



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 25, 2005

Joint Committee on Finance

Paper #152

Nonpoint Account Appropriations (Agriculture, Trade and Consumer Protection & Natural Resources)

[LFB 2005-07 Budget Summary: Page 60, #5; Page 61, #6 (part); Page 374, #8; Page 374, #9]

CURRENT LAW

The segregated environmental fund has two accounts: (1) the nonpoint account; and (2) the environmental management account. While the two accounts are tracked separately, they are statutorily maintained as one fund. The nonpoint account currently receives a GPR transfer based on a formula that considers the amount of \$7.50 vehicle title transfer fees collected in the prior year. Expenditures from the account are used for a variety of purposes, ranging from DNR and DATCP administrative costs, county conservation staffing grants, and grants to landowners for nonpoint source water pollution abatement projects.

GOVERNOR

Create an annual appropriation in DATCP, to be funded by the nonpoint account, and convert \$847,700 annually from GPR to SEG for the payment of principal and interest costs incurred for bonding revenue issued for soil and water resource management projects that DATCP makes as part of its annual grant allocation to counties. Soil and water resource management bonding repayments would first be paid from the annual nonpoint SEG appropriation with any remaining payments from the existing GPR sum sufficient appropriation.

In addition, provide DATCP \$500,000 SEG annually from the nonpoint account of the environmental fund to provide grants to counties to fund land and water conservation staff and related supplies (for a total of \$9,307,000).

Further, provide DATCP \$520,000 SEG annually from the nonpoint account of the environmental fund for implementation of a nutrient management program.

Moreover, convert \$885,900 and 10.0 positions annually from GPR to nonpoint account SEG for administration of DATCP's land and water resource management activities.

Furthermore, convert \$356,200 annually and 4.75 positions from GPR to nonpoint account SEG in DNR.

DISCUSSION POINTS

1. Table 1 provides an overview of the GPR and SEG funding changes related to the nonpoint program under the bill.

TABLE 1

Funding Changes Under the Bill

<u>Purpose</u>	<u>2005-06</u>	<u>2006-07</u>	<u>Total</u>	<u>2006-07 Positions</u>
DATCP debt service	\$847,700	\$847,700	\$1,695,400	
DATCP staffing grants	500,000	500,000	1,000,000	
DATCP nutrient management grants	520,000	520,000	1,040,000	
DATCP administration	885,900	885,900	1,771,800	10.00
DNR administration	<u>356,200</u>	<u>356,200</u>	<u>712,400</u>	<u>4.75</u>
SEG Subtotal	\$3,109,800	\$3,109,800	\$6,219,600	14.75
DATCP debt service	-\$847,700	-\$847,700	-\$1,695,400	
DATCP administration	-885,900	-885,900	-1,771,800	-10.00
DNR administration	<u>-356,200</u>	<u>-356,200</u>	<u>-712,400</u>	<u>-4.75</u>
GPR Subtotal	-\$2,089,800	-\$2,089,800	-\$4,179,600	-14.75
Total Changes to Current Law	\$1,020,000	\$1,020,000	\$2,040,000	0.00

2. Under current law, the nonpoint account of the environmental fund receives GPR funding based on a vehicle title transfer fee formula. Prior to 1997, environmental fund revenues were provided from a \$7.50 automobile title transfer fee adopted in 1991. This revenue source was selected, in part, in recognition of the nonpoint source pollution attributable to the state's transportation infrastructure and vehicle operation. However, the 1997-99 biennial budget required that title transfer fees be deposited to the transportation fund, and that instead, general fund revenues in an amount based on the annual title transfer fee revenues from the previous fiscal year be deposited to the nonpoint account to be used for nonpoint source water pollution abatement related activities. Under 2001 Act 109, starting in 2002-03, this transfer of GPR is reduced by \$555,000 each year. In 2003-04, the amount of revenue deposited into the transportation fund from vehicle title transfer fees totaled \$11,304,000, meaning in 2004-05, \$10,749,000 (\$11,304,000 minus \$555,000) in general purpose revenue was transferred to the nonpoint account. This GPR transfer

(and associated investment income) is the sole source of nonpoint account revenue. Unspent segregated appropriation authority generally lapses back to the environmental fund at the end of each year.

3. Under the bill, revenues from the \$7.50 supplemental vehicle title fee, including the corresponding fee collected from manufactured homes, would be deposited directly to the nonpoint account of the environmental fund. This would have the effect of increasing revenues deposited to the nonpoint account by \$555,000 annually (to \$11.25 million under the bill), decreasing revenues deposited to the transportation fund, and decreasing GPR expenditures. [This issue is discussed in a separate budget paper under the Department of Transportation.]

4. The bill would also transfer funding for a variety of purposes from GPR to nonpoint account SEG. Included among these transfers is administrative funding and positions in both DNR and DATCP, and certain debt service costs in DATCP. While the administration indicates DNR would be given some flexibility to determine what positions would be transferred from GPR to SEG under the bill, the \$356,200 annually and 4.75 positions in DNR that would be transferred from GPR to nonpoint account SEG are based on the costs associated with 1.75 program and planning analysts, 1.0 wastewater engineer, 1.0 natural resources program specialist, and 1.0 water resources management specialist that DNR utilizes for its nonpoint source water pollution responsibilities. DNR currently funds 14.0 of its 65.5 nonpoint administrative positions from the nonpoint account, and 10.5 (which the bill would reduce to 5.75) from GPR. The remaining 41 staff are funded from federal revenue (31.5 staff) and program revenue (9.5 staff). The \$885,900 and 10.0 positions that would be transferred annually under the bill in DATCP from GPR to nonpoint account SEG are used by the Department for the administration of its land and water resource management activities. DATCP currently funds 11.0 of its 25.0 nonpoint administrative positions from the nonpoint account, 10.0 positions from GPR (all of which would be transferred under the bill), and 4.0 positions from federal funding. The Governor argues nonpoint account SEG already funds some administrative positions in the two agencies and that moving other positions to this source will preserve GPR.

5. In addition to administrative funding, the bill would create an annual appropriation in DATCP, to be funded by the segregated nonpoint account of the environmental fund, and convert \$847,700 annually from GPR to SEG for the payment of principal and interest costs incurred in providing bonding revenue for soil and water resource management projects DATCP makes as part of its annual grant allocation to counties. Soil and water resource management bonding repayments would first be paid from the annual nonpoint SEG appropriation with any remaining payments from the existing GPR sum sufficient appropriation, which are estimated to be \$271,400 in 2005-06 and \$620,300 in 2006-07 under the bill.

6. DNR and DATCP work jointly in controlling nonpoint source water pollution and soil erosion in the state. Each year, the two agencies develop a joint final allocation plan, which provides grant funding primarily to counties for conservation staff and support costs, landowner cost-sharing, and priority watershed and runoff management projects. For calendar year 2005 grants (funded in fiscal year 2004-05), DATCP allocated grants to county land conservation

committees and other project cooperators through the soil and water resource management (SWRM) program and DNR allocated grants to counties through the priority watershed, targeted runoff management (TRM), and urban nonpoint source and storm water management programs.

7. Through April, 2005, DATCP has allocated a total of \$12.8 million for local land and water conservation grants, with \$8.5 million being GPR and SEG for county staffing support, and \$4.3 million in bonding that was used to provide grants to landowners for the installation of nonpoint source water pollution abatement practices. Staffing grants are used to pay for salary, supply and training costs of county employees for land and water conservation efforts, and to administer cost-share grants. For 2005, staffing grants were the greater of: (a) \$85,000; or (b) the amount of funding awarded to the county for DNR priority watershed staffing in 2001, less any amount allocated in 2001 for a priority watershed that has subsequently closed.

8. The bill would provide DATCP an additional \$500,000 SEG annually from the nonpoint account of the environmental fund to provide grants to counties to fund land and water conservation staff and related supplies (for a total of \$9,307,000 annually). In 2003 Act 33 (the 2003-05 biennial budget act), funding for county staffing grants was reduced by \$500,000 GPR annually, approximately a 5% reduction. The Governor's recommendation would restore county staffing grant funding to the 2002-03 level of \$9,307,000.

9. Some argue this would provide needed funds to counties for staff to help landowners implement nonpoint water pollution abatement projects. Others argue that unless additional bonding is provided for grants to be made to landowners for nonpoint water pollution abatement project cost-sharing, additional funding for county staff should not be provided. Counties would counter that even without state bonding (or with more limited state bonding) county staff are needed to encourage no- or low-cost conservation practices by landowners to meet state nonpoint pollution abatement standards and to help ensure that available federal funding is utilized in the state.

10. Revamped administrative rules (NR 151, 152, 153, 154 and 155 and ATCP 50) to implement the nonpoint source, storm water and SWRM programs were promulgated and take effect between October 1, 2002, and March 10, 2013. These rules establish statewide nonpoint source water pollution performance standards. The rules also provide for state cost-sharing for the installation of nonpoint source water pollution abatement best management practices that landowners need to install in order to meet the statewide standards. These cost-share rates are typically 70%, but may be as high as 90% in cases of economic hardship. The primary source of revenue used to fund the state's share of landowner's installation of best management practices is bond revenue, although GPR and SEG funding may also be used for these purposes.

11. The Wisconsin Constitution generally restricts the issuance of public debt to long-term capital projects. As a result, bond revenue generally may not be used to pay for staff or cropping practices, such as nutrient management and conservation tillage, known as "soft practices." Rather, it is used for water pollution abatement or conservation practices, such as diversions (structures installed to divert water from areas where it is in excess to sites where it can be used or transported safely), riparian buffers (an area in which vegetation is enhanced or established to

reduce or eliminate the movement of sediment, nutrients and other nonpoint source pollutants to an adjacent surface water resource), and filter strips (an area of herbaceous vegetation that separates an environmentally sensitive area from cropland, grazing land or disturbed land). Bond revenue is also available for traditional building projects such as manure storage facilities, concrete barnyards and roofed feedlots. The state tries to use federal Section 319 funds (which are not restricted in the type of practices they may fund) to install "soft practices" when possible. This funding is provided by the U.S. Environmental Protection Agency through the Clean Water Act and is associated with Great Lakes basin projects and selected cost-share and local staffing grants.

12. In particular, administrative rule ATCP 50 currently requires farmers near outstanding and exceptional resource waters, and all farmers by 2008, to implement a nutrient management plan in order to meet DNR runoff pollution performance standards. ATCP 50 specifies that the plan is to apply to all fields to which the farmer mechanically applies nutrients. The plan would address controlling the amount, source, form, location and timing of plant nutrient applications. Under the rule, landowners may receive cost-share grants to reimburse costs related to soil and plant nutrient testing, nutrient analysis of manure and other organic waste, and development and revision of a nutrient management plan, provided the landowner agrees to maintain the nutrient management practice. The Governor's recommendation would provide \$520,000 nonpoint account SEG annually to DATCP for grants to landowners for nutrient management plan implementation. State officials indicate that the nonpoint SEG is particularly important for implementing nutrient management and other "soft" practices that can not be supported with bond revenues. They note a number of recent manure runoff related fish-kills and well contamination cases as highlighting the importance of proper nutrient management. Based on an average cost share amount of \$5.75 per acre (for a maximum of four years), nutrient management plans for approximately 90,000 acres of land could be funded given state funding of \$520,000 per year. However, Department officials indicate that counties could use a portion of this funding to make grants to landowners for the implementation of other nonpoint water pollution abatement best management practices if given DATCP's approval.

13. Table 2 depicts the projected nonpoint account fund condition under the bill. As shown in the table, the account would be expected to have a June 30, 2007, balance of approximately \$260,000.

TABLE 2**Nonpoint Account Fund Condition Under the Bill**

	Actual <u>2003-04</u>	Estimated <u>2004-05</u>	Estimated <u>2005-06</u>	Estimated <u>2006-07</u>
Opening Balance	\$7,229,200	\$7,764,000	\$7,073,800	\$6,269,700
Revenue				
Title Transfer Fee	10,827,100	10,749,000	11,250,000	11,250,000
Interest	<u>111,200</u>	<u>175,000</u>	<u>150,000</u>	<u>130,000</u>
Total Revenue	10,938,300	10,924,000	11,400,000	11,380,000
Total Available	\$18,167,500	\$18,688,000	\$18,473,800	\$17,649,700
Expenditures				
<i>Agriculture, Trade and Consumer Protection</i>				
Soil and water management adm	\$1,045,800	\$976,200	\$1,970,500	\$1,973,700
Soil and water management grants	3,615,700	3,725,100	4,745,100	4,745,100
Debt service		847,700	847,700	
<i>Natural Resources</i>				
Integrated science services	319,800	342,700	356,800	356,800
Nonpoint source contracts	1,016,900	997,600	997,600	997,600
TMDL Development	40,500	101,200	468,200	468,200
Nonpoint source administration	457,300	441,700	486,600	486,600
Urban nonpoint source grants	1,353,000	1,399,000	1,399,000	1,399,000
Lake and river grants	95,000	0	0	0
Debt service	16,800	68,300	53,900	74,300
Administrative operations	278,300	257,300	160,200	168,600
Wisconsin Waters Initiative	463,600	463,600	463,600	463,600
Customer assistance and comm	<u>96,100</u>	<u>94,300</u>	<u>201,700</u>	<u>212,300</u>
Total Expenditures	\$8,798,800	\$8,867,000	\$12,150,900	\$12,193,500
Reserves		76,400	53,200	69,900
Lapse to General Fund	1,604,700	2,670,800		
Closing Cash Balance	7,764,000	7,073,800	6,269,700	5,386,300
Encumbrance/Continuing Balance	5,123,500	5,123,500	5,123,500	5,123,500
Available Balance	\$2,640,500	\$1,950,300	\$1,146,200	\$262,800

14. Table 3 depicts estimated expenditures under the bill, but with current law revenues. As shown in the table, if the Committee continued to fund the nonpoint account as currently (depositing revenues to the transportation fund, with a GPR transfer to the nonpoint account, less

\$555,000, based on the prior year's revenues), expenditures would need to be reduced by approximately \$850,000 over the biennium. This could be accomplished a number of ways, including: (a) maintaining a portion of the funding for administrative positions in DNR and DATCP that the bill would convert from GPR to nonpoint account SEG; (b) by funding debt service costs for nonpoint water pollution abatement best management practice grants bonding from a greater level of GPR; (c) not providing the full increase in funding for county staffing grants; or (d) not providing the full increase in funding for the implementation of a grant program for nutrient management plans. These options are shown under Alternative 2, however, a combination of these reductions or making other reductions in activities currently funded under the nonpoint account could also be considered.

TABLE 3

Nonpoint Account Fund Condition under Current Law Revenues

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Opening Balance	\$7,229,200	\$2,640,500	\$1,950,300	\$591,200
Current Law Rev	10,938,300	10,924,000	10,845,000	10,825,000
AB 100 Expend	15,527,000	11,614,200	12,204,100	12,263,400
Closing Balance	2,640,500	1,950,300	591,200	-847,200

ALTERNATIVES

1. Adopt the Governor's recommendation to create an annual appropriation in DATCP to be funded by nonpoint account SEG and convert \$847,700 annually from GPR to SEG for the payment of principal and interest costs incurred in providing bonding revenue for soil and water resource management projects. Further, provide DATCP \$500,000 nonpoint account SEG annually for county staffing grants, and \$520,000 nonpoint account SEG annually for nutrient management grants. Moreover, convert \$885,900 and 10.0 positions from GPR to nonpoint account SEG annually for administration of DATCP's land and water resource management activities, and \$356,200 and 4.75 positions from GPR to nonpoint account SEG for administration of DNR's nonpoint responsibilities.

2. In the event the Committee maintains the current law allocation of GPR funding based on the prior year's title revenues (minus \$555,000) to the nonpoint account, modify the Governor's recommended expenditures by one of the following to maintain a positive nonpoint account balance:

a. Reduce the transfer of debt service payments from GPR to SEG by \$425,000 annually.

<u>Alternative 2a</u>	<u>GPR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	\$850,000	- \$850,000	\$0

b. Reduce the amount of additional nonpoint SEG funding provided for county staffing grants by \$425,000 annually (\$75,000 annually would be provided).

<u>Alternative 2b</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	- \$850,000

c. Reduce the amount of nonpoint SEG provided for implementation of a grant program for nutrient management by \$425,000 annually (\$95,000 annually would be provided).

<u>Alternative 2c</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	- \$850,000

d. Reduce the amount of funding and associated positions transferred from GPR to nonpoint account SEG for administration of DATCP's land and water resource management activities by \$425,000 annually and 5.0 positions.

<u>Alternative 2d</u>	<u>GPR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	\$850,000	- \$850,000	\$0
2006-07 POSITIONS (Change to Bill)	5.00	- 5.00	0.00

Prepared by: Christopher Pollek