



## Legislative Fiscal Bureau

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May, 2019

Joint Committee on Finance

Paper #536

### **Soil and Water Resource Management Funding (Agriculture, Trade and Consumer Protection and Natural Resources -- Environmental Quality)**

[LFB 2019-21 Budget Summary: Page 39, #3 and #4]

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#### **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 2019, total DATCP and DNR grants allocated to counties under the plan are \$20.9 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 \$3.9 million in 2018-19.

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 2017-19 biennium, SEG funding for conservation practices, educational programs and other non-county pollution abatement grants totaled \$3,825,000 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 2018-19.

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.

The SWRM grants SEG appropriation also supports up to \$250,000 annually for producer-led watershed protection grants, which are provided directly to producer-led groups for nonpoint source pollution abatement activities. Producer-led groups are eligible for up to \$40,000 per year as long as they have at least five members meeting certain minimum thresholds for farm income, are in one watershed, and collaborate with a state, county, or nonprofit conservation organization. Activities by producer-led groups include education and outreach, development and sharing of best management practices, and water quality monitoring and soil testing. The statutes require producer-led groups to contribute matching funds equal to at least 50% of eligible costs. 2017 Wisconsin Act 196 increased producer-led watershed protection grants to \$750,000 annually on a one-time basis during the 2017-19 biennium. Of the \$3,825,000 SEG appropriated each year in the 2017-19 biennium for SWRM grants, \$500,000 each year was provided on a one-time basis under Act 196 to fund the grant increases.

## GOVERNOR

Provide an additional \$1,500,000 nonpoint SEG annually for SWRM grants and contracts, for a total of \$4,825,000 annually in the 2019-21 biennium. Further, provide \$10,000,000 in general obligation bonding authority to support cost-sharing grants to landowners for installation of structural practices.

## DISCUSSION POINTS

### A. Soil and Water Resource Management Grants

**TABLE 1**

#### **Soil and Water Resource Management SEG Grant Funding**

	<u>Actual 2018-19</u>	<u>Estimated 2019-21</u>
Nutrient Management Planning	\$2,234,500	\$3,082,100
Nutrient Management Farmer Education	182,500	350,100
Cooperators and Other Projects	<u>658,000</u>	<u>658,000</u>
Total	\$3,075,000	\$4,090,200
Appropriation	\$3,075,000*	\$4,075,000*

\*Excludes \$750,000 annually for producer-led watershed protection grants, discussed in section B.

1. Table 1 shows nonpoint SEG allocations for SWRM grants and contracts under the 2019 joint allocation in its first column, and an estimate of annual allocations in the 2019-21 biennium based on the most recently available grant requests in the second column. While future requests for funding are not yet known, the most recently available request for funding provides an estimate of current demand for each grant. The table excludes producer-led watershed protection grants, which are discussed in section B of this paper.

2. In 2019, DATCP allocated SWRM grant funding to the following: (a) \$2,234,500 for nutrient management planning cost sharing for 55,900 acres of farmland; (b) \$750,000 for producer-led watershed protection grants to 24 groups; (c) \$182,500 to 16 recipient counties or technical colleges for nutrient management farmer education (NMFE) grants, to provide funding for workshops and training to farmers related to nutrient management planning; and (d) \$658,000 for project cooperators and supporting projects. Project cooperators include: (a) the UW College of Agriculture and Life Sciences (CALS), which develops and maintains SnapPlus nutrient management planning software, and provides outreach, education and training; (b) the Wisconsin Land and Water Conservation Association, which coordinates and trains local conservation staff on nutrient management practices; and (c) the Standards Oversight Council, which supports the development and maintenance of technical standards for soil and water conservation practices in Wisconsin.

3. 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 3.35 million acres in Wisconsin were under nutrient management planning in 2018, representing approximately 36% of Wisconsin's 9.2 million acres of harvested cropland. This includes 1,491,000 acres under cost sharing from DATCP, DNR or state or federal programs. Landowners are eligible to receive cost-share rates of \$10 per acre per year for four years to implement a nutrient management plan. A plurality of the acres under nutrient management plans are attributable to the landowner accepting an offer of cost-share funding.

4. It is expected that increased funding for nutrient management planning will increase the proportion of farmland under nutrient management plans in Wisconsin, which would be expected to improve water quality. Given the opportunity to increase the proportion of acres under nutrient management plans in Wisconsin and potential benefits to water quality, the Committee could consider adopting the Governor's proposal to provide an additional \$1,000,000 annually (Alternative A1).

5. As part of the annual joint allocation plan, county land conservation departments request cost-share funding for nutrient management planning they intend to pursue during the year. In the 2019 allocation plan, counties requested funding of \$3,082,100 for approximately 77,100 acres, and received funding of \$2,234,500 for approximately 55,900 acres. While it is not possible to anticipate future requests, DATCP would have required an additional \$847,600 to fully fund counties' 2019 requests. To provide funding sufficient to fully meet the level of requested funding for nutrient management planning under the 2019 joint allocation, the Committee could provide an additional \$850,000 annually (Alternative A2).

6. SEG funding for SWRM grants was increased under 2017 Wisconsin Act 59, the biennial budget act, primarily to cover increased cost-share rates for nutrient management planning

that became effective in February, 2018. Under revisions to ATCP 50, more stringent nutrient management planning standards were imposed, and the state cost-share rate increased from \$7 per acre to \$10 per acre. Under the 2017 joint allocation plan, the last plan with a cost-share rate of \$7 per acre, DATCP funded cost-sharing for 62,000 acres. While increased funding partially offset the increased cost of grants for nutrient management planning, the number of acres cost-shared per year has declined from 62,000 in 2017 to 54,400 in 2018 and 55,900 in 2019. In order to have provided 62,000 acres of cost-sharing in 2019, DATCP would have required an additional \$244,000. To provide funding sufficient to cost-share the same number of acres as prior to the increased rate, the Committee could provide an additional \$250,000 annually (Alternative A3).

7. 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. In 2018, 24% of nutrient management plans were written by farmers, while 76% were written with assistance from agronomists. In the 2019 allocation, DATCP fully funded all 16 NMFE grant requests for \$182,500. DATCP reports that for the 2020 allocation, it has received 24 requests for funding totaling \$350,100. In order to fully fund NMFE grant requests in 2020, DATCP would require an additional \$167,600. To provide funding sufficient to fully meet the level of requested funding for NMFE grants, the Committee could provide \$175,000 annually in addition to other alternatives (Alternative A4).

8. It should be noted that increased funding for SWRM grants would contribute to an anticipated deficit in the nonpoint account during the next biennium. Under the bill, it is expected the nonpoint account of the environmental fund would have authorized expenditures that exceed anticipated revenues by approximately \$7.7 million annually during the 2019-21 biennium. Further, on June 30, 2018, the account had a closing cash balance of \$11.1 million and an available (unencumbered) balance of \$5.9 million. Thus, under the Governor's proposal it is expected the nonpoint account would have an estimated closing cash balance of -\$5.3 million and an available balance of -\$10.8 million on June 30, 2021. Given insufficient balances in the nonpoint account under the bill as introduced, the Committee could consider taking no action (Alternative A5).

## **B. Producer-Led Watershed Protection Grants**

9. Under current law, DATCP is allowed to expend up to \$250,000 annually for producer-led watershed protection grants beginning in 2019-20 from its SWRM grants appropriation. This amount was increased to \$750,000 on a one-time basis during the 2017-19 biennium. The bill makes no changes to the \$250,000 limit that will resume in 2019-20. However, in an errata item, the administration indicates it intended to include a provision permanently increasing the statutory cap on producer-led grants to \$750,000. Under the bill, additional funding provided to SWRM grants totals \$1,500,000 annually. Of this amount, \$500,000 is intended to fund the increased cap on producer-led grants.

10. In 2018, 19 producer-led groups were awarded a total of \$558,200 in two rounds, and in 2019, 24 groups were awarded a total of \$750,000. Spending below the \$750,000 limit in 2018 was primarily associated with the short time between passage of Act 196 and the end of the fiscal year. In 2019, DATCP received requests for \$869,800 from producer-led groups, and DATCP anticipates that

demand will continue to exceed available funding.

11. Funding was first provided for producer-led grants under 2015 Wisconsin Act 55. At the time, authorization for grants was provided under existing SWRM grant funding to give DATCP flexibility to create a program and provide grants as demand and program design dictated. Given that grants have been provided over five rounds of awards, and DATCP has consistently met the cap for grant allocations and expects to continue to do so, the program could be considered established and ongoing. A separate appropriation would direct funds for a specific purpose and provide more consistency and transparency for grantees of both producer-led watershed protection grants and other SWRM grants. The Committee could consider creating a separate appropriation for producer-led grants (Alternative B3).

12. Producer-led watershed protection grants provide an alternative method to encourage compliance with nonpoint performance standards as compared to traditional cost-share programs. Producer-led groups are formed on a voluntary basis, and consist of farmers interested in improving water quality within a watershed. Because they are producer-led, groups are able to pursue implementation of water quality improvements in a manner consistent with their interest and local needs. Further, grants require groups to collaborate with nonprofit or governmental groups dedicated to water quality. As a result, producer-led groups drive local interest in improving water quality, foster collaboration across organizations, and present locally sourced solutions to water quality problems. Considering the demand for grants and the potential benefits to water quality, the Committee could approve the Governor's proposal, as modified by the errata letter, to provide an additional \$500,000 nonpoint SEG annually and increase the cap on producer-led protection grants to \$750,000 annually (Alternative B1). The Committee could also consider providing an additional \$250,000 annually and increasing the cap to \$500,000 annually (Alternative B2). Considering the limited available funding from the nonpoint account, as discussed previously, the Committee could consider taking no action (Alternative B4).

### **C. Soil and Water Resource Management Bonding**

13. Bonding authority for soil and water resource management has been increased by \$7 million each biennium from 2007-09 to 2017-19. The administration reports that it increased new bonding above levels in previous budgets to address unmet funding requests from previous years. DATCP reports that demand for bond-supported practices is increasing over time, due both to increasing materials and construction costs, and to more stringent nonpoint performance standards. Table 2 shows requested and allocated amounts for SWRM bonding since 2007-09. Over the period, requests exceeded funding by an average of \$4.4 million. DATCP reports that it has exhausted current bonding authority for SWRM grants. DATCP reports 651 practices received cost sharing totaling approximately \$3.6 million in 2018. Practices with the largest cost-share totals included: (a) streambank and shoreline protection (\$510,900); (b) waterway systems (\$470,300); (c) construction of manure storage systems (\$443,700); (d) grade stabilization structures (\$287,300); and (e) closure of manure storage systems (\$264,300).

**TABLE 2****Soil and Water Resource Management Grants -- Bond Funding**

<u>Year</u>	<u>Requested</u>	<u>Allocated</u>	<u>Difference</u>
2008	\$8,866,000	\$3,708,400	\$5,157,600
2009	8,418,300	3,663,000	4,755,300
2010	8,176,300	3,703,900	4,472,400
2011	8,119,600	3,596,300	4,523,300
2012	8,091,800	3,566,800	4,525,000
2013	7,654,900	3,718,500	3,936,400
2014	7,282,000	3,747,700	3,534,300
2015	8,059,000	3,388,000	4,671,000
2016	7,146,000	3,675,000	3,471,000
2017	7,806,000	3,315,000	4,491,000
2018	8,102,000	3,555,000	4,547,000
2019	<u>7,631,800</u>	<u>3,455,000</u>	<u>4,176,800</u>
Total	\$95,353,700	\$43,092,600	\$52,261,100

14. Principal and interest payments on SWRM bonds are supported by the nonpoint account of the segregated environmental fund. The bill budgets nonpoint SEG of \$5.0 million in 2019-20 and \$5.1 million in 2020-21 for these purposes. Bonding of \$10 million, when fully issued, would be expected to result in debt service of approximately \$800,000 annually. This assumes a 20-year term on bonds issued at a 5% interest rate.

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 3 shows nonpoint SEG debt service as a percentage of other account expenditures since 2007-08, with budgeted amounts shown for 2018-19 and later. Declines in debt service as a share of expenditures in the 2019-21 biennium under the bill would result mostly from increased expenditures on other nonpoint programs.

15. DATCP provides bond-supported cost-sharing on a competitive basis for voluntary installation of practices, and 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.

**TABLE 3**

**Nonpoint Account Debt Service as a Percentage of Expenditures**

<u>Year</u>	<u>Debt Service</u>	<u>Total Expenditures</u>	<u>Percent</u>
2007-08	\$929,000	\$12,451,600	7%
2008-09	942,800	13,038,400	7
2009-10	5,309,800	16,622,100	32
2010-11	10,810,700	20,920,500	52
2011-12	13,365,500	23,855,800	56
2012-13	14,486,300	27,681,100	52
2013-14	15,637,900	26,833,400	58
2014-15	14,953,400	29,100,300	51
2015-16	15,826,700	30,684,400	52
2016-17	15,409,100	30,498,800	51
2017-18	15,686,700	29,155,600	54
2018-19 (Budgeted)	16,023,600	31,510,400	51
2019-20 (Budgeted)	16,297,200	34,502,900	47
2020-21 (Budgeted)	15,805,800	34,038,100	46

16. 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 \$10 million to reflect consistently unmet demand for the program (Alternative C1), or \$7 million to reflect historical funding (Alternative C2). Conversely, given concerns about the availability of funding in the nonpoint account, and proportion of nonpoint account expenditures associated with debt service payments, the Committee could consider taking no action (Alternative C3).

**ALTERNATIVES**

(Funding of alternatives below related to nonpoint SEG are dependent upon Committee action under paper #525 entitled "Environmental Fund Overview." The paper provides a number of alternatives related to revenue that would address the condition of the nonpoint account.)

**A. Soil and Water Resource Management Grants**

1. Adopt the Governor's proposal to provide an additional \$1,000,000 nonpoint SEG annually for SWRM grants, primarily associated with nutrient management planning.

ALT A1	Change to	
	Base	Bill
SEG	\$2,000,000	\$0

2. Provide an additional \$850,000 nonpoint SEG annually for SWRM grants, primarily associated with nutrient management planning. (This would fully fund the number of acres requested under the 2019 joint allocation plan.)

ALT A2	Change to	
	Base	Bill
SEG	\$1,700,000	- \$300,000

3. Provide an additional \$250,000 nonpoint SEG annually for SWRM grants, primarily associated with nutrient management planning. (This would provide funding sufficient to cost-share the same number of acres as in 2017, prior to the increase in cost-share rates.)

ALT A3	Change to	
	Base	Bill
SEG	\$500,000	- \$1,500,000

4. Provide an additional \$175,000 nonpoint SEG annually for SWRM grants, to reflect increased demand for nutrient management farmer education. (This alternative could be moved in addition to any other alternatives).

ALT A4	Change to	
	Base	Bill
SEG	\$350,000	\$350,000

5. Take no action.

**B. Producer-Led Watershed Protection Grants**

1. Adopt the Governor's proposal, as modified by the errata letter, to provide an additional \$500,000 nonpoint SEG annually for producer-led watershed protection grants and increase DATCP's authorization to award SWRM grants for producer-led watershed protection grants to \$750,000 annually.

ALT B1	Change to	
	Base	Bill
SEG	\$1,000,000	\$0

2. Provide an additional \$250,000 nonpoint SEG annually for producer-led watershed protection grants, and increase DATCP's authorization to award SWRM grants for producer-led watershed protection grants to \$500,000 annually.



<b>ALT B2</b>	<b>Change to</b>	
	<b>Base</b>	<b>Bill</b>
SEG	\$500,000	- \$500,000

3. Create an appropriation for producer-led watershed protection grants, and reallocate nonpoint SEG funding equal to the statutorily established cap under the SWRM grants appropriation to the new appropriation from the SWRM grants appropriation. Further, delete language in the SWRM grants appropriation authorizing expenditure of producer-led watershed protection grants in that appropriation. (This alternative could be moved in addition to any other alternatives under A or B.)

4. Take no action. DATCP would be authorized to spend up to \$250,000 annually on producer-led watershed protection grants.

<b>ALT B4</b>	<b>Change to</b>	
	<b>Base</b>	<b>Bill</b>
SEG	\$0	- \$1,000,000

**C. Soil and Water Resource Management Bonding**

1. Adopt the Governor's proposal to provide \$10,000,000 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.

<b>ALT C1</b>	<b>Change to</b>	
	<b>Base</b>	<b>Bill</b>
BR	\$10,000,000	\$0

2. 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.

<b>ALT C2</b>	<b>Change to</b>	
	<b>Base</b>	<b>Bill</b>
BR	\$7,000,000	- \$3,000,000

3. Take no action.

<b>ALT C3</b>	<b>Change to</b>	
	<b>Base</b>	<b>Bill</b>
BR	\$0	- \$10,000,000

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