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Joint Committee on Finance

Paper #452

Stewardship Funding for Kettle Moraine Springs Fish Hatchery (DNR -- Departmentwide)

[LFB 2015-17 Budget Summary: Page 302, #4]

CURRENT LAW

2013 Act 20 provided \$14 million for infrastructure improvements to the Kettle Moraine Springs fish hatchery from the property development and local assistance subprogram and specified that DNR may obligate not more than \$7 million in fiscal year 2014-15 and \$7 million in 2015-16 for the project. The Act allows DNR to carry-forward the \$14 million allocation for the hatchery through June 30, 2017. As a result, if less than \$7 million in bonds were obligated from the property development and local assistance subprogram for infrastructure improvements to Kettle Moraine Springs fish hatchery in either fiscal year 2014-15 or in 2015-16, the Department could obligate the unobligated amounts for that purpose through June 30, 2017 (the end of fiscal year 2016-17).

GOVERNOR

Specify that an additional \$14 million in existing Knowles-Nelson Stewardship Program bonding authority from the property development and local assistance subprogram be designated for infrastructure improvements to the Kettle Moraine Springs Fish Hatchery in Sheboygan County, including \$7 million in fiscal year 2016-17 and \$7 million in fiscal year 2017-18. Further, specify that s. 23.0917(5g) of the statutes, which prohibits the Department from obligating an unobligated amount appropriated for a subprogram in a given year in subsequent fiscal years, does not apply with respect to amounts obligated before July 1, 2018, for infrastructure improvements to the Kettle Moraine Springs fish hatchery.

DISCUSSION POINTS

1. Under the bill, a total of \$28 million of existing stewardship bonding authority (using \$7 million in authority over four years from 2014-15 through 2017-18) would be available for infrastructure improvements to the Kettle Moraine Springs (KMS) fish hatchery, including the \$14 million provided under 2013 Act 20.

2. If the project is approved, two corrections to the bill would be required. An amendment to the Building Commission recommendations would be appropriate. The \$28 million KMS project (or whatever level of funding is approved) should be enumerated from existing stewardship program property development and local assistance subprogram funds in the 2015-17 state building program. In addition, while the bill would require \$18.5 million in stewardship allocations from the property development and local assistance subprogram in fiscal years 2016-17 and 2017-18 [including \$6 million for local assistance grants, \$7 million for the KMS fish hatchery, and \$5.5 million for DNR property development (including motorized stewardship projects)], only \$11.5 million would be statutorily authorized for the property development and local assistance subprogram under the bill.

3. 2013 Act 20 required DNR to prepare a report that describes the need for renovation of the Kettle Moraine Springs fish hatchery. The Act specifies that the report must include the following: (a) a description of all proposed expenditures for the renovation of the Kettle Moraine Springs fish hatchery and how these expenditures minimize the requirement to contract state debt; and (b) a statement about whether private aquaculture facilities or other entities are able to meet the Department's fish stocking needs in an economically feasible manner. DNR was required to submit the report to the Joint Committee on Finance not later than June 30, 2014. Further, the Act specifies that DNR may not obligate any stewardship bonds for infrastructure improvements at the Kettle Moraine Springs fish hatchery unless the Department submits a request to the Joint Committee on Finance under s. 13.10 of the statutes and the Joint Committee on Finance approves the request. The Department submitted the required report regarding the need for renovation at Kettle Moraine Springs on June 30, 2014. The Finance report referenced another more comprehensive report, referred to as the HDR Engineering report.

4. In April, 2009, DNR contracted with HDR Engineering, Inc. of Springfield, IL, to complete a comprehensive statewide fish facility evaluation to determine whether the statewide fish propagation system can continue to meet current and projected fish stocking goals. DNR received the report in December, 2011. The Kettle Moraine Springs fish hatchery and nearby "annex," located in Sheboygan County, is utilized for a significant portion of DNR Great Lakes fish stocking. The hatchery has traditionally stocked wild (rainbow, or steelhead) trout in Lake Michigan, and also provides chinook salmon eggs which are transferred to other hatcheries for stocking in Lake Michigan. The annex is a facility near the main campus of the Kettle Moraine fish hatchery used to incubate steelhead trout, coho salmon, and chinook salmon eggs. Fish are then transferred to the main campus of the Kettle Moraine hatchery for continued rearing. The Department currently uses water from two wells in the incubation units and raceways at the annex. According to the Department, the deteriorating condition of the facilities at the Kettle Moraine Springs hatchery could lead to an inability to meet Great Lakes fish stocking goals, and renovation of Kettle Moraine

Springs is the Department's highest priority in the fish propagation system. The DNR report cites the HDR report as describing a system-wide production gap of approximately 323,550 pounds of coldwater fish for both the Great Lakes and the inland stocking programs. According to the Department, renovation of Kettle Moraine Springs could address much of this gap (for example the current gap amounts to approximately 170,800 pounds of fish for stocking in Lake Michigan).

5. With regard to a description of all proposed expenditures for the renovation of the Kettle Moraine Springs fish hatchery, DNR again referred to the 2011 HDR Engineering report for estimated Kettle Moraine Springs renovation costs, originally approximately \$21.9 million in 2011 costs, but updated to reflect 2.4% inflation to \$24.6 million in 2016 estimated costs. However, the Department does not plan to have a final design, and begin bidding and contracting for construction of the Kettle Moraine Springs hatchery infrastructure improvements until fiscal year 2016-17, with bonding likely issued beginning in fiscal year 2017-18. The Department was unable to provide an updated cost estimate. However, adjusting the 2011 costs at a rate of 2.4% inflation would result in an estimated cost of approximately \$25.8 million in 2018 estimated construction costs including design fees and DOA management fees, the total cost of the renovation could be approximately \$31.5 million in 2018 dollars as shown in the following table. However, final project costs will be determined based on DNR's final design plan and an overall funding plan to be approved by the Joint Committee on Finance and the Building Commission.

**Kettle Moraine Springs State Fish Hatchery Infrastructure
Preliminary Estimated Costs**

2018 Estimated Construction Cost (inflation rate of 2.4%)	\$25,820,000
Contingency (10% of estimated construction cost)	2,582,000
Architectural/Engineering Design Fee (approx 8% of construction)	2,065,000
DOA Construction Management Fees (approx 4% of construction)	<u>1,033,000</u>
 Total	 \$31,500,000

6. Costs shown in the table include \$21.87 million in 2011 estimated costs (updated to \$25.8 million in 2018 estimated costs) for improvements to the Kettle Moraine Springs hatchery recommended in the HDR Engineering report (listed costs include \$18.14 million in 2011 costs at the main Kettle Moraine Springs campus and \$3.73 million at the annex) as follows: (a) \$6.86 million for improvements to the aquaculture water supply-improvements to existing wells, installation of new wells, centralized water recirculation treatment system, replacement of truss piping, renovation of water treatment system at the annex, water heating equipment for incubation and early rearing, installation of pump stations for rearing ponds, installation of water flow measurement devices, installation of partial reuse aquaculture system (PRAS) at the annex, installation of a dissolved oxygen management system at the annex; (b) \$9.93 million for fish rearing units- raceway improvements, renovation of watershed rearing ponds, installation of additional fish tanks, additional biosecurity features, coolwater rearing units, and installation of an automatic fish feeding station at the annex; (c) \$1.85 million for building repairs and renovations-office building renovations or replacement, replacement of hatchery roof at the annex, additional

biosecurity features, new storage buildings, new water supply lines and drains, replacement of educational kiosks and display materials, residence renovations, new chemical storage building, addition of temperature control to feed storage areas; (d) \$1.24 million for on-site improvements-evaluation of domestic water well and water quality treatment, installation of site security fencing, storm water and surface water management, survey and signage of property boundaries, pavement of existing gravel roads and additional parking, creation of a visitor video, addition of an ADA accessible restroom for visitors, and addition of truck/equipment disinfection areas; (e) \$993,300 for replacement of the effluent wastewater treatment system at the main campus and renovation of a wastewater treatment pond at the annex; and (f) \$992,000 for electrical and HVAC-installation of upgraded facility electrical systems, phone systems, emergency generator, remote surveillance and remote water quality and low flow and low dissolved oxygen alarm systems.

7. With regard to the minimization of state debt, the DNR report to Joint Finance states that the Department is planning to utilize as many funding sources as possible in order to minimize any requirements to contract state debt to complete this project. However, the Department plans to utilize primarily stewardship program funds (the \$28 million identified under the bill) to complete the project. Additionally, in the 2014 report, the Department indicated they would use some Great Lakes trout and salmon stamp funds (approximately \$1 million) and would pursue federal Natural Resource Damage Assessment (NRDA) funds (\$6 million in NRDA funds were utilized for renovation of the Wild Rose fish hatchery) as well as potentially create a fish hatchery stamp which could be used to generate revenues to increase fish stocking capacity. The Department initially contracted with the United States Geological Survey (USGS) for a groundwater study at the Kettle Moraine Springs hatchery paid for with approximately \$183,000 in Great Lakes trout and salmon stamp funds. USGS contributed \$48,000 in costs for the study (for a total study cost of \$231,000). However, the Department amended the groundwater study to include contracting with USGS to drill a deep (approximately 1,000-foot deep) test well in the sandstone layer of the aquifer for an estimated cost of approximately \$386,000 which the Department will pay for using Great Lakes trout and salmon stamp funds. USGS began drilling the test well in May, 2015. Testing will be done to prove that there is adequate quantity and quality of water to eliminate any impact on neighboring wells. The test well may then potentially be converted into a production well that would be utilized by the newly renovated hatchery. DNR expects final results of the groundwater study to be completed in December, 2015.

8. DNR plans to use approximately \$1 million in Great Lakes trout and salmon stamp funds for the preliminary design report for the Kettle Moraine Springs project which is required by the State Building Commission for enumerated projects (projects over \$760,000 in cost). Originally, the Department had indicated they planned to utilize these funds for a conceptual engineering report but DNR staff indicate that they consider the groundwater study to have supplanted the need for a conceptual engineering study. According to the Department, preliminary groundwater results were favorable, meaning a new fish hatchery site will not need to be considered. The preliminary design study will integrate the results of the groundwater study and provide the parameters to design the renovation, resulting in a system designed to optimize the use of the site and available water. DNR would then pursue plans to design and construct improvements to the Kettle Moraine Springs hatchery recommended in the HDR Engineering report including improvements related to the water supply, fish rearing units, buildings, and other on-site, HVAC and electrical work. As noted, the

Department hopes to have a final design, and begin bidding and contracting for construction of the Kettle Moraine Springs hatchery infrastructure improvements during fiscal year 2016-17. DNR would need Building Commission and Joint Committee on Finance approval prior to obligating any stewardship bonds for the project. It should be noted that as bonding for the KMS fish hatchery project would not be issued until at least fiscal year 2017-18, any changes to the bonding authorized for the KMS hatchery project would not affect the debt service estimates for the stewardship program for the 2015-17 biennium.

9. Historically, the Department has not utilized stewardship bonds for development projects at fish hatchery properties. For example, the \$32.5 million renovation of the Wild Rose fish hatchery was conducted utilizing a mix of funding sources including federal Sport Fish Restoration funds (\$8.4 million), conservation fund SEG supported bonding (\$18.1 million) and funding from the Natural Resources Damage Assessment account from the Fox River PCB settlement (\$6 million). It is possible that funding for the Kettle Moraine Springs renovation could be supported by similar sources. If the Committee wished to provide some stewardship bonding authority for the project, but require the Department to seek a greater share of funding from an alternate source, the Committee could consider providing between one-fourth and three-fourths of the proposed \$28 million allocation [Alternatives 2a, 2b, and 2c]. However, debt service on conservation fund SEG supported bonding for fish hatcheries is paid primarily from the fish and wildlife account of the conservation fund. The fish and wildlife account has maintained expenditures below authorized levels over the past several biennia, primarily through staff vacancies, to maintain expenditures within available revenues. Debt service on stewardship bonds is primarily funded from a sum sufficient general purpose revenue (GPR) appropriation with a portion of the funding coming from the forestry account of the conservation fund (\$13.5 million in 2014-15).

10. If the project is deleted, as none of the bonding has been obligated and none of the bonds have been issued to date, the statutory bonding authority for the program could be removed (this would reduce total authorized bonding for the stewardship program by \$28 million) [Alternative 2d]. Further if, bonding allocations for the hatchery are reduced, the associated stewardship bonding revenue authority could be reduced by the same amount (or it could be reallocated to other stewardship program purposes) [Alternatives under 2]. Some would argue that if the KMS hatchery were not renovated, the private sector could meet some of the Great Lakes fish stocking needs of the Department. However, in their report to the Joint Committee on Finance submitted in June, 2014, DNR states that Great Lakes stocking is not a need that private aquaculture can meet, and private aquaculture supports the Department's proposal to renovate the Kettle Moraine Springs fish hatchery and views the Department's Great Lakes stocking program as complementary to their interests and not an area of competition. According to the DNR report, private sector rearing of Great Lakes coldwater species is more difficult due to the need for lower rearing densities and for addressing stringent biosecurity and fish health issues and DATCP rules. The report states that less than eight percent of private hatcheries have the type of licenses which would be required to bring wild fish into a facility. The Department also refers to another report required under 2013 Act 20 regarding private fish farm capacity to produce fish for stocking state waters. The capacity report provided results from a spring 2014 survey of private fish farmers in Wisconsin conducted by the UW-Extension Aquaculture Outreach Program contracted through the Survey Research Center at UW-River Falls. The survey found that, while many respondents had

unused capacity for fish stocking and planned to expand in the next several years, expansions are more likely for cool water species (such as walleye and panfish) than cold water species (trout and salmon). Additionally, most respondents indicated it was not an important factor for them to work with DNR to fulfill management stocking needs.

ALTERNATIVES

1. Adopt the Governor's recommendation (as corrected) to specify: (a) that DNR set aside \$7 million in fiscal year 2016-17 and \$7 million in 2017-18 from the property development and local assistance subprogram, only for infrastructure improvements to the Kettle Moraine Springs fish hatchery and (b) allow DNR to carry-forward the \$28 million allocation for the hatchery through July 1, 2018. Further, adjust stewardship allocations accordingly, and enumerate the \$28 million project from existing stewardship property development and local assistance funds in the 2015-17 building program.

2. Specify that DNR set aside the following from the property development and local assistance subprogram, only for infrastructure improvements to the Kettle Moraine Springs fish hatchery and allow DNR to carry-forward the allocation for the hatchery through July 1, 2018. Further, adjust bonding allocations accordingly, and enumerate the KMS project in the state building program for the 2015-17 biennium:

a. \$7 million each in fiscal years 2014-15 through 2016-17 (total allocation \$21 million); and

(1) Delete the corresponding unallocated bonding authority.

ALT 2a	Change to Bill
BR	- \$7,000,000

(2) Retain the bonding authority.

b. \$7 million in fiscal year 2014-15 and 2015-16 (current total allocation of \$14 million); and

(1) Delete the corresponding unallocated bonding authority.

ALT 2b	Change to Bill
BR	- \$14,000,000

(2) Retain the bonding authority.

c. Only the fiscal year 2014-15 set aside (\$7 million); and

- (1) Delete the corresponding unallocated bonding authority.

ALT 2c	Change to Bill
BR	- \$21,000,000

- (2) Retain the bonding authority.

d. Delete the project and the associated \$28 million in stewardship bonding authority for the hatchery. No stewardship bonding authority would be set aside for infrastructure improvements to the Kettle Moraine Springs fish hatchery.

ALT 2d	Change to Bill
BR	- \$28,000,000

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