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Joint Committee on Finance

Paper #187

Soil and Water Resource Management Grants (Agriculture, Trade and Consumer Protection – Environment)

[LFB 2023-25 Budget Summary: Page 67, #4]

CURRENT LAW

The Department of Agriculture, Trade and Consumer Protection (DATCP) soil and water resource management (SWRM) program, in coordination with the Department of Natural Resources (DNR), develops a joint allocation plan annually for grants to counties for projects that address or prevent nonpoint source water pollution. Joint allocation plan funding supports landowner cost-share grants, county land conservation staff, primarily rural targeted runoff management grants, notice of discharge grants and nutrient management planning and education. In 2023, total DATCP and DNR grants allocated to counties under the plan are \$18.7 million from a variety of state and federal fund sources. Additional amounts awarded under DNR urban nonpoint programs to other local units of government, which are not listed in the joint allocation plan, totaled approximately \$3.7 million in 2022-23.

Funding for DATCP landowner cost-share activities comes from both segregated (SEG) revenue from the nonpoint account of the environmental fund and general obligation bonding authority. This paper discusses changes to funding to both SEG and bond-funded programs. In the 2021-23 biennium, SEG funding for conservation practices, educational programs and other non-county pollution abatement grants totaled \$3,782,500 annually. An additional \$7 million in bonding was provided for structural practices. Debt service associated with SWRM bonding is supported by the nonpoint account and is budgeted at \$4.7 million in 2022-23.

The Wisconsin Constitution generally requires bonds be used for permanent improvements that benefit the state's waters. Therefore, practices supported by bonding are structural in nature, such as streambank stabilization, manure storage facilities, feed storage runoff control systems, and drainage basins. Non-structural "soft" practices, such as nutrient management planning, cover

crops, and other cropping practices, are not eligible for bonding and are instead funded by nonpoint SEG. In general, state law requires that landowners must receive an offer of cost sharing of at least 70% of the cost of installing an agricultural practice if the landowner is to be required to modify an existing practice.

DISCUSSION POINTS

Nonpoint SEG-Supported Bonding

1. Assembly Bill 43/Senate Bill 70 would provide \$7 million in nonpoint SEG-supported bonding authority in 2023-25. Bonding authority for soil and water resource management has been increased by \$7 million each biennium since 2007-09. DATCP reports that demand for bond-supported practices is consistent over time, but general trends will likely lead to increasing costs for materials, construction, and installation of practices. Table 1 shows requested and allocated amounts for SWRM bonding since 2009. Over the period, requests exceeded funding by an average of \$4.0 million. DATCP reports that it has exhausted current bonding authority for SWRM grants. In 2023, \$7.0 million was requested and \$3.5 million was awarded.

TABLE 1

SWRM Requests and Awards

	<u>Requested</u>	<u>Awarded</u>
2009	\$8,418,319	\$3,839,147
2010	8,176,341	3,890,243
2011	8,119,589	3,737,643
2012	8,091,768	3,766,822
2013	7,654,850	3,904,501
2014	7,282,000	3,947,708
2015	8,059,000	3,573,746
2016	7,146,000	3,761,808
2017	7,806,000	3,534,515
2018	8,102,000	3,828,983
2019	7,631,750	3,643,534
2020	7,975,750	3,687,400
2021	7,411,250	3,700,488
2022	7,374,500	3,638,709
2023	7,039,500	3,545,741

2. Principal and interest payments on SWRM bonds are supported by the nonpoint account of the segregated environmental fund. \$4.8 million nonpoint SEG is budgeted in 2023-24 and \$5.5 million nonpoint SEG is budgeted in 2024-25 for these purposes. Since the conversion of debt service associated with nonpoint programs from GPR-supported to nonpoint SEG-supported beginning 2009-10, debt service has represented a considerable portion of nonpoint account expenditures. Table 2 shows nonpoint SEG debt service as a percentage of other account expenditures since 2007-08, with budgeted amounts shown for 2022-23 and later.

TABLE 2**Nonpoint Account Debt Service as Percentage of Expenditures**

	<u>Year</u>	<u>Debt Service</u>	<u>Total Expenditures</u>	<u>Percent</u>
Actual	2009-10	\$5,309,800	\$16,622,100	32%
Actual	2010-11	10,810,700	20,920,500	52
Actual	2011-12	13,365,500	23,855,800	56
Actual	2012-13	14,486,300	27,681,100	52
Actual	2013-14	15,637,900	26,833,400	58
Actual	2014-15	14,953,400	29,100,300	51
Actual	2015-16	15,826,700	30,684,400	52
Actual	2016-17	15,409,100	30,498,800	51
Actual	2017-18	15,686,700	29,155,600	54
Actual	2018-19	16,023,600	31,510,400	51
Actual	2019-20	16,297,200	34,502,900	47
Actual	2020-21	15,805,800	34,038,100	46
Actual	2021-22	13,669,800	29,669,300	46
Budgeted	2022-23	14,295,800	34,881,500	41
Base	2023-24	13,760,700	29,740,300	46
Base	2024-25	16,666,400	32,645,700	51

3. DATCP provides bond-supported cost-sharing on a competitive basis for most instances of voluntary installation of practices. A smaller reserve (\$250,000 in 2023) each year is reserved for awards on a noncompetitive basis in response to regulatory actions for discharges from animal feeding operations. Under current law, landowners are not required to implement a conservation practice unless the state offers 70% cost sharing on installation of that practice. Thus, a portion of bond-supported funding is set aside in reserve to compel landowners to install practices in response to a regulatory action.

4. Provision of nonpoint SEG funding is dependent on availability of funding in the nonpoint account. The nonpoint account is anticipated to have a June 30, 2025, available balance of \$9.9 million, an increase of approximately \$2.3 million in the 2023-25 biennium. However, expenditures and revenues are anticipated to be approximately equal under base funding in 2024-25. Limiting expenditures for debt service could increase the amount of funding that could be provided to other nonpoint SEG-funded SWRM programs.

5. Considering the use of bond-supported funds for implementation of agricultural practices that improve water quality and the need for funding to compel regulatory compliance, the Committee could consider providing bonding authority for these purposes. Bonding authority could be increased by \$7 million as proposed in Assembly Bill 43/Senate Bill 70 [Alternative A1]. Conversely, given concerns about revenues exceeding expenditures in 2023-25 in the nonpoint account, and proportion of nonpoint account expenditures associated with debt service payments, the Committee could consider providing a lesser amount for bonds. The Committee could consider providing \$4 million in bonding authority for SWRM projects in 2023-25 [Alternative A2], or taking no action [Alternative A3].

Nonpoint SEG for Noncapital Projects

6. Assembly Bill 43/Senate Bill 70 would also provide an additional \$100,000 nonpoint SEG annually for soil and water resource management noncapital projects. Funding would be used for nonstructural costs largely related to agricultural best management practices. Eligible programs where funding could be used include: (a) cost-sharing for nutrient management planning; (b) nitrogen optimization pilot program; (c) cover crop insurance rebate program; (d) producer-led watershed protection grant program, up to the full \$1,000,000 amount allowed by statute for the program in a given year; (e) nutrient management farmer education grant program; and (f) project cooperator and innovation grant programs.

7. In the 2023 joint allocation plan, DATCP allocated SWRM grant funding to the following: (a) \$2,125,100 for nutrient management planning cost sharing; (b) \$1,000,000 for producer-led watershed protection grants; (c) \$175,000 for nutrient management farmer education (NMFE) grants, to provide funding for workshops and training to farmers related to nutrient management planning; (d) \$324,100 for innovation grants to counties for projects attempting new methods of land and water conservation; and (e) \$950,800 for project cooperators and supporting projects. An additional \$2.4 million was provided to producers for the nitrogen optimization pilot program and the cover crop insurance rebate program, following a release of funding for the programs by the Joint Finance Committee in August, 2022. Table 3 shows allocations for SWRM grants in 2023.

TABLE 3

2023 SWRM Grant Allocations

<u>Grant Programs</u>	<u>Funding</u>
Nutrient Management Planning Cost-Share	\$2,125,100
Producer-Led Watershed Protection Grants	1,000,000
NMFE Grants	175,000
Innovation Grants	324,100
Project Cooperator Grants	950,800
Nitrogen Optimization	1,583,700*
Cover Crop Insurance Rebates	<u>714,000*</u>
Total	\$6,872,700

*Anticipated awards as of May, 2023.

8. Nutrient management planning is required for fields to which nutrients such as manure or fertilizer are applied, subject to certain cost-sharing requirements and funding availability. Planning is intended to allow for efficient application of nutrients in a manner that will avoid later runoff to ground or surface waters. DATCP reports approximately 3.23 million acres in Wisconsin were under nutrient management planning in 2021, the most recent year for which reporting is available, representing approximately 35% of Wisconsin's 9.2 million acres of harvested cropland. DATCP contends that nutrient management cost-sharing funds are increasingly requested for ongoing

implementation, rather than planning. While many producers have plans and understand efficient nutrient application, DATCP contends a challenge is promoting perpetual compliance without ongoing financial support for updates and adjustments to plans to accommodate new technology and practices. Nonpoint SEG funding could be used to support this aspect of the nutrient management program to ensure ongoing efforts of safe nutrient application.

9. Nonpoint SEG funding could also be used to support the producer-led watershed protection grant program, nitrogen optimization grants, or the cover crop rebate program. Demand for producer-led watershed protection grants has consistently outweighed requests in recent years, despite allocation of additional funding for the program in recent biennia. The first rounds of nitrogen optimization grants and the cover crop rebate program received strong uptake from producers, as DATCP allocated 99% of available funding for nitrogen optimization grants and 89% of available funding for cover crop rebates in 2023. DATCP anticipates demand for these programs to continue in upcoming biennia.

10. Funding could also be used to support NMFE grants. DATCP provides NMFE grants to counties and technical colleges to conduct workshops and other training to provide education to farmers on nutrient management principles. Grants educate and encourage farmers to write their own nutrient management plans, which increases the total acreage under nutrient management plans. DATCP reports that demand for NMFE grants has been increasing following the COVID-19 pandemic. DATCP reports that 23% of plans in 2021 were farmer-written. Plans written under NMFE-funded programs may help increase voluntary nutrient management planning, which may occur without the state providing cost-share funding under its nutrient management planning grants that compel farmers to participate.

11. DATCP also funds project cooperator grants for projects that support statewide priorities of nutrient management, technical standards development, and training. In 2023, \$950,800 was provided to project cooperators including various UW-Madison and Division of Extension entities, Wisconsin Land and Water, and the Standards Oversight Council. DATCP targets project cooperator grants to the following areas: (a) nutrient management implementation activities including SnapPlus, software maintained by UW-Madison for nutrient management planning and related soil and nutrient management projects; (b) support for statewide training of conservation professionals; (c) development and support of technical standards; and (d) coordinated activities in AEAs and impaired waters. DATCP reports that demand for project cooperator funding has remained consistent in recent years and is not expected to change.

12. DATCP also funds innovation awards with nonpoint SEG amounts. In 2023, \$324,100 was provided to Calumet, Columbia, Door, Eau Claire, Fond du Lac, Langlade, Manitowoc, Marathon, Ozaukee, Polk, Racine, and Waupaca Counties for innovation awards for projects attempting new methods of land and water conservation. DATCP received 13 applications requesting \$362,415 in funding. DATCP reports that demand for innovation grants is declining due to an inability to expend funding on additional county conservation staff to implement work. If additional funding were provided for county conservation staff as discussed in a separate paper, demand for innovation grants could increase.

13. As discussed in a previous section regarding the provision of bonding authority,

provision of nonpoint SEG funding is dependent on availability of funding in the nonpoint account. Given the anticipated balance of revenues and expenditures in 2024-25, the Committee could not provide ongoing funding for nonpoint programs in the 2023-25 biennium while maintaining a balance with available revenues. The account, however, has an available balance that would be able to support funding of \$100,000 for SWRM programs in the 2023-25 biennia. The Committee could consider allocating additional funding on a one-time basis, but any ongoing funding allocations that exceed available annual revenues could limit future availability of funding for nonpoint programs.

14. Considering demand for grants and the potential benefits to water quality in the state due to nutrient management planning and various other best management practices, the Committee could consider providing an additional \$100,000 annually to supplement current allocations for SWRM grants and support programs with high existing demand [Alternative B1]. The Committee could also provide funding on a one-time basis in 2023-25 [Alternative B2] or take no action [Alternative B3].

ALTERNATIVES

A. Nonpoint SEG-Supported Bonding

1. Provide \$7,000,000 in general obligation bonding authority supported by the nonpoint account of the environmental fund to support cost-sharing grants to landowners for installation of structural practices.

ALT A1	Change to Base
BR	\$7,000,000

2. Provide \$4,000,000 in general obligation bonding authority supported by the nonpoint account of the environmental fund to support cost-sharing grants to landowners for installation of structural practices.

ALT A2	Change to Base
BR	\$4,000,000

3. Take no action.

B. Soil and Water Resource Management Grants

1. Provide an additional \$100,000 nonpoint SEG annually for SWRM grants in the 2023-25 biennium.

ALT B1	Change to Base
SEG	\$200,000

2. Specify that funding be provided on a one-time basis in the 2023-25 biennium.
3. Take no action.

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