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Joint Committee on Finance

Paper #485

Soil and Water Resource Management Aids (DNR -- Environmental Quality and Agriculture, Trade and Consumer Protection)

[LFB 2013-15 Budget Summary: Pages 60, #5 (part) and Page 351, #12 (part)]

CURRENT LAW

The Department of Agriculture, Trade and Consumer Protection (DATCP) and the Department of Natural Resources (DNR) administer complementary programs for the abatement of nonpoint source water pollution and soil erosion. DATCP administers the soil and water resource management (SWRM) program, which includes: (a) cost-sharing grants to counties for land and water conservation staff; and (b) cost-sharing grants for landowners to implement best management practices and changes in land uses to minimize or eliminate water pollution and soil erosion from agricultural sources. Cost-sharing for county conservation staff is funded by GPR and the nonpoint account of the segregated environmental fund. Cost-sharing for landowner grants is supported by nonpoint SEG, including nonpoint-SEG-supported general obligation bonding. DATCP and DNR jointly distribute annual funding among counties through a statutorily required allocation plan that is to be determined by December 31 of each year for funding to be granted the following calendar year. DATCP is appropriated \$5,356,700 nonpoint SEG annually under current law for cost-sharing grants to landowners. Funding for county conservation staff includes \$3,843,100 GPR and \$5,036,900 nonpoint SEG, or \$8,880,000 total under current law.

GOVERNOR

Delete \$2,856,700 nonpoint account SEG annually for SWRM landowner cost-sharing grants.

DISCUSSION POINTS

1. The administration intends the reductions in the nonpoint SEG for landowner cost-sharing and the transfer of 50¢ per ton of the state tipping fee under the bill within the environmental fund, from the environmental management account to the nonpoint account, to more closely balance budgeted nonpoint account expenditures in 2013-15 with annual revenues.

2. The statutes require DNR to establish performance standards for sources of runoff, including both agricultural and nonagricultural sources, to reduce or eliminate nonpoint source pollution and further goals of achieving state water quality standards. Performance standards are contained in NR 151, while ATCP 50 specifies agricultural conservation practices that may be used by agricultural operations to meet the performance standards. Certain practices specified in ATCP 50 are structural improvements, such as manure storage facilities or practices to stabilize eroding stream banks. Others are nonstructural, or "soft," practices, including nutrient management planning or other cropping techniques. Nutrient management planning, in particular, is required of all cropland to which nutrients such as fertilizer or manure are mechanically applied. This requirement took effect for existing cropland on January 1, 2008. However, for a landowner to be required to install best management practices on existing cropland or agricultural facilities, the statutes generally require an offer of cost-sharing to be made. The offer typically must be 70% of the cost of installation, or, for some nonstructural management practices, a flat rate per acre per year for a specified amount of time.

3. General obligation bonding and nonpoint SEG under the SWRM program both are provided for the state to meet minimum cost-sharing requirements with landowners. However, the funds typically are used for exclusive purposes. As the Wisconsin Constitution generally requires bond proceeds to finance only structural improvements and related design costs, SWRM bond proceeds are allocated by DATCP to capital improvements at agricultural sites. However, cropping or other "soft" practices are not eligible to be financed by bond funding. Nonpoint SEG, therefore, complements general obligation bonding authority by allowing DATCP to utilize separate fund sources for different categories of practices to reduce or prevent soil erosion and runoff from agricultural sites.

4. DATCP annually estimates the farmland acreage in Wisconsin that is under a nutrient management plan created to standards established by the U.S. Department of Agriculture. For 2012, DATCP estimated that approximately 1.95 million acres in Wisconsin were under nutrient management planning, compared to approximately 1.5 million acres in 2010 and 1.85 million acres in 2011. The 2012 amount represents about 22% of Wisconsin's 9 million acres of cropland as being subject to nutrient management plans. This total includes: (a) 816,000 acres under state cost-sharing; (b) 468,000 acres under a local ordinance for manure management or livestock siting, for which cost-sharing is required to change existing practices; (c) 630,000 acres at concentrated animal feeding operations, which have wastewater discharge permits under provisions of NR 243, and must practice nutrient management planning regardless of cost-sharing availability as a condition of their wastewater discharge permit; and (d) 35,000 acres outside of a specific program.

5. As the statutes require the state to offer a minimum share of the cost of installing

conservation practices, the amount of practices that may be installed is dependent on the amount of funding available for grants. For instance, nutrient management planning, which is the practice primarily funded with DATCP's nonpoint SEG cost-sharing funding, may be required of a landowner if the person receives a cost-sharing offer of \$7 per acre per year for at least four years, equal to \$28 per acre. Therefore, DATCP estimates the \$1,304,900 nonpoint SEG to be allocated for nutrient management planning in 2013 would support plans on 46,600 acres.

6. To support additional cost-sharing for nutrient management or other nonstructural best management practices, 2005 Act 25 made \$520,000 nonpoint SEG available beginning in 2005-06, and this increased under 2007 Act 20 by an additional \$6,000,000 nonpoint SEG beginning in 2008-09. Funding has been reduced to \$5,356,700 annually by subsequent biennial budgets (2009 Act 28 and 2011 Act 32). However, these amounts were reduced by approximately \$4 million annually in the 2009-11 biennium to meet required transfers to the general fund, and \$3.5 million has been unexpended each year in 2011-13, despite a substantial nonpoint account balance. DATCP also has typically allocated some amounts each year for the University of Wisconsin System and other public and private groups that conduct statewide research or outreach programs promoting nutrient management or soil and water conservation.

7. Some have argued reductions of amounts available for landowner grants has limited, and would continue to limit, acreage on which nutrient management planning could be conducted. Also, it has been argued that limiting nonpoint source pollution from agricultural sources, through actions such as nutrient management, is a more cost-effective means of improving the quality of impaired surface waters in the state, as opposed to making infrastructure upgrades to urban areas or certain point sources such as wastewater treatment operations.

8. Some may also argue that preserving funding for the SWRM grants for county staffing retains personnel that can continue to provide landowners with expertise and technical assistance. Currently, the statutes specify that DATCP and DNR attempt to provide funding for an average of three land and water conservation staff persons in each county, with salary and fringe benefits funded at a rate of: (a) 100% for the first county staff person; (b) 70% for the second staff person; and (c) 50% for each additional staff person. A county match is therefore required for at least 30% of the salary and fringe benefits of the second staff person and at least 50% of the salary and fringe benefits for each additional staff person. Additionally, the Departments are to attempt to provide an average of \$100,000 in cost-sharing funds per county.

9. For the SWRM funding allocations to counties for the 2006 through 2009 calendar years, DATCP had annual base funding of \$9,307,000 for county staffing grants. This included \$5,081,900 GPR and \$4,225,100 nonpoint SEG, although these amounts have been altered by subsequent budget legislation. Table 1 shows the DATCP funding for county conservation staffing available since 2009-10, which was allocated for the 2010 calendar year. The table includes lapses applied in the 2011-13 biennium to meet 2011 Act 32 lapse requirements. The amounts include only new appropriations and exclude funds that have typically been available each year as a result of lower spending in previous allocations.

TABLE 1**SWRM County Conservation Staffing Grants**

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
GPR	\$4,270,100	\$4,270,100	\$3,843,100	\$3,843,100	\$2,844,500	\$3,027,200
Transfer/Lapse	0	0	-1,100,400	-280,400	0	0
Nonpoint SEG	<u>5,036,900</u>	<u>5,036,900</u>	<u>5,036,900</u>	<u>5,036,900</u>	<u>5,036,900</u>	<u>5,036,900</u>
Net Amount	\$9,307,000	\$9,307,000	\$7,779,600	\$8,599,600	\$7,881,400	\$8,064,100

10. Continuity in conservation staffing also may allow for available staff, in some cases, to arrange for alternate cost-sharing funding for landowners, including: (a) the state-federal Conservation Reserve Enhancement Program, which provides landowners with federal rental payments for land retired from production, as well as state-funded cost-sharing to establish cover vegetation to prevent soil loss; and (b) the federal Environmental Quality Incentives Program (EQIP), which provides cost-sharing to landowners for establishment of best management practices.

11. The Committee could consider adopting the Governor's recommendation [Alternative 1], given that the nonpoint account-related recommendations would substantially improve the account's structural balance. Expenditures are estimated to exceed revenues by a total of approximately \$2 million over the biennium, although the structural imbalance decreases under the bill from approximately \$1.3 million in 2013-14 to perhaps \$630,000 in 2014-15. One could argue the bill does so while providing substantial cost-sharing funds for county conservation staff and grants to landowners for nonstructural practices. Further, the annual appropriation for landowner cost-sharing grants in 2013-15 may result in a net increase to those grants, due to lapses to the general fund or nonpoint account balance in previous years. Table 2 shows the net amounts of nonpoint SEG available for grants to landowners since 2009-10, including transfer and lapse amounts applied, and the 2013-15 appropriations under the bill.

TABLE 2**SWRM Landowner Cost-Sharing--Nonpoint SEG**

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Appropriation	\$5,048,700	\$5,048,700	\$5,356,700	\$5,356,700	\$2,500,000	\$2,500,000
Transfer/Lapse	<u>-3,750,000</u>	<u>-4,075,000</u>	<u>-3,500,000</u>	<u>-3,500,000</u>	<u>0</u>	<u>0</u>
Net Amount	\$1,298,700	\$973,700	\$1,856,700	\$1,856,700	\$2,500,000	\$2,500,000

12. Although the nonpoint account would have a structural imbalance in the 2015-17 biennium, consideration could be given to offsetting SWRM program reductions under the bill on a one-time basis, given that the account is estimated to retain an available balance of approximately \$4.5 million as of June 30, 2015. The Committee could consider providing nonpoint SEG sufficient to offset GPR reductions recommended by the Governor for county conservation staffing grants in

2013-15; these amounts would be \$998,600 in 2013-14 and \$815,900 in 2014-15. Alternative 2 would provide almost \$8.9 million for county conservation staffing grants in each year.

13. The Committee also could consider restoring the GPR reduction for county staffing grants recommended by the Governor. The Committee could consider providing GPR on a one-time basis [Alternative 3a], or as ongoing funding [Alternative 3b]. One could argue GPR funding is appropriate to restore, as: (a) GPR funding levels for county staffing grants have been higher in the past; (b) GPR funding for county staffing grants could alleviate structural deficiencies anticipated in the nonpoint account during the 2013-15 biennium; and (c) additional GPR funding for county staff could reduce counties' reliance on funding positions through other sources, including local taxes. However, one also could argue maintaining current GPR funding for county staffing grants is appropriate, given that funding, at least in 2013-15, could be offset by nonpoint SEG, and GPR may be allocated to other program areas.

14. The Committee also could consider providing nonpoint SEG for landowner cost-sharing for nonstructural practices such as nutrient management planning. The Committee could consider restoring one of the following amounts each year of the biennium for landowner cost-shares: (a) \$250,000 [Alternative 4a]; \$500,000 [Alternative 4b]; (c) \$750,000 [Alternative 4c]; or (d) \$1,000,000 [Alternative 4d]. Some combination of these alternatives could be considered if the Committee wished to restore a portion of the reductions recommended in the bill. If funding is provided on a one-time basis, ongoing expenditure levels could be reviewed in the 2015-17 biennium.

ALTERNATIVES

1. Adopt the Governor's recommendation to reduce funding for landowner cost-sharing grants under the SWRM program in DATCP by \$2,856,700 nonpoint SEG annually.

2. Provide one-time funding of \$998,600 nonpoint SEG in 2013-14 and \$815,900 nonpoint SEG in 2014-15 under the DATCP appropriation for county conservation staffing grants.

ALT 2	Change to Bill Funding
SEG	\$1,814,500

3. Provide \$998,600 GPR in 2013-14 and \$815,900 GPR in 2014-15 to the DATCP appropriation for county conservation staffing grants as:

a. Ongoing funding; or

ALT 3a	Change to Bill Funding
GPR	\$1,814,500

- b. One-time financing each year in 2013-15 only.

ALT 3b	Change to Bill Funding
GPR	\$1,814,500

4. Provide one of the following nonpoint SEG amounts each year, in the 2013-15 biennium only, to the DATCP appropriation for soil and water resource management aids to landowners:

- a. \$250,000;

ALT 4a	Change to Bill Funding
SEG	\$500,000

- b. \$500,000;

ALT 4b	Change to Bill Funding
SEG	\$1,000,000

- c. \$750,000; or

ALT 4c	Change to Bill Funding
SEG	\$1,500,000

- d. \$1,000,000.

ALT 4d	Change to Bill Funding
SEG	\$2,000,000

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