



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #527

Lake and River Protection Grants (Natural Resources -- Environmental Quality)

[LFB 2019-21 Budget Summary: Page 303, #3]

CURRENT LAW

Lake and river protection grants help communities and eligible organizations engage in projects to protect and improve surface water quality and the quality of aquatic ecosystems. Eligible grantees include counties, towns, villages, cities, nonprofit conservation organizations, qualified lake or river associations, town sanitary districts, and public inland lake districts, among others. Eligible projects vary between programs, but generally include: (a) purchase of land or conservation easements; (b) restoration of wetlands and shoreline habitat; (c) developing and updating management plans for water bodies; (d) development of local regulations that protect or improve water quality; (e) installation of pollution control practices; (f) assessments of water quality and wildlife habitat; (g) nonpoint source pollution evaluation and prevention; and (h) informational or educational initiatives. Grants are funded from the water resources account of the segregated (SEG) conservation fund. On June 30, 2018, the water resources account had an available balance of approximately \$1.3 million.

GOVERNOR

Provide a total increase of \$2,915,800 SEG over the biennium (\$747,400 SEG each year for lake protection grants and \$710,500 SEG each year for river protection grants) from the water resources account of the conservation fund. Under the bill, lake protection grants are budgeted at \$3,000,000 SEG each year, and river protection grants are budgeted at \$1,000,000 SEG each year.

DISCUSSION POINTS

1. The water resources account is funded primarily by an annual motorboat fuel tax transfer to the account. The amount of the transfer is calculated by multiplying the motor fuel tax on 50 gallons of gasoline on April 1 of the previous fiscal year by the number of motorboats registered as of January 1 of the previous fiscal year, and then multiplying this result by 1.4. In 2019-20, absent a change to current law, it is expected \$13,059,500 will be transferred to the water resources account under this formula (603,766 motorboats x 50 gallons per motorboat x 30.9¢ per gallon x 1.4).

2. The administration reports that the proposed increase to lake and river protection grants is intended to reflect an increase in the transfer to the water resources account associated with the bill's proposed increase in the motor fuel tax. However, as motor fuel tax transfers are determined based on amounts as of certain dates in the prior fiscal year, and because the bill does not change the formula for determining the transfer, the transfer for the first year of the biennium is not affected by an increase in the motor fuel tax. In errata item, the administration reestimates the 2019-20 transfer to its current law amount of \$13,059,500, a decrease of \$2,744,500 from the bill.

3. As seen in Table 1, on June 30, 2018, the water resources account had an available balance of approximately \$1.3 million. Under the bill, increased expenditures on lake and river protection grants would result in a negative balance at the end of 2019-20, since increased revenues from a higher motor fuel tax would not yet be in effect. However, it is expected that revenues would be sufficient to support increased lake and river protection grants funding in 2020-21 onward.

TABLE 1

Water Resources Account Condition

	Actual <u>2017-18</u>	Estimated <u>2018-19</u>	Governor <u>2019-20</u>	Governor <u>2020-21</u>
Opening Balance	\$18,006,800	\$18,399,400	\$18,228,400	\$16,173,200
Fuel Tax Transfer	\$12,950,100	\$13,235,300	\$13,059,500	\$16,440,500
Other Income	36,900	40,000	25,000	25,000
Expenditures	<u>-12,594,400</u>	<u>-13,446,300</u>	<u>-15,139,700</u>	<u>-15,055,900</u>
Cash Balance	\$18,399,400	\$18,228,400	\$16,173,200	\$17,582,800
Encumbrances/Continuing	-\$17,129,500	-\$17,129,500	-\$17,129,500	-\$17,129,500
Available Balance	\$1,269,900	\$1,098,900	-\$956,300	\$453,300

4. If no motor fuel tax increase were approved under the bill, and lake and river protection grant funding were approved, it is expected the water resources account available balance would be approximately -\$2.9 million by the end of 2020-21. If current law funding were maintained, with no increases to the motor fuel tax or lake and river protection grants, the water resources account would

be expected to have a balance of approximately \$29,700 at the end of 2020-21. Thus, without increased revenue to the water resources account, substantial increases in lake and river protection grants would not be supportable by the existing balance of the account.

5. Table 2 outlines grant requests and awards of state funding for 2015-16 to 2018-19. Federal funding occasionally supports lake and river protection grants, but is excluded from this table. Amounts shown in the table do not necessarily match appropriated amounts for each grant, as lake protection grants are appropriated on a continuing basis, meaning funds may be expended at any time and are not subject to lapse, and river protection grants are appropriated on a biennial basis, meaning funds may be expended any time during the biennium, after which they lapse to the water resources account balance. Further, due to the proximity and interdependence of lakes and rivers, certain projects may be eligible for funding under either appropriation.

TABLE 2

Lake and River Protection Grants

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
Lake Protection				
Requested	\$2,319,700	\$2,472,000	\$2,840,400	\$1,946,000
Awarded	<u>1,881,000</u>	<u>2,142,300</u>	<u>2,680,700</u>	<u>1,887,000</u>
Unmet Requests	\$438,700	\$329,700	\$159,700	\$59,000
River Protection				
Requested	\$288,600	\$502,400	\$383,600	\$461,400
Awarded	<u>288,600</u>	<u>289,900</u>	<u>284,700</u>	<u>444,300</u>
Unmet Requests	\$0	\$212,500	\$98,900	\$17,100

6. As seen in the table, requests have exceeded awards by an average of approximately \$250,000 per year for lake protection grants and \$82,000 per year for river protection grants during the period. However, DNR reports that applications that do not receive funding often reapply for funding the following year after modifying their proposal and improving their application. DNR estimates that perhaps 50% of projects reapply and are successful. If demand were to remain unchanged, the Governor's proposal would be expected to result in unexpended funds, as unmet requests over the past two biennia are less than the increase proposed by the Governor.

7. Given that the proposed increase to the motor fuel tax would increase revenues to the water resources account and thus funding available for grants, the Committee could consider increasing awards for lake and river protection grants by \$747,400 and \$710,500 each year, respectively (Alternative 1). Considering demand for lake and river protection grants during the last two biennia, the Committee could instead provide an additional \$250,000 each year for lake protection grants and \$80,000 each year for river protection grants (Alternative 2). If revenues in the biennium were insufficient to accommodate increased grant awards, it would be incumbent on DNR to manage grant or other expenditures according to the available revenues and account balance.

8. As increases in to the motor fuel tax are subject to future Committee action, and

considering that the current account balance and revenue structure are unable to support increased grant funding, the Committee could consider taking no action (Alternative 3). If account revenues increase, available funds in the water resources account could be appropriated under subsequent legislation.

ALTERNATIVES

1. Adopt the Governor's proposal to provide water resources account SEG of \$747,400 each year for lake protection grants and \$710,500 each year for river protection grants. Lake protection grants would be budgeted at \$3,000,000 each year, and river protection grants would be budgeted at \$1,000,000 each year.

ALT 1	Change to	
	Base	Bill
SEG	\$2,915,800	\$0

2. Provide water resources account SEG of \$250,000 each year for lake protection grants and \$80,000 each year for river protection grants. Lake protection grants would be budgeted at \$2,502,600 each year, and river protection grants would be budgeted at \$369,500 each year.

ALT 2	Change to	
	Base	Bill
SEG	\$660,000	- \$2,255,800

3. Take no action. Lake protection grants would be budgeted at \$2,252,600 each year, and river protection grants would be budgeted at \$289,500 each year from the water resources account.

ALT 3	Change to	
	Base	Bill
SEG	\$0	- \$2,915,800

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