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Shift Stewardship Debt Service to Forestry Account (DNR -- Forestry and Parks)

[LFB 2009-11 Budget Summary: Page 473, #7]

CURRENT LAW

Under the Warren-Knowles Gaylord Nelson Stewardship program, DNR acquires land and provides grants to local units of government and non-profit organizations for land acquisition and property development activities. The state generally issues 20-year tax exempt general obligation bonds to support stewardship purchases and grants. General obligation bonds are backed by the full faith and credit of the state, and the state is required to use its taxing power if necessary to repay the debt. Annual debt service payments for principal and interest on stewardship bonds is primarily funded from a sum sufficient, general purpose revenue (GPR) appropriation in DNR. However, 1997 Act 27 authorized payments of over $8.9 million from the conservation fund ($8.7 million from the forestry account and $225,000 from the water resources account) in 1997-98 and 1998-99 for the payment of principal and interest related to the acquisition and development of state forests and recreational boating-related properties under the stewardship program. These appropriations sunset on June 30, 1999.

In addition, since 1999-00, funds have been appropriated from the forestry account of the conservation fund. This shift was specified to be one-time only in each biennia from 1999-01 through 2003-05. Under 2005 Act 25, forestry account funding was provided on an ongoing basis. The 2007 budget adjustment bill provided an additional $10.6 million in 2006-07 (for a total of $24.1 million in 2006-07) from the forestry account. The base level appropriation for conservation fund debt service is $13.5 million annually.

GOVERNOR

Increase payments by $2.5 million annually beginning in 2009-10 from the forestry account to support debt service payments for the Warren Knowles-Gaylord Nelson Stewardship program.

DISCUSSION POINTS

1. Under current law, $1.66 billion in general obligation bonding has been authorized under the stewardship program over a 30-year period (from 1990-01 to 2019-20). Total debt payments on the $1.66 billion authorized for the program (principal repayment and interest) could total approximately $2.7 billion over the life of the program bonds (a period of over 50 years). While the majority of the debt service shown in the following table is related to the stewardship program, a portion of the payments are related to bonding mostly authorized prior to the creation of the first stewardship program for several similar recreational land acquisition programs and a local dam repair and removal grant program. The following table shows state stewardship related debt service costs. Costs did not increase significantly in 2001-02 and declined in 2003-04 primarily because of a state debt refinancing initiative to take advantage of lower interest rates and reduce short-term liabilities. Costs again declined in 2007-08 due to the deferral of principal payments on the state's short-term general obligation commercial paper program.

Stewardship Related Debt Repayments

Fiscal Year	SEG	GPR	Total	% SEG
2000-01	$3,000,000	$21,334,700	$24,334,700	12%
2001-02	4,901,900	19,774,000	24,675,900	20
2002-03	8,400,000	19,187,700	27,587,700	30
2003-04	10,000,000	8,649,200	18,649,200	54
2004-05	10,000,000	23,779,300	33,779,300	30
2005-06	14,100,000	25,618,900	39,718,900	35
2006-07	24,100,000	34,480,000	47,980,000	50
2007-08	13,500,000	34,104,900	47,604,900	28
2008-09*	13,500,000	43,582,800	57,082,800	24
2009-10*	16,000,000	48,004,400	64,004,400	25
2010-11*	16,000,000	54,664,500	70,664,500	23

*Budgeted.

2. As shown in the table, the conservation fund portion of stewardship and related debt service payments has varied between 12 and 54% of expenditures in a given year. Under the bill, the conservation fund portion would be expected to be somewhat less than one-fourth of total stewardship related debt service payments.

3. The forestry account is largely funded (81% in fiscal year 2007-08) by revenues

generated from the statewide forestry mill tax. This tax of 16.97¢ per $1,000 of property value is collected with other property taxes. From the perspective that revenue to the forestry account is largely generated through a state-wide property tax, it may be reasonable to direct these funds to be used in place of GPR for debt service payments for state purchases of forested recreational lands.

4. It could be argued that the stewardship program was funded with general obligation bonds to reflect the statewide recreational and conservation benefits of land purchases that were envisioned under the program regardless of the particular location or purpose of the purchase. Therefore, general fund support for the program was deemed appropriate. Shifting an additional portion of the debt service to the segregated conservation fund may be viewed by some as counter to the intent of the stewardship program.

5. Eliminating the increase under the bill would increase the forestry account June 30, 2011 balance by $5 million, but would reduce the general fund balance by the same amount. Any debt service costs not covered by forestry SEG are paid from a sum sufficient GPR appropriation.

6. On the other hand, the Committee could consider shifting a larger portion than the $2.5 million shifted under the bill. However, projected expenditures under the bill exceed anticipated revenues over the 2009-11 biennium, creating a structural imbalance in the forestry account. Further, if actual forestry mill tax revenues and timber harvest revenues (the two largest sources of revenue to the account) were to be lower than anticipated over the 2009-11 biennium, increasing the annual portion of stewardship debt service paid from the forestry account could result in an even larger structural imbalance in the account. However, if property values and timber harvest revenues improve significantly by 2013, the account balance could support a larger portion of stewardship debt service.

7. Given the potential structural imbalance in the forestry account, an option could be to shift an additional portion of stewardship debt service to the forestry account in the first year only. Providing the funding on a one-time basis would allow greater leeway in future budgets for forestry initiatives.

ALTERNATIVES

1. Adopt the Governor’s recommendation to provide an additional $2.5 million annually beginning in 2009-10 from the forestry account to support debt service payments for the Warren Knowles-Gaylord Nelson Stewardship program.

2. Adopt the Governor's recommendation. In addition, provide the following amount in one-time funding in 2009-10 for stewardship debt service payments:

a. $1 million

ALT 2a	**Change to Bill** Funding
SEG	$1,000,000
GPR	- 1,000,000
Total	$0

b. $1.5 million

ALT 2b	Change to Bill Funding
SEG	$1,500,000
GPR	- 1,500,000
Total	$0

c. $2 million

ALT 2c	Change to Bill Funding
SEG	$2,000,000
GPR	- 2,000,000
Total	$0

d. $2.5 million

ALT 2d	Change to Bill Funding
SEG	$2,500,000
GPR	- 2,500,000
Total	$0

e. Delete provision.

ALT 2e	Change to Bill Funding
SEG	- $5,000,000
GPR	5,000,000
Total	$0

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