



Legislative Fiscal Bureau

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May 5, 2015

Joint Committee on Finance

Paper #481

Municipal and County Recycling Grants (DNR -- Environmental Quality)

[LFB 2015-17 Budget Summary: Page 326, #10]

CURRENT LAW

The municipal and county recycling grant program was created in 1989 Act 335 to provide grants to local governments for expenses related to operating DNR-approved effective recycling programs and complying with landfill bans on recycling materials. The program is authorized \$19,000,000 annually in environmental management account SEG. In addition, \$1,000,000 annually is appropriated for the recycling consolidation grant program that provides recycling grant funds for certain eligible local governments. In 2013-14, DNR awarded \$20.0 million for the two programs to 1,024 local government grantees, equaling 17.5% of estimated net eligible recycling costs of \$114.2 million for calendar year 2014. The grant award averaged \$3.51 per capita, but varied substantially by municipality.

GOVERNOR

Delete \$4,000,000 environmental management account SEG in 2015-16 to reduce funding for the municipal and county recycling grant program to \$15,000,000. Maintain the current funding amount of \$19,000,000 for 2016-17. Maintain base funding of \$1,000,000 SEG annually for the recycling consolidation grant program.

DISCUSSION POINTS

1. The state has provided financial assistance to municipalities and counties for 25 years, to assist "responsible units" of local government with a portion of their costs of operating "effective recycling programs." Local governments that meet state criteria receive approval from DNR as

having an effective recycling program, are eligible to receive a recycling grant from the state, and are authorized to dispose of recyclable materials in state landfills if the materials are "residuals" from collection of recyclables. Eligible uses of grant funds include expenses for planning, constructing or operating one or more of the components of an effective recycling program, or to comply with the 1993 yard waste ban.

2. Administration officials indicate the rationale for the decrease in grant funding was to help insure a positive balance in the environmental management account of the environmental fund.

3. The two recycling grant appropriations are the largest expenditure from the environmental management account. Under the bill, approximately one-third of budgeted expenditures during the 2015-17 biennium (excluding site-specific expenditures) are for the municipal and county grant and recycling consolidation grant programs.

4. In 2013-14, 203 responsible units received a per capita share of \$1,000,000 in the recycling consolidation grant program, in addition to the grant under the municipal and county recycling grant program. Most of the consolidation grant funds were provided to counties and to local governments with a population of 25,000 or more. The 203 responsible units received a per capita grant of \$0.261. Under the bill, this grant program would continue with the current funding and program requirements.

5. DNR will award municipal and county recycling grants for the 2014-15 funding cycle in May, 2015. Estimated net eligible recycling costs for calendar year 2015 are \$115.7 million, as submitted by local government applicants when they applied for the grant in September, 2014. Thus, the grants DNR awards in May, 2015, will average approximately 17.3% of net eligible recycling costs. The following table shows the total municipal and county recycling grant, plus consolidation grant (or the former recycling efficiency incentive grant), as a percent of the net eligible recycling costs, for the last 10 years. The table shows that grants made 10 years ago, in 2006, totaled \$26.3 million, and equaled an average of 28% of the \$94 million in net eligible recycling costs. It can also be noted that 10 years earlier, in 1996, as the 1995 landfill bans were beginning to be implemented, the \$29.2 million in municipal and county recycling grants equaled an average of 44% of the \$66.3 million in net eligible recycling costs.

**Municipal and County Recycling Grants: Eligible Cost,
Grant Award and Award as Percent of Costs (\$ in Millions)**

| <u>Calendar Year</u> | <u>Net Eligible Recycling Costs</u> | <u>Award Amount**</u> | <u>Grant Award as % of Net Eligible Costs</u> |
|----------------------|-------------------------------------|-----------------------|---|
| 2006 | \$94.0 | \$26.3 | 28.0% |
| 2007 | 98.4 | 26.3 | 26.7 |
| 2008 | 99.1 | 32.7 | 33.0 |
| 2009 | 108.0 | 29.3 | 27.2 |
| 2010 | 104.0 | 29.3 | 28.2 |
| 2011 | 103.5 | 19.0 | 18.3 |
| 2012 | 105.9 | 20.0 | 18.9 |
| 2013 | 109.3 | 20.0 | 18.3 |
| 2014* | 114.2 | 20.0 | 17.5 |
| 2015* | 115.7 | 20.0 | 17.3 |

*Shows estimated net eligible recycling costs in 2014 and 2015, and final net eligible recycling costs in prior years.

**In the 2006 through 2011 grant years, includes basic grant plus efficiency incentive grant. As of 2012, includes basic grant plus consolidated grant.

6. The funding decrease under the bill would represent a 20% reduction in funding for the combined municipal and county recycling basic grants (\$15 million) and recycling consolidation grants (\$1 million) for 2015-16, from the base funding of \$20 million for the two programs, to \$16 million. This would result in recycling grant awards of approximately 15% of estimated net eligible recycling costs in 2015-16, based on a potential modest growth of approximately 1.5% annually in local program costs. Restoration of base funding in 2016-17 of \$20 million for the two programs would be anticipated to result in grant awards of almost 17% of estimated net eligible recycling costs.

7. The impact of the funding reduction on individual responsible units of local government would vary considerably. Currently, the grant award as a percent of the net eligible recycling costs varies widely, ranging from 1% to 100% of net eligible recycling costs. The variation in recycling grant awards as a percent of net eligible recycling costs is due to the grant formula in place since 1999, which provides responsible units the same percentage of the total grant funds as they received in 1999. This means that if a responsible unit received, for example, 1% of the \$24.1 million awarded in 1999, it received 1% of the \$30.8 million awarded in 2008 (the largest year of awards), and 1% of the \$19 million awarded in 2014, and would receive 1% of the \$15 million awarded in 2016 under the bill.

8. Currently, and under the bill, local governments would have to submit an application to DNR by October 1, 2015, with estimated net eligible recycling costs, for a recycling grant in 2015-16 for the 2016 calendar year. Local governments may choose to consider any changes in their local recycling program as they develop their budgets for 2016. DNR would pay the 2015-16 grant award before June 1, 2016.

9. Under the funding reduction in the bill, it is uncertain how many local governments would make changes in their recycling programs, what kinds of changes they would make, and how any changes in local programs would affect the amount of recyclable materials disposed of in landfills. Examples of types of local program changes might include staff cuts in local governments with recycling programs large enough to have staff, cuts in hours of operation of locations for drop-off of recyclable materials, reductions in education and outreach to inform residents and businesses of recycling law requirements, attempts at renegotiation of contracts with companies that collect and process recyclable materials, and reductions in enforcement of recycling ordinance requirements.

10. If local governments choose to provide similar recycling services in 2016 as in 2015, it is uncertain how they would choose to provide an alternative funding source to make up for the reduction in state funding. In general, local governments pay for the portion of local recycling program costs that is not covered by the state grant with local property tax revenues or user fees such as based on the volume of solid waste collected, a monthly flat fee, or some sort of assessment.

11. A separate budget paper provides a general overview of the environmental management account, the estimated condition of the account, and expenditure changes made under the bill in appropriations funded from the account.

12. As noted in that budget paper, it is anticipated that approximately 87% of revenue to the account during the 2015-17 biennium will be from solid waste tipping fees. While the tipping fees deposited in the account total \$9.64 per ton for municipal and non- high-volume industrial waste, \$7.00 of that \$9.64 is from the recycling tipping fee. The recycling tipping fee is the largest revenue to the account. The fee was formerly deposited in the recycling fund prior to 2011-12, and the municipal and county recycling grant program was formerly funded from the recycling fund.

13. Some local governments and advocates of recycling programs may argue that state funding for local recycling programs should be maintained as the major use of the environmental management account, particularly because of the dependence of the account on recycling tipping fee revenues. Under this argument, current funding should be maintained [Alternative 4].

14. However, a number of other appropriations from the environmental management account are also reduced under the bill and may be considered for full or partial restoration. If the Committee wishes to allocate available environmental management revenues to other appropriations and given the various demands for expenditure of environmental management account revenues, a portion of the funding decrease might still be restored to the municipal and county recycling grant appropriation.

15. For example, the municipal and county recycling grant appropriation could be reduced by \$2,000,000 [Alternative 2] rather than by the \$4,000,000 under the bill. This would provide a 10% reduction in the combined funding for the municipal and county recycling grant and recycling consolidation grant program, instead of the 20% reduction in the bill. A reduction of \$1,000,000 would equal a 5% reduction in the combined funding for the two recycling program [Alternative 3].

ALTERNATIVES

1. Approve the Governor's recommendation to delete \$4,000,000 in 2015-16 from the municipal and county recycling grant appropriation.

2. Restore \$2,000,000 in 2015-16 to the municipal and county recycling grant appropriation. (This would provide funding of \$17,000,000 for the grants in 2015-16.)

| | |
|--------------|-----------------------|
| ALT 2 | Change to Bill |
| SEG | \$2,000,000 |

3. Restore \$3,000,000 in 2015-16 to the municipal and county recycling grant appropriation. (This would provide funding of \$18,000,000 for the grants in 2015-16.)

| | |
|--------------|-----------------------|
| ALT 3 | Change to Bill |
| SEG | \$3,000,000 |

4. Delete provision. (This would maintain funding of \$19,000,000 for municipal and county recycling grants in 2015-16.)

| | |
|--------------|-----------------------|
| ALT 4 | Change to Bill |
| SEG | \$4,000,000 |

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