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Joint Committee on Finance

Paper #530

Nonpoint Source Water Pollution Funding (Natural Resources -- Environmental Quality)

[LFB 2019-21 Budget Summary: Page 307, #10]

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. These fund sources 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.

GOVERNOR

Provide \$400,000 nonpoint SEG each year for nonpoint source water pollution abatement grants.

DISCUSSION POINTS

1. DNR reports that applications for TRM funding have declined during the 2017-19 biennium. The Department attributes this decrease with the current economic hardship faced by agricultural producers, noting that applicants and grantees are increasingly unable to pay the 30% cost share associated with state grants. It should be noted that a cost-share rate of 90% is available in

instances of economic hardship, and DNR reports it continues to encourage eligible applicants to utilize this option. However, it is possible that otherwise eligible grantees would still not pursue funding at a 90% rate, as other expenses were prioritized.

2. Effective January 1, 2020, small-scale TRM projects will be eligible for grants up to \$225,000 per project, up from \$150,000 currently. In the 2017-19 biennium, small-scale projects represented approximately 50% of TRM awards. DNR expects that the increase in the maximum grant award will increase demand for TRM funding. Further, DNR argues that recent nonpoint abatement efforts have increasingly focused on soil health practices, including cover crops and nutrient management planning, which cannot be supported by bond funding, and thus are supported by SEG.

3. The Wisconsin Constitution requires bonds be used for permanent improvements that benefit the state's waters. Therefore, practices such as cover crops, nutrient management planning, and strip cropping cannot be supported by bonding. Thus, the Department primarily uses nonpoint SEG for nonpoint source grants to encourage implementation of these "soft" practices. DNR funding provided for NOD/NOI grants is primarily used for regulatory action for more significant discharges or violations of performance standards. 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 NOD/NOI grant program. Nonpoint SEG funding under current law and the bill allows DNR to offer cost sharing required for implementation of nonstructural practices as part of TRM and NOD/NOI grants. 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.

4. It should be noted that increased SEG funding for nonpoint source grants would contribute to an anticipated shortfall in the nonpoint account during the next biennium. Under the bill, it is expected the nonpoint account of the environmental fund would have authorized expenditures that exceed anticipated revenues by approximately \$7.7 million annually during the 2019-21 biennium. Further, on June 30, 2018, the account had a closing cash balance of \$11.1 million and an available (unencumbered) balance of \$5.9 million. Thus, under the Governor's proposal it is expected the nonpoint account would have an estimated closing cash balance of -\$5.3 million and an available balance of -\$10.8 million on June 30, 2021.

5. 2015 Wisconsin Act 55 converted nonpoint source grants from GPR-funded to nonpoint SEG funding and provided \$100,000 each year of the biennium on a one-time basis, and 2017 Wisconsin Act 59 subsequently restored nonpoint SEG funding of \$100,000 on a one-time basis. The Governor's proposal would provide funding on an ongoing basis, and at four times the amount of the previous two biennia. Given that previous allocations of nonpoint source grants were on a one-time basis, the Committee could consider continuing the practice (Alternative 5). Conversely, given that any provision of funding would represent a second extension of one-time funding, the Committee could consider providing funding on an ongoing basis.

6. Given the anticipated increased demand associated with a higher maximum grant and

increased focus on non-structural nonpoint practices, the Committee could consider the Governor's proposal (Alternative 1). Given concerns about limiting regulatory action and inability to fund non-structural practices, the Committee could also consider providing funding consistent with recent allocations of \$100,000 each year (Alternative 2). Given insufficient balances in the nonpoint account, the Committee could consider providing funding as GPR (Alternatives 3 or 4), or taking no action (Alternative 6).

ALTERNATIVES

(Funding of alternatives below related to nonpoint SEG are dependent upon Committee action under paper #525 entitled "Environmental Fund Overview." The paper provides a number of alternatives related to revenue that would address the condition of the nonpoint account.)

1. Adopt the Governor's proposal to provide \$400,000 nonpoint SEG each year for nonpoint source water pollution abatement grants.

ALT 1	Change to	
	Base	Bill
SEG	\$800,000	\$0

2. Provide \$100,000 nonpoint SEG each year for nonpoint source water pollution abatement grants.

ALT 2	Change to	
	Base	Bill
SEG	\$200,000	- \$600,000

3. Create a biennial GPR appropriation for nonpoint source water pollution abatement grants and provide \$400,000 GPR each year.

ALT 3	Change to	
	Base	Bill
GPR	\$800,000	\$800,000
SEG	<u>0</u>	<u>- 800,000</u>
Total	\$800,000	\$0

4. Create a biennial GPR appropriation for nonpoint source water pollution abatement grants and provide \$100,000 GPR each year.

ALT 4	Change to	
	Base	Bill
GPR	\$200,000	\$200,000
SEG	<u>0</u>	<u>- 800,000</u>
Total	\$200,000	- \$600,000

5. In addition to any of the above alternatives, specify that funding would be provided on a one-time basis during the 2019-21 biennium.

6. Take no action.

ALT 6	Change to	
	Base	Bill
SEG	\$0	- \$800,000

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