



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

April 18, 2018

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Natural Resources: Stewardship Funds for Kettle Moraine Springs Fish Hatchery --
Agenda Item VII

On March 27, 2018, the Department of Natural Resources (DNR) requested approval under s. 23.1987(2) of the statutes to begin obligating funds from the property development and local assistance subprogram of the Warren Knowles-Gaylord Nelson Stewardship program for infrastructure improvements to the Kettle Moraine Springs Fish Hatchery totaling \$26.6 million.

ANALYSIS

Background

The Kettle Moraine Springs (KMS) 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 to other hatcheries for stocking in Lake Michigan. The annex is used to incubate steelhead trout, Coho salmon, and Chinook salmon eggs, which are then transferred to the KMS main campus for continued rearing.

2013 Act 20 provided \$14 million for infrastructure improvements to the KMS Fish Hatchery from the property development and local assistance subprogram, including \$7 million in fiscal year 2014-15 and \$7 million in fiscal year 2015-16. The Act would have allowed DNR to carry-forward the \$14 million allocation for the hatchery through June 30, 2017. 2015 Act 55 removed the \$7 million allocation from fiscal year 2015-16 bonding authority, and instead specified that DNR may utilize up to an additional \$19.6 million in funds from existing but unobligated stewardship bonding authority, for a total of \$26.6 million available for the KMS project.

In addition, 2013 Act 20 required DNR to prepare a report that describes the need for KMS renovations. The report submitted to Joint Finance in 2014 cited the 2009 comprehensive statewide fish facility evaluation conducted by HDR Engineering, which estimated a system-wide production gap of approximately 324,000 pounds of cold-water fish for both the Great Lakes and the inland stocking programs. 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. Budgeted construction costs of \$26.6 million are shown by expenditure type in the following table.

Kettle Moraine Springs State Fish Hatchery Infrastructure Preliminary Estimated Costs

2018 Estimated Construction Cost	\$20,130,000
Contingency (10% of estimated construction cost)	2,012,600
Architectural/Engineering Design Fee (11% of construction)	2,190,700
Hatchery Equipment, Hazardous Material Abatement, Other Fees (Survey, Geotechnical Report)	1,381,000
DOA Construction Management Fees (4% of construction + contingency)	<u>885,700</u>
Total	\$26,600,000

Request

Section 23.1987(2) specifies that DNR may not obligate any of the \$7 million in unobligated fiscal year 2014-15 funds set aside for the Kettle Moraine Springs project without approval of the Joint Committee on Finance under section 13.10 of the statutes. While the Department is only required to seek Committee approval before obligating the \$7 million in fiscal year 2014-15 unobligated funds, DNR submitted the overall funding plan for the total \$26.6 million. Upon approval by the Committee, the project will proceed to the State Building Commission for approval prior to construction. The statutes require all stewardship funds for this project to be obligated by June 30, 2018. DNR plans to have final design completed by June, 2018, with bids opening in September, 2018. Construction on the project would begin in October, 2018, with a scheduled occupancy of December, 2019.

According to the request, the project includes construction of new indoor fish hatchery facilities and the renovation of an existing building at Kettle Moraine Springs. The \$26.6 million in total 2018 estimated costs can be categorized as follows: (a) approximately \$4.17 million for improvements to the aquaculture water supply, including installation of new wells and well houses, a centralized water treatment plant building, and new supply piping; (b) \$10.09 million for fish rearing buildings, including two bio-secure fish culture modules with full reuse aquaculture systems (RAS), liquid oxygen supply, water cooling equipment, computerized control system, backup generators, climate-controlled feed storage, egg disinfection room, and sample preparation area; (c) \$4.68 million for a wastewater treatment plant building, including a solids removal system and effluent water disinfection; (d) \$1.48 million for a brood stock facility, including renovation of existing building with four new tanks, partial RAS, and building ventilation; (e) \$4.94 million for electrical service upgrades and distribution, natural gas service upgrade and distribution, site preparation, paved hatchery area, and gravel roads to buildings; and (f) \$1.24 million for shop and

office building improvements, including office space, a workshop with facility maintenance equipment, high-pressure steam truck and equipment disinfection area.

According to the Department, the project is designed to provide the minimum facilities needed to produce yearling steelhead to support the demands of the three-season steelhead fishery on Lake Michigan and its tributaries. DNR indicates that in the original request made at the time of the HDR Engineering report, DNR asked for a facility to assist with other fish rearing activities as well as the production of three strains of steelhead for stocking. When cost estimates came back at \$42 million, DNR reduced the construction requests for the facility to solely meet the need for yearling steelhead stocking. The Department has expended more than \$2 million in wells and hatchery design costs to support this project.

While the Committee's oversight of the project is statutorily limited to the \$7 million in funds set aside from fiscal year 2014-15 unobligated stewardship program funds, the Department indicates that if that \$7 million is not approved, it would essentially stop the project from moving forward. DNR states it does not have an alternative source of funding to replace the \$7 million. If the project does not move forward, DNR indicates there will be an increase in the system-wide production gap for stocking cold-water fish in the Great Lakes. Further, DNR argues that expenditures to date in well development and design will become unusable without the water delivery, water treatment, fish rearing buildings, and waste treatment that the current project design will provide. It should also be noted that, if the stewardship funding for the Kettle Moraine Springs project is not approved, the \$26.6 million could not be used for any other projects without further legislation.

Additionally, DNR argues that the improvements to the Kettle Moraine Springs hatchery are an important component in the public-private aquaculture and fish farm partnerships DNR was directed to develop as part of 2017 Act 21. For example, DNR recently engaged private-sector fish farmers to assist in meeting DNR's stocking goals while the new KMS facility is being constructed. The Department has subsequently agreed to perform incubation and early rearing of the steelhead at the current KMS facility while fish health testing is done. Further rearing is to be done by private fish farms, with the intention that fish are reared for stocking using private farms' capacity while DNR specializes in hatching and sourcing disease-free fish. Without DNR facilities, like the new KMS facility, that can reliably produce fish for further rearing in the future, DNR notes that private-sector farmers will be unlikely to continue these types of partnerships with the Department.

ALTERNATIVES

1. Approve the Department's request to obligate funds from the Warren Knowles-Gaylord Nelson Stewardship program for infrastructure improvements to the Kettle Moraine Springs fish hatchery.
2. Deny the request.

Prepared by: Erin Probst