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Joint Committee on Finance

Paper #515

Stewardship Extension (Natural Resources -- Conservation and Recreation)

[LFB 2019-21 Budget Summary: Page 297, #1]

CURRENT LAW

The Warren Knowles-Gaylord Nelson Stewardship Program authorizes the Department of Natural Resources (DNR) to incur debt for the purposes of: (a) acquiring land to expand recreational opportunities and protect environmentally sensitive areas; (b) developing outdoor recreational facilities on state conservation lands; (c) providing grants to local governments and nonprofit conservation organizations (NCOs) typically for up to 50% of the cost of acquiring or developing land for outdoor recreational activities; (d) providing grants to counties for up to 50% of the cost of acquiring forestry land; and (e) providing grants to local governments for developing all-terrain and utility terrain vehicle trails and facilities. The program is authorized until June 30, 2020, after which DNR may not obligate additional funding.

Under the current authorization, DNR may obligate up to \$33.25 million annually, divided between three statutory subprograms: (a) land acquisition; (b) property development and local assistance; and (c) recreational boating aids, as shown in Table 1. Beginning in 2011-12, DNR may not carry forward funding from an annual allocation that is not obligated by the close of a fiscal year.

TABLE 1

Annual Stewardship Allocations, by Subprogram

	<u>Current Law and Request</u>
<i>Land Acquisition Subprogram</i>	
DNR Acquisition	\$9,000,000
Grants to NCOs	7,000,000
County Forest Grants	<u>5,000,000</u>
Subtotal	\$21,000,000
 <i>Property Development and Local Assistance Subprogram</i>	
DNR Property Development	\$3,250,000
Local Assistance Grants	6,000,000
Motorized Stewardship	<u>500,000</u>
Subtotal	\$9,750,000
 Recreational Boating Aids	 \$2,500,000
 Total Annual Bonding Allocation	 \$33,250,000

The program was last reauthorized in 2007 Wisconsin Act 20. Under the act, the program was extended for 10 years beginning on July 1, 2010, and was provided with \$86 million in annual bonding authority. The program has been altered occasionally since then, including in 2011 Wisconsin Act 32, when program allocations were reduced to \$60 million per year; 2013 Wisconsin Act 20, when program allocations were reduced to \$47.5 million in fiscal year 2013-14 and \$54.5 million in 2014-15; and in 2015 Wisconsin Act 55, when program allocations were reduced to \$33.25 million annually, where they stand today.

GOVERNOR

Extend the stewardship program at current funding levels for two years, through June 30, 2022. Further, provide no additional bonding authority; rather, specify that existing bonding authority may be obligated for the program. The Governor's Budget in Brief indicates that an advisory commission will explore options for the future of the program.

As an errata item, provide \$42.6 million in new bonding authority to accomplish the original intent to allow a two-year extension. Additionally, modify statutory provisions to allow DNR to utilize previously unobligated bonding authority during the two-year extension.

DISCUSSION POINTS

Stewardship Bonding Authorization

1. 1999 Wisconsin Act 9 reauthorized the stewardship program for a 10-year period, beginning on July 1, 2000. Section 20.866(2)(ta) of the statutes was created to allow the state to contract up to \$460 million in public debt for the stewardship program, with an annual bonding authority of \$46 million. 2001 Wisconsin Act 16 increased stewardship bonding authority to \$572 million, and provided DNR an annual allotment of \$60 million from fiscal year 2002-03 to 2009-10. 2007 Wisconsin Act 20 further extended the stewardship program, providing an additional \$860 million bonding authorization and allowing DNR an annual allotment of \$86 million. This set the total stewardship bonding authority under s. 20.866(2)(ta) at \$1,432 million. Statutory bonding authority was reduced by \$234 million in 2011 Wisconsin Act 32, \$63.5 million in 2013 Wisconsin Act 20 and \$88.25 million in 2015 Wisconsin Act 55. These reductions set the current statutory bonding authority at \$1,046.25 million, as shown in Table 2. Table 3 summarizes the annual allotments by fiscal year.

TABLE 2

Stewardship 2000 and Beyond Statutory Bonding Authority

<u>Act</u>	<u>Change to Authorization</u>	<u>Cumulative Total</u>
1999 Act 9	\$460,000,000	\$460,000,000
2001 Act 16	112,000,000	572,000,000
2007 Act 20	860,000,000	1,432,000,000
2011 Act 32	-234,000,000	1,198,000,000
2013 Act 20	-63,500,000	1,134,500,000
2015 Act 55	-88,250,000	1,046,250,000
Current Statutory Bonding Authority		\$1,046,250,000

TABLE 3

Stewardship Annual Allotments, by Fiscal Year

<u>Fiscal Year</u>	<u>Annual Allotment</u>
2001 - 2002	46,000,000
2003 - 2010	60,000,000
2011	86,000,000
2012 - 2013	60,000,000
2014	47,500,000
2015	54,500,000
2016 - 2022 (Governor)	33,250,000

Available Bonding Authority

2. The Governor's proposed biennial budget would extend the stewardship program by two years at current funding levels using the remaining unexpended and uncommitted bonding authority in s. 20.866(2)(ta) of the statutes. The Governor's Budget in Brief reported that during the two-year extension, the Governor would create an advisory commission to provide recommendations for a long-term stewardship reauthorization. The Department of Administration initially estimated that approximately \$68 million of that bonding authorization was available.

3. An errata document submitted to the Joint Committee on Finance by the State Budget Office on May 1st reestimated that \$23.9 million was available from the stewardship bonding authorization. Therefore, the bill would need to be amended to provide DNR with \$42.6 million in additional bonding authority for a two-year stewardship extension. Table 4 shows the remaining stewardship bonding authority that is estimated to be available at the end of 2019-20, assuming DNR will obligate its entire \$33.25 million annual allotment in each of 2018-19 and 2019-20. The components of Table 4 are described below.

TABLE 4

Remaining Stewardship Bonding Authority

Statutory Bonding Authority	\$1,046,250,000
Unavailable Authority	
Expended Authority	\$885,221,400
Encumbered Authority	29,725,000
Committed Authority	87,002,400
Designated for Authorized Projects	<u>7,033,200</u>
Subtotal -- Assigned Bonding Authority	\$1,008,982,000
Fiscal Year 2019-20 Estimated Expenditures	<u>33,250,000</u>
Total Unavailable Authority	\$1,042,232,000
Offsets and Available Authority	
Lapsed Authority (Statutory Authority, Less Unavailable Amount)	\$4,018,000
Lapsable Authority (offsets Committed Authority)	<u>19,871,500</u>
Subtotal	-\$23,889,500
Potential Available Bonding Authority	\$23,889,500

4. DNR has updated its bonding authority estimate after reviewing the sum of program expenditures and encumbrances, as well as those funds that have been committed but have not yet been encumbered. As of April 19, 2019, DNR had expended \$885,221,300 from the stewardship program. This means that approximately \$885 million in projects and grants have received final reimbursement and are officially "closed projects."

5. In addition, DNR had encumbered an additional \$29,725,000. This means that DNR will pay up to this amount on projects with active contracts or assistance agreements, pending the submission of final project costs and audited financial statements. These are primarily grants to local units of government that are under construction. DNR does not pay these until a community has identified its final project cost and invoices the Department, typically within 90 days of a project's completion.

6. Additionally, DNR has committed an additional \$87,002,400. These are funds that DNR has tentatively awarded but, pending final project bids or contracts, has not encumbered. One large component of committed but not encumbered funds are stewardship projects that have been awarded in 2018-19. DNR expects to encumber these funds before June 30, 2019. Additionally, \$5.2 million tentatively awarded in 2018-19 is pending before the Joint Committee on Finance.

7. Approximately half of the committed-but-unencumbered funds (\$43,772,200) are statutory earmarks. For instance, 2013 Act 20 directed DNR to expend up to \$7 million and 2015 Act 55 directed DNR to expend up to \$19.6 million for infrastructure improvements at the Kettle Moraine Springs Fish Hatchery. DNR has received bids on the project but cannot encumber final project funding until a contract is signed. It should be noted that \$14.6 million of the committed funds are for a flood control project in Trempealeau County, which were earmarked by 2017 Wisconsin Act 59. Due primarily to federal delays in obligating funding matches, DNR is unable to encumber these funds at this time.

8. Approximately \$7,033,200 of previously unobligated bonding authority has been designated by the Legislature for a category of projects but no specific use has been identified by DNR. This amount includes \$3.9 million that was designated by 2017 Wisconsin Act 71. The act allowed DNR to expend up to \$4.5 million from unobligated stewardship bonding authority to be used for parks water infrastructure projects.

9. In total, the sum of expended, encumbered, committed, and designated bonding authority means that approximately \$1,008,982,000 in stewardship bonding authority is unavailable. Under the assumption that DNR will obligate the entirety of its \$33.25 million annual allotment in fiscal year 2019-20, the total amount of unavailable bonding authority is \$1,042,232,000, as shown in Table 4.

10. DNR has identified \$4,018,000 in available past authority. These funds include the remainder of authorized amounts after a project is reimbursed and the final project or grants costs are below the initially authorized amount. This amount is lapsed and cannot be used by DNR, unless directed to by the Legislature. Additionally, DNR has identified \$19,871,500 in known lapsable funds. The bulk of funds in this category (\$15,798,200) are similar to the available past authority in that they were initially awarded for projects that were completed for less than the estimated amounts. Although DNR expects that the projects will be completed for less than the initially awarded amounts, as the projects are ongoing, DNR may not formally lapse the funds. These lapsable funds offset the committed-but-unencumbered bonding authority. This means that DNR has identified \$15,798,200 from the committed authority that will not be necessary to complete ongoing projects, reducing the committed authority to approximately \$71.2 million.

11. Approximately \$1,573,300 of these funds are two projects approved by DNR in fiscal year 2017-18 that are awaiting review by the Joint Committee on Finance. While DNR had held \$1.6 million in 2017-18 bonding authority, the Department is prepared to obligate moneys from either 2018-19 or 2019-20 bonding authority, if the projects are approved in either fiscal year.

12. In addition to providing \$42.6 million in bridging bonding authority, the Committee would need to amend the bill to allow DNR to use past unobligated bonding authority in order to achieve the proposed two-year extension. Prior to fiscal year 2011-12, if DNR did not obligate its entire annual allotment for a given stewardship subprogram, the Department could raise bonding authority for the subprogram by an equivalent amount in the subsequent fiscal year. 2011 Wisconsin Act 32 eliminated this rollover authority starting in fiscal year 2012. Therefore, DNR is not authorized to use unobligated (lapsed) bonding authority unless directed by the Legislature. The Committee could consider approving the Governor's request, as modified by the errata letter, to allow DNR to use the \$23.9 million in lapsed stewardship bonding authority as well as providing \$42.6 million to achieve a two-year extension at current funding levels [Alternative 1].

Stewardship Subprograms

13. Under the stewardship program, the DNR acquires land and provides grants to local units of government and nonprofit organizations for land acquisition and property development activities through the issuance of 20-year tax exempt general obligation bonds. The program is divided into three active statutory subprograms: (1) land acquisition; (2) property development and local assistance, and (3) recreational boating aids, as noted above. Furthermore, 2013 Act 20 directed DNR to provide stewardship grants for local motorized stewardship projects but did not set an annual allocation. DNR awards these grants under the property development and local assistance subprogram. Table 5 shows the annual allocations provided to each subprogram and its divisions.

TABLE 5

Subprogram Allocations

	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16 through FY20</u>	<u>10-Year Allocation Total</u>
Land Acquisition							
DNR Acquisitions	\$46,500,000	\$16,833,000	\$20,525,000	\$14,000,000	\$13,600,000	\$9,000,000	\$156,458,000
NCO Acquisitions	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	7,000,000	95,000,000
County Forest Grants	1,500,000	1,167,000	1,875,000	6,000,000	4,500,000	5,000,000	40,042,000
BCPL Natural Areas	2,000,000	2,000,000	2,000,000	0	0	0	6,000,000
Protection of Agricultural							
Conservation Easements (PACE)	0	5,200,000	0			0	5,200,000
County Dam Safety Grants	<u>0</u>	<u>300,000</u>	<u>100,000</u>	<u>0</u>	<u>1,900,000</u>	<u>0</u>	<u>2,300,000</u>
Subtotal	\$62,000,000	\$37,500,000	\$36,500,000	\$32,000,000	\$32,000,000	\$21,000,000	\$305,000,000
Recreational Boating Aids	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$25,000,000
Property Development and Local Assistance							
DNR Property Development	\$10,000,000	\$12,000,000	\$13,000,000	\$6,500,000	\$6,500,000	\$3,250,000	\$64,250,000
Motorized Stewardship	0	0	0	500,000	500,000	500,000	3,500,000
Kettle Moraine Springs							
Fish Hatchery*	0	0	0	0	7,000,000	0	7,000,000
Local Assistance Grants	<u>11,500,000</u>	<u>8,000,000</u>	<u>8,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>	<u>69,500,000</u>
Subtotal	\$21,500,000	\$20,000,000	\$21,000,000	\$13,000,000	\$20,000,000	\$9,750,000	\$144,250,000
Total	\$86,000,000	\$60,000,000	\$60,000,000	\$47,500,000	\$54,500,000	\$33,250,000	\$474,250,000

*\$26.6 million is enumerated for the Kettle Moraine Springs Fish Hatchery project by 2015 Act 55. This includes up to \$19.6 million in previously authorized, but unobligated stewardship funds along with the \$7 million set aside in fiscal year 2014-15.

14. Under the land acquisition subprogram, DNR may acquire land for any of the purposes specified under statute, such as forests, parks, fisheries or wildlife areas, and natural areas. Of the \$21 million annual obligation authority provided under the land acquisition subprogram, \$9 million may be used by the Department for acquiring conservation land, \$7 million may be used to provide matching grants to nonprofit conservation organizations (NCOs) for the acquisition of conservation land, and \$5 million may be used to provide matching grants to county forests.

15. The Department is statutorily required to give priority to: (a) acquisition of land that preserves or enhances the state's water resources, including land along the Lower Wisconsin State Riverway and land abutting wild rivers, wild lakes, and land along the shores of the Great Lakes; (b) acquisition of land for the stream bank protection program; (c) acquisition of land for habitat areas, fisheries, and natural areas; and (d) acquisition of land in the middle Kettle Moraine and the Niagara Escarpment corridor. Furthermore, the Department is required by administrative rule to give priority to lands within 40 miles of Wisconsin's 12 largest cities. From July 1, 1989 through March 31, 2019, DNR has used approximately \$543,902,800 million in stewardship bonds to acquire fee title or easements on 690,688 acres of conservation land.

16. Property development and local assistance provides funding to DNR, municipalities, and nonprofit groups to improve nature-based recreation facilities. Funding obligated for property

development is used for: (a) property development on DNR land; (b) property development on conservation easements adjacent to DNR land; and (c) grants to friends groups and NCOs for property development activities on DNR land. Funding obligated for local assistance may generally be provided for up to 50% of the cost of any of the following: (a) grants for acquisition of urban green space; (b) grants for acquisition and development of local parks; (c) grants for acquisition of property development rights; and (d) grants for acquisition and development of urban rivers. Additionally, subprogram funds may be used for aids to the state, counties, villages or towns for snowmobile, all-terrain vehicle (ATV), and utility terrain vehicle (UTV) trail aid projects.

17. The recreational boating aids subprogram was created by 2007 Act 20 and was provided \$1.5 million in 2007-08 and \$2.5 million annually beginning in 2008-09. Under the recreational boating aids program, DNR provides matching grants to municipalities, counties, town sanitary districts, public inland lake protection and rehabilitation districts, qualified lake associations, the Milwaukee River Revitalization Council, and the Lower Wisconsin State Riverway Board for projects to develop recreational boating facilities.

18. DNR reports that several stewardship subprograms are frequently oversubscribed. The local assistance subprogram has received more grants than it can fund each year since at least 2003-04. Since the annual subprogram funding level was set at \$6,000,000 in 2013-14, DNR has received an average of \$20,237,700 in local assistance grant requests per year. Since 2013-14, DNR has been able to fund 30% of the total value of local assistance requests.

19. The Department notes that it typically can demonstrate more need for property development on DNR-owned lands than it is able to fund. DNR prioritizes property development projects based on a number of factors, including useable life of the project, immediacy of need, and other sources of funding such as donations and grants. DNR uses stewardship funding for those projects with a lifespan of 20 years or more. Further, DNR may provide up to \$250,000 annually in property development funds to friends groups and other nonprofit conservation organizations (NCOs) to conduct property development projects on DNR lands. These groups have first option on available funds. Since 2016-17, DNR has received requests from friends groups totaling \$306,800, on average, each year. DNR has been able to fund approximately 81% of these requests.

20. Since 2011-12, DNR has encumbered nearly its entire bonding allotment for the recreational boating aids subprogram in each fiscal year. Additionally, DNR typically can provide a recreational boating aids grant to each applicant in every fiscal year. The recreational boating aids subprogram is unique in that the Waterways Commission, a five-member board that includes a resident of each of the Great Lakes areas in the state, as well as a member from the Mississippi River area, the Lake Winnebago watershed, and the inland areas of the state, recommends projects and funding amounts. The Waterways Commission is required to consider the amount of funding available before it recommends a priority project. Therefore, it is likely that the Commission recommends fewer projects than it receives eligible applications for.

21. Though several subprograms receive more grant requests than DNR may fund, DNR does not typically obligate its entire allotted authority for other subprograms. DNR has underspent its allotment authority for land acquisition grants to NCOs in each year since 2011-12. In that time, DNR has provided approximately 57% of the funding available to the Department for these purposes. Since

fiscal year 2011-12, DNR may carry underspent amounts from the NCO acquisition subprogram into the following fiscal year for the purposes of providing grants to counties to acquire forest land.

22. DNR is unable to report the extent to which the county forest grant subprogram is oversubscribed. Unlike other grant subprograms, county forest grants do not have a set application date. Rather, counties work with DNR on a continuing basis to develop applications for these grants. DNR accepts grants on a rolling basis and provides funding as it is available. DNR has typically spent nearly its entire authority for these grants. As large timber investment management organizations (TIMOs) continue to sell off large landholdings, DNR may receive more requests for county forest grants as counties avail themselves of the opportunity to purchase larger forest blocks.

23. The county forest grant program allows counties to match prospective stewardship-funded purchases with other county-owned lands, with both the grant-funded acquisition and the match parcels required to be added to the county forest. Section NR 51.962 (4)(a)6. of the administrative code provides that counties may be compensated: (a) for 50% of the fair market value of lands purchased more than one year prior to the grant application; or (b) for 100% of the fair market value of lands purchased up to one year prior to the grant application. Lands also must otherwise be eligible for addition to the county forest under statutory criteria. However, the administrative code provision that provides a grant for the full fair market value of recent acquisitions could result in county forest grants that exceed the 50% state share established in statute. The Committee could consider specifying DNR may not implement the rule provision [Alternative 8].

Statutorily Obligated Projects

24. Since 2011-12, certain unobligated bonding authority may not be used without further legislative authorization. Table 6 summarizes these unobligated amounts since 2011-12.

TABLE 6

Unobligated Stewardship Bonding Authority, Fiscal Year 2012 through 2018

<u>Fiscal Year</u>	<u>Unobligated Amount</u>
2011-12	\$18,788,200
2012-13	5,667,200
2013-14	3,399,900
2014-15	9,532,400
2015-16	12,038,500
2016-17	11,359,600
2017-18	<u>7,659,600</u>
Total	\$68,445,400

25. Prior to 2011-12, the Legislature would typically obligate funding for a given project from one of the stewardship subprograms, reducing that subprogram's rollover amount that DNR could bring into the following fiscal year. Since 2011-12, the Legislature has regularly directed DNR

to use existing bonding authority that would otherwise be unavailable. These projects have included DNR property development projects, such as the Kettle Moraine Springs Fish Hatchery in Sheboygan County, and grants to local governments. 2015 Act 55 directed DNR to spend up to \$27,855,300 from unobligated stewardship balances and 2017 Acts 59 and 71 directed DNR to spend up to \$30,265,300 from unobligated stewardship balances. While the total unobligated balance shown in Table 6 is \$68.4 million, the Legislature committed up to \$58.1 million from this balance, reducing the total amount of unobligated stewardship bonding authority to approximately \$10.3 million.

26. It should be noted how the unobligated amounts differ from the unexpended and uncommitted amounts described in the following sections. Unobligated amounts are those left available if not committed to a project or grant by DNR in the fiscal year those funds were available. Unobligated stewardship funds since 2011-12 require further legislative direction for their subsequent use, due to the limitations on DNR carrying those funds to future fiscal years. Unobligated amounts represent the minimum amount from one or more fiscal years that is available for further legislative direction without affecting either future annual allotments to DNR or the overall bonding authorization for the program.

27. However, because stewardship-funded grants and projects may be completed for less than the amount initially committed to the project, additional bonding authority may remain unexpended despite having been committed earlier. The budget bill and the administration's errata propose to utilize all authorized but unexpended stewardship funds, including those previously committed and lapsed, for the short-term extension of the program.

Stewardship Reauthorization

28. The Governor's Budget in Brief indicates that the administration intends to call a commission to develop recommendations for the stewardship program under a longer-term reauthorization. Similar approaches have been taken before. In 1998, the Governor appointed a Blue Ribbon Task Force on the Stewardship Program to evaluate the program and make recommendations for its future. The task force was composed of legislators, current and former state and local government officials, and representatives from the University of Wisconsin, business, conservation, and environmental groups. Several key components of the task force and the advisory council's recommendations were incorporated into the Stewardship 2000 reauthorization in the 1999-01 biennial budget, including increasing the bonding authority, reducing the number of designated subprograms, facilitating increased small-group participation, and providing greater flexibility for DNR to transfer funding between fiscal years.

29. In addition, the Stewardship Advisory Council, which was established by DNR in 1994, made several recommendations for the reauthorization of the program in 2007. Some, such as increasing the statutory cap on the percentage of state-provided matching funds from 50% to 75% of project funding in select cases and increasing the threshold where a second appraisal is required for certain land acquisition grants, were incorporated into the extended program. Proponents of establishing an advisory commission point out that such a commission can take a long-term view and examine how the program could be modified to better meet the needs of the state. Additionally, some have pointed out that a commission may be able to develop a consensus vision of how to improve the program. The Committee could consider establishing a commission to recommend changes to the

program for a long-term stewardship reauthorization. By establishing a legislatively-directed commission, the Committee would be able to ensure that its concerns about the stewardship program are addressed in a long-term reauthorization [Alternative 9].

30. While the Governor's proposal would extend the program for two years, stewardship has typically been reauthorized for 10-year periods. However, the Legislature has made changes to the program in interim periods, as shown in Table 2. Proponents of this approach argue that a 10-year reauthorization will provide the program stability and that program changes may be made in future biennia without creating uncertainty about the program's future.

31. Many stewardship applicants prepare project applications over an extended period of time, often more than a year prior to submitting an application. Major local development projects, for instance, may need to receive approvals through local commissions and governments before an application can be submitted. Counties may begin acquiring tracts of land to enroll in county forest and use as a match for a stewardship grant years prior to application. A two-year stewardship extension may create uncertainty about the program's future and may deter communities from preparing an application for a local stewardship grant. Since stewardship funding is commonly paired with federal grant funding in local development or land acquisition projects, creating uncertainty in the stewardship program may reduce the amount of federal funding that can be used on projects in the state.

32. In DNR's 2019-21 budget request, the agency requested a 10-year reauthorization, at current funding levels, beginning on July 1, 2020, through June 30, 2030. This could be accomplished in two different ways. The Committee could consider providing DNR with \$308.6 million in additional bonding authority and direct DNR to use the \$23.9 million in lapsed bonding authority discussed above in fiscal year 2020-21 [Alternative 2]. This would provide DNR with the minimum additional bonding authority needed to accomplish a full 10-year reauthorization at current program levels.

33. The Committee could also consider providing an additional \$332.5 million in bonding authority to fund the program at current levels through June 30, 2030 [Alternative 3]. This approach would provide DNR with the bonding authority required to provide the program a full 10-year reauthorization at current program levels.

34. Under this approach, the \$23.9 million in bonding authority, which currently is expected to be available on July 1, 2020, would remain available. However, as the authority has lapsed, under current law the Legislature would need to act to authorize use of the funds. In past biennia, the Legislature has directed DNR to use unobligated stewardship bonding authority for various specific projects and given DNR discretion on how to prioritize projects that fit within those purposes. For instance, 2017 Act 71 allowed DNR to obligate up to \$4.5 million from previously unobligated bonding authority to improve water infrastructure in state parks, as described above.

35. Additionally, when 1999 Wisconsin Act 9 created a new bonding authorization for the stewardship program under 20.866(2)(ta) of the statutes, the Legislature allowed DNR to use the remaining bonding authority under the previous authorization (s. 20.866(2)(tz) of the statutes) for certain limited capital development purposes. As of September 30, 2018, DNR had approximately

\$70,200 remaining from these funds. DNR reports that it has a backlog of capital development needs on parks, forests, trails, fish hatcheries, and other properties. The Committee could consider allowing DNR to use lapsed authority from the current authorization for limited capital development and property maintenance projects [Alternative 6].

36. The Governor's Budget in Brief reports that environmental protection, resource conservation, and outdoor recreation are high priorities for the administration. Stewardship enables the state, local governments, and NCOs to conserve natural spaces that are open for nature-based outdoor recreation. It could be argued that the stewardship program should be expanded to further promote Wisconsin's outdoor economy and to protect the resources of the state. During the current authorization period, which began on July 1, 2010, program funding has been reduced several times, from an annual allotment of \$86 million in fiscal year 2010-11 to \$33.25 million under current law. It could be argued that general price inflation as well as increased property values and labor costs have increased cost of land acquisition, capital development, and other expenses for which stewardship has been used. The Committee could consider increasing stewardship funding to reflect these costs. One alternative would be to increase program funding to the levels originally established by 1999 Act 9. This would raise bonding authority by \$460 million and provide an annual allotment of \$46 million [Alternative 4].

37. If the Committee were to raise stewardship bonding authority and annual allocations, subprogram funding levels would need to be increased as well. As noted above, several stewardship subprograms are currently oversubscribed, receiving more grant requests than may be funded in a given year. Grants to local units of government and property development grants to friends groups are routinely oversubscribed. Recreational boating aids grants may also demonstrate greater demand than DNR can fund. Furthermore, DNR notes that it has many priority property development projects that the Department has been unable to fund. The Committee could consider increasing funding for both the property development and local assistance and the recreational boating aids subprograms.

38. Although a variety of allocations could be considered, Table 7 shows potential subprogram funding levels that would provide more funding for stewardship grant applications under a \$46 million annual allocation. Provided with the funding shown in the table, DNR would be able to fund nearly all friends group grants, as well as increase the number of property development projects that could be conducted on Department-held public lands. Furthermore, the Waterways Commission could increase the number of recreational boating aids projects that it recommends for funding. Additionally, such a funding level would allow DNR to award approximately 75% of requested local assistance project funds.

TABLE 7

Potential Subprogram Funding Levels under a \$46 Million Annual Allotment

<u>Subprogram</u>	<u>Funding Level</u>
Land Acquisition	
DNR Acquisition	\$9,000,000
NCO Grants	7,000,000
County Forest Grants	<u>5,000,000</u>
Subtotal	21,000,000
Property Development and Local Assistance	
DNR Property Development	\$4,500,000
Friends Group Grants	500,000
Local Units of Government	<u>15,500,000*</u>
Subtotal	20,500,000
Recreational Boating Aids	\$4,500,000
Total	\$46,000,000

*Includes \$1 million for motorized stewardship grants.

39. Some argue that the state should not incur debt to acquire property. Bonding is typically used by the state to fund capital development projects, such as building construction. Bonds may be preferred for these projects, as construction and development costs may be spread over the usable life of the project. Under these circumstances, bonding may also provide immediate tangible benefits to the state from the capital project.

40. On the other hand, it could be argued that because DNR land acquisition removes land from the tax rolls and requires the state to pay aids in lieu of taxes to the community in which the land is located, stewardship may increase expenditures from state funds. Under this perspective, land acquisition should be conducted by DNR using appropriated funds, rather than through issuance of debt. However, some may counter that public lands provide nature-based recreational opportunities and benefit the state's outdoor economy. Furthermore, public lands may provide ecological benefits, including erosion control, rainwater management, carbon sequestration, and other effects that can reduce the harmful effects of human activities. Under this perspective, land acquisition is a capital development that provides immediate and long-term benefits to the people of the state.

41. Under current law, DNR may expend from the conservation fund approximately \$3,596,400 for various purposes related to resource acquisition, development, and maintenance. In fiscal year 2017-18, DNR expended approximately \$1,759,200 from these appropriations. While it should be noted that DNR is constrained in how it may use these funds, it could be argued that the Department ought to use the moneys appropriated by the Legislature before it issues debt. Under this perspective, the Committee could consider reauthorizing the stewardship program for 10 years, beginning on July 1, 2020, and ending on June 30, 2030, providing the program with \$232.5 million

in bonding authority and annual allotments of \$23.25 million [Alternative 5]. Compared to current law, this alternative would provide a \$10 million reduction in annual allotments.

42. If the Committee pursues this alternative, subprogram funding levels would need to be altered. As noted above, property development, friends group grants, and local assistance grants have typically demonstrated greater demand than DNR has been able to fund. Furthermore, these are all capital developments for which bonding has traditionally been used. The Committee could consider reducing subprogram funding for DNR and NCO land acquisition, which have typically underspent their annual allotment, in order to increase funding levels for these projects. Table 8 shows potential subprogram funding levels under an annual allotment of \$23.25 million.

TABLE 8

Potential Subprogram Funding Levels under a \$23.25 Million Annual Allotment

<u>Subprogram</u>	<u>Funding Level</u>
Land Acquisition	
DNR Acquisition	\$0
NCO Grants	5,250,000
County Forest Grants	<u>3,500,000</u>
Subtotal	\$8,750,000
Property Development and Local Assistance	
DNR Property Development	\$4,000,000
Friends Group Grants	500,000
Local Units of Government	<u>7,500,000*</u>
Subtotal	\$12,000,000
Recreational Boating Aids	\$2,500,000
Total	\$23,250,000

*Includes \$500,000 for motorized stewardship grants.

43. The levels shown in Table 8 would reduce DNR's role in land acquisition, while still allowing counties to acquire forest lands and NCOs to acquire public recreation lands, albeit to a lesser extent than under current law. The \$5,250,000 annual allotment for NCOs is roughly in line with the average value of grants to NCOs DNR has provided annually since 2011-12.

44. It should be noted that under current law, DNR may use those unspent amounts from the NCO allotment to increase the funding available for county forest grants in the subsequent fiscal year. Reducing the amounts available for NCO grants may reduce the amount available for county forest grants. In recent years, there have been several large land acquisition opportunities as large timberland owners, or TIMOs, have sold off parcels of forest lands. Counties have been able to use stewardship funds to acquire large contiguous blocks of forest land. These lands are open for public recreation and provide revenues to counties as well as DNR from timber harvests. Reducing the amount of funding

available for county forest grants may lead TIMOs to seek other buyers by subdividing lots in areas that could be used for private holdings or development. While this may expand a local property tax base it may also have the adverse impact of increasing fragmentation of the state's forests.

45. DNR has established a goal of protecting 2.2 million acres of conservation land. The Department has created project boundaries, denoting those areas that it seeks to conserve through fee simple or easement lands. Of the 2.2-million-acre goal, DNR has protected 1.8 million acres, or 83% of the Department's goal. Reducing the amount of bonding authority available for DNR to acquire land may make the Department unable to accomplish this goal. If the Committee pursues this option, it may consider providing non-bonding methods for DNR land acquisition. As noted above, DNR has a series of appropriations for land acquisition and development. The Committee could consider increasing or creating a land acquisition appropriation. Under the bill, revenues to the forestry account of the segregated (SEG) conservation fund are expected to exceed expenses by over \$8.5 million in each year of the biennium. The Committee could provide DNR \$5 million each year in a continuing appropriation from the forestry account to acquire and preserve public recreation land [Alternative 7].

46. One benefit of bonding is that it allows the state to finance large projects or developments over the life of the project, breaking a large one-time cost into a series of smaller payments over 20 years. By using bonding, the state may receive immediate benefits from an expensive project, and may be able to afford larger projects than it could using only cash. Eliminating or reducing DNR's ability to issue debt to acquire land, requiring the Department to use cash, may make large, expensive acquisitions impossible for the Department to afford. This could have the adverse impact of curtailing the state's ability to expand recreational opportunities in areas of the state with higher property values, including Dane, Milwaukee, Ozaukee, Washington, or Waukesha Counties. This could hamper DNR's ability to develop new outdoor recreational opportunities in the most densely populated parts of the state.

Bonding Authority and Debt Service

47. Annual debt service payments for principal and interest on stewardship bonds are primarily funded from general purpose revenues (GPR), with a portion paid from forestry SEG. Under current law, \$13.5 million forestry SEG is provided on an ongoing basis for this debt service. Furthermore, under 2013 Act 20, DNR was required to offer for sale at least 10,000 acres of fee-title land. DNR is required to use the proceeds of these sales to retire stewardship debt. Table 9 shows debt service payments made on stewardship bonds since 1999-2000.

TABLE 9**Stewardship Debt Repayments**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$6,406,300	\$7,815,600	\$14,221,900
2001	8,150,300	9,109,600	17,259,900
2002	7,730,000	10,047,500	17,777,500
2003	9,578,400	11,408,300	20,986,700
2004	3,090,000	12,168,800	15,258,800
2005	14,819,200	13,262,700	28,081,900
2006	17,444,500	16,357,200	33,801,700
2007	21,080,000	18,094,900	39,174,900
2008	20,593,200	21,499,000	42,092,200
2009	23,852,300	22,202,500	46,054,800
2010	-	25,016,400	25,016,400
2011	5,064,300	27,658,400	32,722,700
2012	-	26,663,900	26,663,900
2013	46,165,500	30,409,300	76,574,800
2014	55,040,600	30,591,900	85,632,500
2015	40,035,400	27,551,200	67,586,600
2016	45,673,600	27,332,000	73,005,600
2017	55,400,300	26,919,800	82,320,100
2018	52,391,100	26,209,300	78,600,400
2019	<u>55,076,100</u>	<u>26,409,500</u>	<u>81,485,600</u>
Total	\$487,591,100	\$416,727,800	\$904,318,900

48. The amounts paid for debt service vary from year to year based on a number of factors, including expenditures by DNR, the types of bonds issued, the interest rate at which bonds are issued, and occasional refinancing or debt restructuring actions taken by the state. Debt restructuring is most noticeable in state fiscal years 2009-10, 2010-11, and 2011-12; in 2009-10 and 2011-12, the state paid only interest on debt for stewardship and a number of other purposes.

49. Table 10 shows scheduled debt service for outstanding stewardship bonds under both the original bonding authorization (1989-1999) as well as the current bonding authorization. The table shows all debt that has been issued to fund the stewardship program through May, 2019. The table represents all stewardship-related debt that the state is currently obligated to pay. Included in these amounts is approximately \$26.3 million in outstanding debt service for the original stewardship program and approximately \$687.9 million outstanding debt service for bonds issued since fiscal year 1999-2000. Not included in the table is approximately \$2.5 million outstanding debt service on land acquisition and recreation bonding programs that predated the stewardship program.

TABLE 10**Outstanding Stewardship Debt**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$57,791,500	\$26,059,200	\$83,850,700
2021	55,189,300	22,695,800	77,885,100
2022	53,575,500	19,869,100	73,444,600
2023	42,148,300	17,395,900	59,544,200
2024	44,683,800	15,364,500	60,048,300
2025	39,609,400	13,538,200	53,147,600
2026	38,116,300	11,547,100	49,663,400
2027	37,506,000	9,790,800	47,296,800
2028	32,924,100	7,930,200	40,854,300
2029	29,672,100	6,526,200	36,198,300
2030	27,962,400	5,117,900	33,080,300
2031	22,789,900	3,826,800	26,616,700
2032	18,741,200	2,847,000	21,588,200
2033	14,163,800	2,067,400	16,231,200
2034	9,419,200	1,452,900	10,872,100
2035	9,353,400	1,014,700	10,368,100
2036	7,218,000	608,400	7,826,400
2037	3,084,700	262,400	3,347,100
2038	1,549,200	108,200	1,657,400
2039	<u>614,400</u>	<u>30,700</u>	<u>645,100</u>
Total	\$546,112,500	\$168,053,400	\$714,165,900

50. It is important to note that Table 10 reflects the state's outstanding stewardship debt service obligations in nominal dollar values. Price levels generally rise over time, reducing the relative worth of a dollar. Therefore, the real (inflation-adjusted) value of debt service obligations is likely to be lower than the values shown in the table as inflation raises wages and increases state tax revenues. Furthermore, the table reflects the debt service currently scheduled and does not anticipate future debt issues or refinancing actions taken by the state, nor does the table reflect projects for which DNR has currently obligated state debt but for which bonds have not been issued.

Hypothetical Debt Service Projections

51. The majority of debt the state issues consists of serial bonds in which principal is repaid in smaller sums over the life of the issues. The individual bonds have different maturity dates and different interest rates. The principal payments may be made equal in each year or have different structures reflecting market conditions at the time of the issue or the debt policies of the issuers. Typically, the longest life of a serial bond in a given bond issue is 20 years.

52. The following series of tables show projections of annual debt service obligations under different stewardship scenarios. The estimates rely on several assumptions. As noted above, under current law the stewardship program is provided with annual bonding authority of \$33,250,000. DNR may obligate up to this amount in each fiscal year through June 30, 2020. These estimates assume that DNR will obligate this entire amount in each fiscal year in both 2018-19 and 2019-20. It should be noted that DNR has typically underspent its bonding authority in most fiscal years. The estimates also assume that bonds will be issued with a 5% interest rate. While the true interest cost of the most recent state general obligation bond issue was 3.8%, for budget projections, 5% is used to approximate a long-term running average interest rate. Furthermore, these estimates assume that the bonds are issued for a 20-year term and that no refinancing actions will be taken by the state. The annual debt service shown in each table for any given fiscal year is the cumulative total of all annual payments due on bonds issued up to that year. It should be noted that these estimates also include the debt service scheduled on bonds that have been issued through May, 2019. If the stewardship program is reauthorized for 10 years, DNR would be able to obligate debt through June 30, 2030. These projections assume that debt is issued in the fiscal year in which it is obligated and that the bonds will be amortized after 20 years. Table 11 summarizes the annual payment and the total debt service for a single year's bond issue under each scenario.

TABLE 11

Hypothetical Payments Due on a Single Year's Debt Issue

<u>Alternative</u>	<u>Annual Bonding Authority</u>	<u>Annual Debt Service Payment</u>	<u>Total 20-Year Debt Service Payment</u>	<u>10-Year Reauthorization Total Debt Service</u>
2 & 3	\$33.25 million	\$2,668,100	\$53,361,300	\$533,613,000
4	\$46 million	3,691,200	73,823,180	738,231,800
5	\$23.25 million	1,865,600	37,312,800	373,128,000

53. Table 12 shows a projection of annual principal repayment and interest under a 10-year reauthorization at current program levels [Alternative 2 and 3]. As noted, these estimates assume that DNR obligates the full \$33.25 million annual allotment under current law in both fiscal year 2018-19 and 2019-20 as well as the full \$33.25 million annual allotment under the alternative. Under these projections, the state would be obligated to pay approximately \$2,668,100 annually for 20 years on a single year's debt issuance of \$33.25 million. Principal repayment would vary between \$1,005,600 and \$2,541,000; interest payments would vary between \$127,100 and \$1,662,500. Over the 20-year life of each \$33,250,000 in bonds, the state would be obligated to pay approximately \$53,361,300.

TABLE 12**Hypothetical Debt Service under a 10-Year Reauthorization, at \$33.25 Million per year**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$58,797,100	\$27,721,700	\$86,518,800
2021	57,250,700	25,970,500	83,221,200
2022	56,745,500	24,703,300	81,448,800
2023	46,482,400	23,734,000	70,216,400
2024	<u>50,240,200</u>	<u>23,148,400</u>	<u>73,388,600</u>
Subtotal	\$269,515,900	\$125,277,900	\$394,793,800
2025	\$46,449,100	\$22,706,800	\$69,155,900
2026	46,303,700	22,036,200	68,339,900
2027	47,108,300	21,533,000	68,641,300
2028	44,012,000	20,854,800	64,866,800
2029	<u>42,320,000</u>	<u>20,558,900</u>	<u>62,878,900</u>
Subtotal	\$226,193,100	\$107,689,700	\$333,882,800
2030-2034	\$176,349,200	\$89,455,400	\$265,804,600
2035-2039	129,321,100	54,606,800	183,927,900
2040-2044	94,411,000	25,652,000	120,063,000
2045-2050	<u>49,322,200</u>	<u>6,707,100</u>	<u>56,029,300</u>
Total	\$945,112,500	\$409,388,900	\$1,354,501,400

54. Table 13 shows a projection of annual principal repayment and interest under a 10-year reauthorization with an annual allocation of \$46 million, the program funding level set by the 1999 stewardship reauthorization [Alternative 4]. These estimates assume that DNR obligates the full \$33.25 million annual allotment under current law in both fiscal year 2018-19 and 2019-20 as well as the full \$46 million annual allotment under the alternative. Under these projections, the state would be obligated to pay approximately \$3,691,200 annually for 20 years on a single year's debt issuance of \$46 million. Principal repayment would vary between \$1,391,200 and \$3,515,400; interest payments would vary between \$175,800 and \$2,300,000. Over the 20-year life of each \$46,000,000 in bonds, the state would be obligated to pay approximately \$73,823,200.

TABLE 13**Hypothetical Debt Service under a 10-Year Reauthorization, at \$46 Million per year**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$58,797,100	\$27,721,700	\$86,518,800
2021	57,250,700	25,970,500	83,221,200
2022	57,131,100	25,340,800	82,471,900
2023	47,272,900	24,989,800	72,262,700
2024	<u>51,455,800</u>	<u>25,002,100</u>	<u>76,457,900</u>
Subtotal	\$271,907,600	\$129,024,900	\$400,932,500
2025	\$48,111,100	\$25,137,300	\$73,248,400
2026	48,434,300	25,021,100	73,455,400
2027	49,731,100	25,048,800	74,779,900
2028	47,151,500	24,877,000	72,028,500
2029	<u>46,002,100</u>	<u>25,061,600</u>	<u>71,063,700</u>
Subtotal	\$239,430,100	\$125,145,800	\$364,575,900
2030-2034	\$201,504,800	\$114,431,300	\$315,936,100
2035-2039	161,895,500	73,187,100	235,082,600
2040-2044	129,639,300	35,439,600	165,078,900
2045-2050	<u>68,235,400</u>	<u>9,279,000</u>	<u>77,514,400</u>
Total	\$1,072,612,700	\$486,507,700	\$1,559,120,400

55. Table 14 shows a projection of annual principal repayment and interest under a 10-year reauthorization with an annual allocation of \$23.25 million, a reduction of \$10 million annually from current law [Alternative 5]. These estimates assume that DNR obligates the full \$33.25 million annual allocation under current law in both 2018-19 and 2019-20 as well as the full \$23.25 million annual allocation under the alternative. Under these projections, the state would be obligated to pay approximately \$1,865,640 annually for 20 years on a single year's debt issuance of \$23.25 million. Principal repayment would vary between \$703,100 and \$1,776,800; interest payments would vary between \$88,800 and \$1,162,500. Over the 20-year life of each \$23,250,000 in bonds, the state would be obligated to pay approximately \$37,312,800.

TABLE 14

Hypothetical Debt Service under a 10-Year Reauthorization, at \$23.25 Million per year

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$58,797,100	\$27,721,700	\$86,518,800
2021	57,250,700	25,970,500	83,221,200
2022	56,443,100	24,203,300	80,646,400
2023	45,862,400	22,749,200	68,611,600
2024	<u>49,286,800</u>	<u>21,694,600</u>	<u>70,981,400</u>
Subtotal	\$267,640,100	\$122,339,300	\$389,979,400
2025	\$45,145,700	\$20,800,600	\$65,946,300
2026	44,632,600	19,695,200	64,327,800
2027	45,051,200	18,775,600	63,826,800
2028	41,549,700	17,700,200	59,249,900
2029	<u>39,432,100</u>	<u>17,027,400</u>	<u>56,459,500</u>
Subtotal	\$215,811,300	\$93,999,000	\$309,810,300
2030-2034	\$156,619,400	\$69,866,400	\$226,485,800
2035-2039	103,772,700	40,034,100	143,806,800
2040-2044	66,780,900	17,975,300	84,756,200
2045-2050	<u>34,488,500</u>	<u>4,689,900</u>	<u>39,178,400</u>
Total	\$845,112,900	\$348,904,000	\$1,194,016,900

ALTERNATIVES

1. Approve the Governor's request as modified by the errata letter to provide \$42.6 million in additional bonding authority and allow DNR to use rollover authority to use \$23.9 million in lapsed stewardship bonding authority.

ALT 1	Change to	
	Base	Bill
BR	\$42,600,000	\$42,600,000

2. Reauthorize the stewardship program at current funding levels for 10 years, effective when the current program expires, on June 30, 2020, through June 30, 2030. Raise the current bonding authorization by \$308.6 million. Allow DNR to use lapsed bonding authority from the current stewardship authorization, under s. 20.866(2)(ta) in fiscal year 2020-21.

ALT 2	Change to	
	Base	Bill
BR	\$308,610,500	\$308,610,500

3. Reauthorize the stewardship program at current funding levels for 10 years, effective when the current program expires, on June 30, 2020, through June 30, 2030. Raise the current bonding authorization by \$332.5 million.

ALT 3	Change to	
	Base	Bill
BR	\$332,500,000	\$332,500,000

4. Reauthorize the stewardship program with an annual allotment of \$46 million, effective when the current program expires, on June 30, 2020, through June 30, 2030. Raise the current bonding authorization by \$460 million.

ALT 4	Change to	
	Base	Bill
BR	\$460,000,000	\$460,000,000

5. Reauthorize the stewardship program with an annual allotment of \$23.25 million, effective when the current program expires, on June 30, 2020, through June 30, 2030. Raise the current bonding authorization by \$232.5 million.

ALT 5	Change to	
	Base	Bill
BR	\$232,500,000	\$232,500,000

6. In addition to Alternatives 3, 4, or 5 for reauthorizing the stewardship program, authorize DNR to use up to \$23.9 million in unobligated bonding authority for capital development and property maintenance projects on DNR-held lands.

7. In addition to Alternative 5, provide DNR \$5 million forestry SEG annually in a continuing appropriation to acquire land.

ALT 7	Change to	
	Base	Bill
SEG	\$10,000,000	\$10,000,000

8. Specify DNR may not implement the provision of NR 51.962(4)(a)6., which allows counties to receive a match on 100% of the fair market value of lands to be enrolled in the county forest and acquired within one year prior to the stewardship acquisition. (This alternative may be adopted in addition to any others.)

9. Create a commission with members appointed by the Assembly, Senate, and Governor to provide recommendations for the future of the stewardship program, including funding levels and sources, and program uses. (This alternative may be adopted in addition to any others.)

10. Take no action. (The Stewardship program would expire June 30, 2020.)

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