1995-96 SESSION COMMITTEE HEARING RECORDS

Committee Name:

Joint Committee on Finance (JC-Fi)

Sample:

Record of Comm. Proceedings … RCP
- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

- Appointments … Appt
- **

- Clearinghouse Rules … CRule
- **

- Committee Hearings … CH
- **

- Committee Reports … CR
- **

- Executive Sessions … ES
- **

- Hearing Records … HR
- **

- Miscellaneous … Misc
- 95hrJC-Fi_Misc_pt65

- Record of Comm. Proceedings … RCP
- **

V. Department of Natural Resources -- George Meyer, Secretary

The Department of Natural Resources (DNR) requests the transfer of $454,000 SEG in fiscal year 1995-96 from the vapor recovery grant appropriation under s. 20.370(6)(cq) to the Petroleum Inspection Fund supplement to the environmental repair account appropriation under s. 20.370(2)(mu), and increased expenditure authority of $454,000 in fiscal year 1995-96 in the contaminated well compensation appropriation under s. 20.370(6)(cr), to meet unexpected well compensation demand due to the discovery of 115 contaminated wells in Oshkosh, Wisconsin.

DNR also requests the transfer of $680,600 SEG in fiscal year 1996-97 from the vapor recovery grant appropriation under s. 20.370(6)(cq) to the petroleum spills administration appropriation under s. 20.370(2)(dw), along with $680,614 SEG in increased expenditure authority and the creation of 12.0 SEG FTE one year project positions under s. 20.370(2)(dw), to implement a pilot program to accelerate closure of leaking underground storage site cases in the Petroleum Environmental Cleanup Fund Award (PECFA) program.

Governor's Recommendation

Well Compensation Grants

Modify the request to approve a $380,500 SEG increase in expenditure authority to the environmental aids - compensation for well contamination under s. 20.370(6)(cr) from the uncommitted balance of the Environmental Repair Account of the Environmental Fund. Deny the transfer of $454,000 SEG from the stage two vapor recovery grant appropriation (s. 20.370(6)(cq)) to the petroleum inspection fund supplement to the environmental repair account appropriation (s. 20.370(2)(mu)).

PECFA / (LUST) Cost-Control Project

Modify the request to begin the project on May 1, 1996. Transfer $113,400 SEG in FY 1995-96 and $680,600 SEG in FY 1996-97 from the stage two vapor recovery grant appropriation under s. 20.370(6)(cq)) to the petroleum spills administration appropriation under s. 20.370(2)(dw). Create 12.0 SEG FTE 14 month project positions for a PECFA cost-containment pilot project. Place $397,000 SEG in unallotted reserve in the petroleum spills administration appropriation under s. 20.370(2)(dw) in FY 1996-97. Require DNR to submit a program evaluation report to DOA by November 15, 1996 documenting program activities and cost-saving results along with any recommended improvements. The report must be certified by the Department of Commerce which may submit its own recommendations. DOA may release funds from unallotted reserve upon review and approval of the DNR report.

STATE OF WISCONSIN
OFFICE OF THE GOVERNOR

R-2

February 15, 1996

Mr. Dan Caucutt
Department of Administration
101 E. Wilson Street 10th Floor
Madison, WI 53703

Dear Mr. Caucutt:

I am requesting that the following two non-statutory executive committees have their budgets increased for fiscal year 1996.

1. Natural Resources in Northern Wisconsin increased by $200. This committee was created by Executive Order #109.

2. United Nations Commission increased by $500. This commission was created by Executive Order #109.

If you have any questions please feel free to call me 267-8912.

Sincerely,

Scott

Scott Fromader
Operations Manager

SF/nmj

cc Tara Brunner

V

CORRESPONDENCE\MEMORANDUM

STATE OF WISCONSIN
Department of Administration

Date: April 10, 1996

To: Members, Joint Committee on Finance

From: James R. Klauser, Secretary
Department of Administration

Subject: Section 13.10 Request from the Department of Natural Resources for supplements from the stage two vapor recovery grant appropriation to increase funding for well compensation and to create a cost reduction pilot project within the Petroleum Environmental Cleanup Fund Award (PECFA) program.

Request

The Department of Natural Resources (DNR) requests the transfer of a total of $1,134,600 SEG from the stage two vapor recovery grant appropriation under s. 20.370(6)(cq) into two appropriations: $454,000 SEG to the Petroleum Inspection Fund supplement to the Environmental Repair Account appropriation under s. 20.370(2)(mu); and $680,600 SEG to the petroleum spills administration appropriation under s. 20.370(2)(dw). The request also includes an increase in expenditure authority of $454,000 SEG in the environmental aids - compensation for well contamination appropriation (s. 20.370(6)(cr)), and an increase in expenditure authority of $680,600 SEG and the creation of 12.0 SEG FTE one year project positions in the petroleum spills administration appropriation (s. 20.370(2)(dw)) for a PECFA cost-containment pilot project.

Petroleum Inspection Fund Condition

The Petroleum Environmental Cleanup Fund Award (PECFA) program reimburses owners for a portion of the cleanup costs of discharges from petroleum product storage systems and home heating oil systems. Funds for the program are generated through a 3 cent petroleum inspection fee assessed against petroleum fuels imported into the state and deposited in the segregated Petroleum Inspection Fund. In FY95, $100,555,300 was collected through this fee with $104.5 million projected for FY96 and $106.5 million for FY97. Revenues are not only used to fund PECFA awards; $15.4 million SEG in FY96 and an estimated $15.1 million SEG in FY97 are used to fund several other programs and the administration of PECFA. Programs funded include: weights and measures inspections at the Department of Agriculture, Trade and Consumer Protection; air management programs at the Departments of Natural Resources and Transportation; and supplements to the Environmental Fund. The fund condition for the 1995-97 biennium is described below:

	FY 1995-96	FY 1996-97
Opening Balance	$ 19,592,300	$ 28,930,500
Estimated Revenues	108,815,000	106,724,900
Chapter 20 Appropriations	99,476,800	99,176,400
Balance:	$ 28,930,500	$ 36,479,000

While the Petroleum Inspection Fund has a projected balance of $36.48 million through June 30, 1997, this only reflects amounts appropriated. Currently, the Department of Industry, Labor and Human Relations (DILHR), which will administer the PECFA program through June 30, 1996, has a $73 million backlog in PECFA awards. In addition, claims and awards are expected to increase significantly over FY95 because of expanded eligibility of sites in the program, identification of previously undiscovered leaking storage tanks, and approaching federal cleanup and state statutory program deadlines in 1998. Based on projections of current trends, the claim backlog could grow to over $150 million by the end of the 1995-97 biennium. In order to ensure timely payment of awards for site cleanup and avoidance of interest costs to the state, the Committee, at a future meeting, may need to consider utilizing the projected balance, in addition to the cost savings measures proposed in this request, to address this backlog.

Fiscal Year	Number of Claims	Amount of Claims
1994-95	1,478	$94.6 million
1995-96 (projected)*	1,920	$143.4 million
1996-97 (projected)	1,920	$143.4 million
*Based on actual through Feb. 1996	1,283	$95.6 million

Stage 2 Vapor Recovery Grants

Stage 2 vapor recovery grants are provided to retail and non-retail fuel dispensing facilities in areas of non-attainment of air quality standards under the federal Clean Air Act. All facilities constructed prior to May 1, 1993 are eligible for grants to support the cost of installing stage 2 vapor recovery systems. Funding for the program is appropriated from the Petroleum Inspection Fund.

Based on DNR estimates of grant activity, $20.3 million SEG has been either awarded or committed to eligible facilities. The provisions of 1995 Act 144, which extended eligibility to all sites constructed prior to May 1, 1993, are expected to result in an additional \$312,300 SEG to \$624,700 SEG in grant awards. Since the stage 2 vapor recovery grant appropriation includes \$22.7 million SEG, the projected grant awards will result in an unused balance of \$1.8 million SEG to \$2.2 million SEG by June 30, 1997. Under current law, this balance would lapse to the Petroleum Inspection Fund and be available for other purposes on June 30, 1997.

Well Compensation Grants

Background

The well compensation program was established in 1984 to assist homeowners with contaminated wells in obtaining potable water supplies. 1993 Wisconsin Act 413 revised the well compensation program, increasing the grant amount from 60% to 75% of eligible costs, and the maximum eligible family income level from \$45,000 to \$65,000. (Grants are gradually reduced as family income level exceeds \$45,000.) These changes were effective on July 1, 1995. To meet anticipated demands, 1995 Act 27 (biennial budget act) provided \$300,000 annually for well compensation grants from the Environmental Fund.

In December 1995, residential well samples from an area north of the city of Oshkosh contained high concentrations of volatile organic compounds (VOCs). Further sampling in nearby wells detected significant VOC well contamination in the area. In February 1996, DNR issued an official notice advising residents in the area not to use their well water for any purpose other than the flushing of toilets. As a result of this contamination, a total of 113 grant eligible residences are expected, 100 of which are in an area recently annexed by the City of Oshkosh.

Analysis

Providing municipal water system service has been determined to be the lowest cost alternative for the 100 grant eligible residences in the annexed area. From November 1995 through January 1996, well compensation grants awarded to connect homes to the Oshkosh municipal water system averaged \$3,500. New well installation is the only feasible alternative for the 13 residences outside the city limits. Recent grants made for wells with similar depth and casing requirements have averaged \$8,000. The total estimated cost to provide well compensation grants to the affected Oshkosh residents is calculated below:

	# of Homes	Cost / Home	Total
Municipal Water Connection	100	\$3,000	\$350,000
New Wells	13	\$8,000	\$104,000
Commitments to Date	21		(\$ 73,500)
			\$380,500

As of March 15, 1996, the well compensation program had either paid out, or made commitments for $493,100. Of this amount, $73,500 has already been committed to 21 of the Oshkosh residences. However, DNR, in its request, did not reflect these awards in the calculation of need. Therefore, the adjusted impact of the Oshkosh well compensation awards is $380,500, a reduction of $73,500.

Total funding for the program in the 1995-97 biennium is $643,100 (which includes a carry-over amount of $43,100 from FY 1994-95). This leaves $150,000 available for well compensation grants until July, 1997. Program officials expect that this amount will fund "normal" activity, but a $380,500 shortfall exists if the Oshkosh water contamination problem is to be addressed. While the DNR request refers to the possibility of additional well compensation claims as a result of a settlement regarding the Edgerton Landfill contamination site, these applications cannot be submitted until a planning and design process is completed. The anticipated date of receipt of well compensation grant applications from Edgerton area residents is unknown, but is expected to result in increased funding requests for the program in the future. The financial status of the well compensation program is summarized below:

	FY 1995-97
Carry-over from FY 1994-95	$ 43,100
Biennial Program Funding	600,000
Commitments / Expenditures through 3/15/96	(493,100)
Current Balance	$150,000
"Normal" Activity Requirements	(150,000)
Remaining Oshkosh Grants	(380,500)
Balance	($380,500)

The request to transfer funding from the stage two vapor recovery grant program will not affect the Petroleum Inspection Fund (PIF) in the short term, but will reduce the expected lapse to the PIF at the end of the biennium. As was stated above, demand for PECFA reimbursements greatly exceeds available funding. Although the requested transfer is a small portion of the projected PECFA shortfall, it does add to the large expected deficit in the PECFA program.

Another option is to increase funding from the Environmental Fund for well compensation grants. The most recent fund condition statement includes an ending balance of $2.0 million for the 1995-97 biennium. While a $300,000 deficit is projected in the Environmental Fund by the end of the 1997-99 biennium, measures can be considered in the next budget to address this shortfall. Utilization of the 1995-97 balance will release more funding to alleviate the PECFA deficit.

PECFA / Leaking Underground Storage Tank (LUST) Cost-Control Pilot Project

Background

As indicated above, PECFA claims substantially exceed available funding. Although specific data is not available, program staff estimate that a substantial majority of PECFA claim costs originate from sites where active engineered vapor extraction and / or water treatment systems are operated on an on-going basis. Discussions and feedback from a variety of sources, (the Special Committee on Remediation of Environmental Contamination, environmental consultants, affected associations, and responsible parties), indicate that a number of these systems are not achieving continued environmental improvement. Ineffective systems could be shut down with some sites being closed out completely, and others simply monitored, depending on the type of contamination and site characteristics. This could achieve significant cost savings for the PECFA and LUST programs. However, each site must be evaluated to determine the appropriate action to be taken.

Analysis

A specific number of engineered LUST sites (the vast majority of which are eligible for PECFA reimbursement) is not available, but DNR and DILHR estimate 2,300 LUST sites with groundwater contamination using engineered systems and 1,200 sites that are simply monitored for contaminants. DNR also estimates that 6 hours are necessary to review and evaluate each site. Activities involved in this process include: review of the system design (2 hours); review of system performance data (2 hours); review of trends of similar sites where systems have been shut down (2 hours); and review of site conditions for the feasibility of natural processes working to remediate remaining contamination (1 hour for 50% of sites). At 6 hours per site, 12.0 FTE positions of effort would be required to complete evaluation work at all locations.

Because federal LUST grant funding has been sharply reduced, experienced staff occupying federally funded positions will be made available for the project. These were persons that formerly reviewed and closed high priority sites. While transferring these employees to this project will result in fewer case close-outs, reductions in federal funding for these positions will have the same effect. DNR believes that contracting for these evaluations is not feasible due to contractor conflict of interest concerns, and the shortage of adequate personnel for a contractor to complete the project in a short timeframe.

The potential cost savings of shutting down ineffective engineered systems is substantial. In an analysis completed in September 1995, DNR estimated that 56% of engineered systems could be either closed down (30%) or converted to a monitoring status (26%). The remaining sites are accomplishing the goal of reducing groundwater and / or soil contamination. For purposes of this request, DNR has modified the estimates to 25%

closure and 25% monitoring. PECFA officials in the Department of Industry, Labor and Human Relations estimate that engineered sites fall equally into the following three categories with associated annual operating costs: soil vapor extraction ($20,000 / site); groundwater pump and treat systems ($30,000 / site); both soil and groundwater systems ($40,000 / site). The average operating cost is $30,000 per site.

DNR included all 3,500 sites in estimating the potential impact of complete closure or continued monitoring. DNR also calculated monitoring costs at $10,000 annually. However, joint DNR / DILHR staff review has determined that 2,300 sites have active engineered systems while 1,200 sites are already in the monitoring phase. In addition, monitoring costs have been reestimated to be $7,000 on average annually. Finally, DNR program staff believe that sites already in the monitoring phase are less likely to qualify for complete closure. Therefore, only 10% of these locations (rather than 25%) are assumed to be eligible for complete closure. These revised estimates result in the following cost saving projections:

2,300 sites x 25% (complete closure) @ $30,000 per site =	$17,250,000
2,300 sites x 25% (monitoring) @ $23,000 per site =	$13,225,000
1,200 sites x 10% (complete closure) @ $7,000 per site =	$ 840,000
Total Potential Annual Savings	$31,315,000

Although this proposal could result in significant cost savings, the lack of data could result in wide variances from the estimates. Given the unknown outcome and the significant investment of personnel resources, a portion of the funding could be placed in unallotted reserve. Release of the funding would be contingent on submittal of a program report from DNR to the Department of Administration (DOA) outlining the results of the program for the first 6 months. The report would include: a description of the activities of the program to date; a description of the sites evaluated including the number, location and type of system (e.g., soil vapor extraction, groundwater pump and treat); the number of sites closed; the number of sites where systems were shut down but monitoring continues; the annualized cost savings for each site; and descriptions of any recommended changes needed to improve program results. In order to encourage inter-departmental teamwork, the Department of Commerce could certify and make its own recommendations on the report. The funds from unallotted reserve would be released by the DOA Secretary only if project cost-savings could be demonstrated. A similar procedure was established by the Legislature in 1995 Act 27 requiring DOA Secretary approval of a memorandum of understanding between DNR and the Department of Development regarding responsibility for LUST sites.

The department has requested that this project begin on July 1, 1996. However, since the potential for cost-savings is substantial, an argument could be made to begin the project immediately, and continue it through the 1996-97 fiscal year. Advantages to this are that cost containment could be realized more quickly, more information on program success would be known in time to include appropriate adjustments in the 1997-99 biennial budget, and a more reasonable timeframe would be allowed for site evaluation. A disadvantage would be that staff resources would be diverted from case review and close-out activities approximately two months earlier. Beginning the project immediately would require transfers of $113,400 SEG in FY1995-96 and $680,600 SEG in FY1996-97 from the stage two vapor recovery grant appropriation (s. 20.370 (6)(cq)) to the petroleum spills administration appropriation (s. 20.370 (2)(dw)). If the program produces the type of results that make its continuation at some level desirable, further funding can be addressed through the 1997-99 biennial budget.

Recommendations

Well Compensation Grants

Modify the request to approve a $380,500 SEG increase in expenditure authority to the environmental aids - compensation for well contamination under s. 20.370 (6)(cr) from the uncommitted balance of the Environmental Repair Account of the Environmental Fund. Deny the transfer of $454,000 SEG from the stage two vapor recovery grant appropriation (s. 20.370 (6)(cq)) to the petroleum inspection fund supplement to the environmental repair account appropriation (s. 20.370 (2)(mu)).

PECFA / (LUST) Cost-Control Project

Modify the request to begin the project on May 1, 1996. Transfer $113,400 SEG in FY 1995-96 and $680,600 SEG in FY 1996-97 from the stage two vapor recovery grant appropriation under s. 20.370(6)(cq)) to the petroleum spills administration appropriation under s. 20.370(2)(dw). Create 12.0 SEG FTE 14 month project positions for a PECFA cost-containment pilot project. Place $397,000 SEG in unallotted reserve in the petroleum spills administration appropriation under s. 20.370(2)(dw) in FY 1996-97. Require DNR to submit a program evaluation report to DOA by November 15, 1996 documenting program activities and cost-saving results along with any recommended improvements. The report must be certified by the Department of Commerce which may submit its own recommendations. DOA may release funds from unallotted reserve upon review and approval of the DNR report.

Prepared by: Russ Rasmussen
266-7329

V

State of Wisconsin \ DEPARTMENT OF NATURAL RESOURCES

WISCONSIN DEPT. OF NATURAL RESOURCES

George E. Meyer
Secretary

101 South Webster Street
P.O. Box 7921
Madison, Wisconsin 53707-7921
TELEPHONE 608-266-2621
TELEFAX 608-267-3579
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March 18, 1996

IN REPLY REFER TO: 9310

Honorable Tim Weeden, Co-Chair
Joint Committee on Finance
Room 119 South
State Capitol

Honorable Ben Brancel, Co-Chair
Joint Committee on Finance
Room 107 South
State Capitol

Attn: Committee Secretary, Daniel Caucutt, 10th Floor
Division of Executive Budget and Finance
10th Floor, Administration Building, and
Robert Lang, Legislative Fiscal Bureau

Dear ~~Senator~~ Tim Weeden and ~~Representative~~ Ben Brancel:

REQUEST

The Department requests the transfer of $1,134,614 from the continuing balance of the stage two vapor recovery grant appropriation under s. 20.370 (6)(cq), Wis. Stats., to two other appropriations in the Department as follows:

1. The Department requests the transfer of $454,000 in FY96 from the continuing balance of the stage two vapor recovery grant appropriation under s. 20.370 (6)(cq) (numeric 72-668-62) to the Petroleum Inspection Fund supplement to the Environmental Repair Account appropriation under s. 20.370 (2)(mu) (numeric 72-286-23). The Department also requests increased expenditure authority of $454,000 in s. 20.270 (6)(cr) (numeric 74-669-62) in FY96. This request would not increase the Department's FY97 base revenues to the Environmental Fund or expenditure authority for well compensation grants. The increased revenues and expenditure authority would be used to address an emergency water supply situation for approximately 115 affected by groundwater contamination adjacent to the City of Oshkosh.

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2. The Department requests the transfer of $680,614 in FY97 from the continuing balance of the stage two vapor recovery grant appropriation under s. 20.370 (6)(cq) (numeric 72-668-62) to the petroleum spills administration appropriation under s. 20.370 (2)(dw) (numeric 72-276-23). The Department also requests the creation of 12.0 one-year SEG project FTE and increased expenditure authority of $680,614 under s. 20.370 (2)(dw) in FY97 and the deletion of $680,614 FED and 12.0 permanent FTE under s. 20.370 (2)(my). These staff and monies would be used to conduct an urgently needed one-year pilot project to evaluate the effectiveness of and on-going need for engineered groundwater remediation technologies at Leaking Underground Storage Tank (LUST) sites. This request would increase the Department's base level of funding or staffing for FY98.

BACKGROUND

The stage two vapor recovery grant program was established in 1991 WI. Act 39 as a financial assistance component to an overall stage two vapor recovery program. The grant program was established to "provide financial assistance to the owner or operator of a retail station" required to meet the requirements for stage two vapor recovery under section 42 USC 7511 of the federal code. Subsequent to Act 39, program eligibility and grant award dates were revised by 1993 WI Act 16, 1995 WI Act 27, and 1995 WI Act 144. In total, these four legislative acts made all retail and non-retail gas dispensing facilities required to install stage two vapor recovery systems that were constructed prior to May 1, 1993 eligible for stage two vapor recovery grants.

Through March 14, 1996, the Department has awarded grants totalling $15,582,106 and has issued grant commitments for an additional $4,756,172 of eligible costs for retail gasoline stations required to meet the December 31, 1995 deadlines established through Acts 39, 16 and 27. Thus, to date, grant awards and commitments of $20,338,278 have been issued for 748 facilities. In addition to these amounts, the Department estimates the provisions of 1995 WI Act 144 will make approximately 30 additional facilities eligible for grants at an estimated total cost of $693,270 ($23,109/facility). Thus, total estimated grant expenditures for all eligible stage two vapor recovery facilities totals $21,031,548 ($20,338,278 + $693,270).

Through FY95, the Department had received a net total of $22,701,479 in revenues for the stage 2 vapor recovery grant program (no additional revenues were included in the 1995-97 biennial budget). The source of these revenues is the Petroleum Inspection Fund and are derived by a volume fee assessed to wholesale petroleum marketers. As indicated in Attachment 1, the Department estimates that revenues collected for this program will exceed expenditures by $1,669,931 ($22,701,479 - $20,338,278). Under current law, this balance would lapse to the Petroleum Inspection Fund at the end of FY97.

ANALYSIS OF NEED

1. Well Compensation Grants for Oshkosh Groundwater Contamination Site

Background on Contamination - An estimated 115 private residences in an area of approximately 0.5 sq. mi. adjacent to the north boundary of the City of Oshkosh, have been determined to have contaminated well water and are without a potable water supply. Approximately 100 of the impacted residences are located in an area that was recently annexed to the City of Oshkosh. The source of the contamination has not been conclusively determined, but is likely an up-gradient industrial area. Investigative work in determining responsible parties for the contamination has been initiated, but will likely be a lengthy process because of the mix of contaminants and number of potential sources. The contaminants documented to date include the following VOCs - dichlorethelene, trichlorethelene, and vinyl chloride - as well as MTBE, a gasoline additive. Other pollutants may be found over time.

Remediation Solutions and Costs - For the estimated 100 residences in the annexed area, connection to existing or soon-to-be built City of Oshkosh water mains is the least cost remedial solution. Using an estimated average cost of $3,500 per residence, the total cost for connection to water mains would be $350,000 ($3,500/home X 100 homes = $350,000). For the estimated 15 residences outside the annexed area, installation of new wells is the only viable solution. Using an estimated average cost of $8,000 per residence, the total cost for new wells would be $104,000 ($8,000/home X 13 homes = $104,000). Thus, the total cost for remediating the Oshkosh well contamination problem is approximately $454,000.

Status of Well Compensation Funding - At the end of FY95, the Department had an unencumbered balance of $43,059 in the well compensation grant appropriation. 1995 WI Act 27 provided expenditure authority of $300,000 in FY96 and FY97 in this appropriation. As of March 15, the Department has issued grants against all of FY96's available expenditure authority ($343,059) and has issued "Notices to Proceed" against approximately $150,000 of FY97's $300,000 appropriation. Thus, only $150,00 of FY97 funds is available for to address any "normal" statewide well compensation needs and the Oshkosh situation from now until June 30, 1997.

In addition to the identified need of $454,000 for the Oshkosh situation, the Department estimates that approximately $150,000 is needed to fund "normal" statewide demand for well compensation grants in FY97. (Note: a recent settlement regarding the Edgerton Landfill contamination site may result in additional well compensation claims in FY97.) Thus, a total need of a minimum of $604,000 is anticipated in FY97. As stated above, the Department has only $150,000 of FY97 expenditure authority available to meet this need, leaving an unfunded balance of $454,000.

Use of Petroleum Inspection Fund Revenues for Well Compensation - A variety of revenues are deposited to the Environmental Repair Account and are used to fund a variety of appropriations, including the well compensation grant appropriation. One of the larger revenue sources to the Environmental Repair Account is an annual supplement to Account from the Petroleum Inspection Fund of $1,049,400. The appropriation where these revenues are deposited (s. 20.370 (2)(mu)) is specifically entitled: "Petroleum inspection fund supplement to environmental fund; environmental repair and well compensation." The Department believes its request to provide for a special, one-time supplement to the well compensation appropriation utilizing Petroleum Inspection Fund revenues is consistent with existing revenue and expenditure intent for the Account reflected in chapter 20.

2. Lust Cost-Control Pilot Project

Background - In October, 1991 the Department and DILHR submitted a report on PECFA to the Joint Committee on Finance. In the joint agency report, the agencies estimated total potential PECFA costs at approximately $970 million. Changes made to the PECFA program in 1993 WI Act 416 are estimated to increase total program costs by approximately $315 million, for a total program cost of approximately $1.3 billion. Minor changes to the program since that Act 416 have further increased the costs of PECFA.

Background of Cost-Control Pilot Project - Experience has demonstrated to the Department and responsible parties (RPs) that groundwater clean-ups are sometimes very expensive and time-consuming. Based on preliminary information, there could be up to 875 active groundwater remediation projects in Wisconsin which have reached their limits of clean-up effectiveness. As these systems continue to operate, the costs for system operation, maintenance, monitoring, and reporting requirements continue to rise. Once an active remediation system becomes ineffective in reducing the mass and concentration of contaminants, the financial expenditures to run an active system may not justify the small reduction in contamination. There is a strong interest by the Department of Natural Resources and the Department of Industry, Labor and Human Relations (DILHR), RPs, the petroleum marketers, and the Legislature to evaluate the extent to which case closure can be instituted for those projects where a groundwater remedy has reached the limit of its effectiveness.

Specifics of Pilot Project Request - The Department is requesting 12.0 one-year project positions and $680,614 in FY96 to review the approximate 3,500 existing engineered LUST sites during the period July 1, 1996 - July 1, 1997. The project staff would evaluate the operation of existing engineered systems, as well as evaluating the feasibility of natural attentuation of contamination. At the conclusion of the pilot, the Department would prepare a report documenting the number and types of engineered systems where "early" close-out was feasible, as well as the cost-savings accruing from the these actions. In developing the needed staffing for the pilot, the Department assumed the following:

* 6 hours/site review X 3,500 systems evaluated = 21,000 hours of effort

* 21,000 hours per year/ 1,800 hours per year per FTE = 11.7 FTE ~ 12.0 FTE

Pursuit of this effort in FY97 is critical if changes to the LUST clean-up program and cost-reductions to PECFA reimbursement program are to be realized in the next biennium. Under less critical circumstances, the Department believes that the evaluation review work could be out-source to the private sector. However, the Department is not recommending doing this for following reasons:

a. Evaluation by the Department will not be subject to the potential for bias that might occur by private sector contractors. Many of the firms who would be potential contractors for this pilot are also firms engaged in LUST clean-ups posing the potential for conflict of interest.

b. State regulations for procurement of contract services is a lengthy process. It is likely 4 - 6 months of the 12-month project period would be needed to award contracts for this review. This delay would seriously impinge on the ability of the contractor to complete the pilot in a thorough manner.

c. Given the magnitude of the work effort, it is very uncertain whether a private contractor could marshall sufficient staff (@ 12.0 FTE worth) to undertake this effort in the relatively short time available.

<u>Estimates of Cost-savings As a Result of Pilot Project</u> - While actual circumstances are yet to be determined, the following assumptions illustrate the kinds of cost-savings that may accrue from this pilot project:

a. Evaluation of the 3,500 engineered systems determines that 50% (1,750) can have their existing groundwater remediation systems modified;

b. Half (875) of the modified systems can be completely shut down and closed out as follows:

   * 875 systems X ave. annual operating cost of $30,000 = $26,250,000 savings/year

c. Half (875) of the modified systems can be shut down, but attentuation monitoring continues as follows:

   * 875 systems X ave. annual operating cost reduction of $20,000 = $17,500,000 savings/year

Thus, total annual savings that could accrue to PECFA given the above assumptions would be $26,250,000 + $17,500,000 = $43,750,000. If one conservatively assumes that, on average, the 1,750 remediation systems that would have reduced operation costs have a remaining operating life of five years, the total reduction to PECFA over this time period would be more than $218 million. This would represent a return on investment of $321.40 of benefit for every $1.00 invested.

ALTERNATIVE FUNDING SOURCES CONSIDERED

In analyzing potential funding sources for the Oshkosh well compensation problem and the LUST cost-containment project, the Department identified four alternative sources of funding for these requests: (1) the unencumbered balance in the Department of Agriculture, Trade and Consumer Protection's Agrichemical Clean-up Fund; (2) the FY96 unencumbered balance in DIHLR's Petroleum Inspection Fund; (3) the unencumbered balance in the Department's Environmental Fund; and (4) the unencumbered balance in the stage 2 vapor recovery grant appropriation.

As the Agrichemical Clean-up Fund and the Petroleum Inspection Fund are under the administration of other state agencies, the Department felt it inappropriate to consider them further.

In considering the Environmental Fund, an updated fund condition showed the Fund would end the 1995-97 biennium with a positive balance. However, even without restoring expenditures cut in the 1995-97 biennial budget (i.e. a 46% reduction in spills and abandoned container clean-up funds) or increases in base level funding (i.e. well compensation), the Fund would end the FY97-99 biennium with an approximate $300,000 deficit. Transferring monies from the Fund balance in the 1995-97 biennium would simply exacerbate the deficit in the FY97-99 biennium. As a result, the Department believes it is not fiscally responsible to take this course of action.

SUMMARY

The Department's request would utilize $1,134,614 of a $1,669,931 balance in the stage 2 vapor recovery grant appropriation for two critical, urgent needs. If the request is approved, the remaining $535,317 balance in the stage 2 vapor recovery grant appropriation would lapse to the Petroleum Inspection Fund at the end of FY97. I or my staff will represent the Department at your April 16th meeting.

Sincerely,

George

George E. Meyer

cc:	Darrell Bazzell - AD/5	Susan Sylvester - AD/5
	Herb Zimmerman - FN/1	Jay Hochmuth - AD/5
	Joe Polasek - MB/5	Mark Geisfeldt - SW/3

18-Mar-96

ATTACHMENT 1

FUND CONDITION FOR STAGE 2 VAPOR RECOVERY GRANT PROGRAM

	FY92	FY93	FY94	FY95	FY96	FY97	TOTALS
BEG BALANCE	$0	$22,500,000	$9,372,569	$6,825,949	$11,795,723	$1,669,931	
REVENUES	$22,500,000	($12,975,157)	$6,330,000	$11,156,800	$0	$0	$22,701,479
LAPSES	$0	$0	($4,310,164)	$0	$0	$0	
TOTAL AVAIL.	$22,500,000	$9,524,843	$11,392,405	$17,982,749	$11,795,723	$0	
EXPENDITURES	$0	($152,274)	($4,566,456)	($6,187,026)	($10,125,792)	$0	($21,031,548)
END BALANCE	$22,500,000	$9,372,569	$6,825,949	$11,795,723	$1,669,931	$0	
						BALANCE:	$1,669,931