure on demand for TRM grants has occurred due to the establishment of targeted agricultural performance standards for Silurian bedrock areas in 2018. The new standards contain requirements for applications of liquid or solid manure to cropland to mitigate potential pathogen leaking through the soil column and into groundwater. Establishing cover crops is a cost-share eligible activity under the TRM program that has been gaining popularity as a result of the new Silurian bedrock standards.

9. Under the Clean Water Act, DNR is required by the Environmental Protection Agency (EPA) to report biennially on all waters it has identified as impaired, meaning they do not meet water quality standards. DNR is required to develop a total maximum daily load (TMDL) report for all waters it identifies as impaired. TMDLs study pollution in a water body and set goals to limit pollution to a level that will allow the water body to meet water quality standards. DNR reports that additional funding would also be used to support implementation of large-scale TMDL plans. DNR reports that county staff have expressed the need for increasing funding for staff that support TMDL implementation.

10. Provision of additional nonpoint SEG for TRM grants is dependent on availability of funding in the nonpoint account. The nonpoint account is anticipated to have a June 30, 2025, available balance of \$9.9 million, an increase of approximately \$2.3 million in the 2023-25 biennium. However, expenditures and revenues are anticipated to be approximately equal under base funding in 2024-25. Thus, the Committee could not provide any ongoing funding for nonpoint programs in 2023-25 while maintaining a balance with available revenues. The Committee could consider allocating a portion of the fund as one-time funding, but any ongoing funding allocations that exceed available annual revenues could limit future availability of funding for nonpoint programs.

11. Given the potential benefits that TRM grants can have on water quality and reported oversubscription for grants in recent cycles, the Committee could consider providing an additional \$400,000 in each year of the 2023-25 biennium for TRM grants [Alternative B1]. The Committee could also consider providing an additional \$200,000 annually for TRM grants, due to concerns about nonpoint account revenues dropping below nonpoint expenditures in 2024-25 [Alternative B2]. To ensure future availability of funding for nonpoint programs, the Committee could consider providing funding on a one-time basis for TRM grants [Alternative B3].

12. The Committee could also choose to take no action. If the Committee chooses to take no action on nonpoint SEG funding for nonpoint source grants, it is unclear to what extent DNR would be able to meet minimum state cost-share requirements with other sources, such as federal Section 319 funding. Insufficient funding may limit corrective actions and the installation of certain practices necessary to abate nonpoint source water pollution [Alternative B4].

ALTERNATIVES

A. Nonpoint-SEG Supported Bonding

1. Provide \$10,000,000 in SEG-supported general obligation bonding for rural nonpoint source water pollution abatement grants. Bond proceeds support the targeted runoff management (TRM) program and provide the required 70% state cost-share for the installation of structures in rural settings to improve water quality by preventing soil erosion and animal waste runoff.

ALT A1	Change to Base
BR	\$10,000,000

2. Provide \$6,500,000 in SEG-supported general obligation bonding for rural nonpoint source water pollution abatement grants.

ALT A2	Change to Base
BR	\$6,500,000

3. Provide \$8,800,000 in SEG-supported general obligation bonding for rural nonpoint source water pollution abatement grants.

ALT A3	Change to Base
BR	\$8,800,000

4. Provide \$5,300,000 in SEG-supported general obligation bonding for rural nonpoint source water pollution abatement grants.

ALT A4	Change to Base
BR	\$5,300,000

5. Take no action.

B. Nonpoint-SEG Grants

1. Provide an additional \$400,000 nonpoint-SEG on an ongoing basis for nonpoint source grants. Total funding for nonpoint source grants to support nonstructural practices required of TRM projects would be \$500,000 annually.

ALT B1	Change to Base
SEG	\$800,000

2. Provide an additional \$200,000 nonpoint-SEG on an ongoing basis for nonpoint source grants. Total funding for nonpoint source grants to support nonstructural practices required of TRM projects would be \$300,000 annually.

ALT B2	Change to Base
SEG	\$400,000

3. Specify that additional funding is provided on a one-time basis in the 2023-25 biennium. (This alternative could be selected in addition to Alternatives B1 or B2.)

4. Take no action.

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