



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #558

Well Compensation Grant Program Eligibility (DNR -- Water Quality)

[LFB 2005-07 Budget Summary: Page 376, #15]

CURRENT LAW

The well compensation grant program provides financial assistance to replace, reconstruct or treat contaminated water supplies, or to connect to a community water supply. Persons eligible for a well compensation grant include landowners or lessees of property on which is located a contaminated private water supply well that serves a residence or is used for watering livestock. The family income of the grant recipient may not exceed \$65,000, and the grant is for 75% of eligible costs, up to a maximum grant of \$9,000. The amount of the grant award is reduced by 30% of the amount by which the claimant's income exceeds \$45,000.

The following activities are eligible for well compensation: (a) obtaining an alternate water supply; (b) providing equipment to treat the water; (c) reconstructing the contaminated well; (d) constructing a new well; (e) connecting to an existing private or public water supply to replace the contaminated well; (f) properly abandoning the contaminated well, if a new well is constructed or if connection to a public or private water supply is provided; (g) testing of water if it shows that the well is contaminated and if the cost of those tests was originally paid by the claimant; (h) purchasing and installing a pump, if a new pump is necessary for the new or reconstructed private water supply; and (i) relocating pipes, if necessary, to connect the replacement water supply to the buildings served by it. Applicants are responsible for a copayment of \$250 and any costs exceeding \$12,000 are not eligible for a grant.

The well compensation grant program is funded from a continuing appropriation from the environmental management account of the segregated environmental fund. Program expenditures were \$95,400 SEG in 2003-04. The program is appropriated \$294,000 SEG in 2004-05 and, in addition, had an unencumbered July 1, 2004, appropriation balance of \$936,400.

GOVERNOR

Expand eligibility for the well compensation grant program to include claims for compensation for a well that is subject to abandonment, that is, for a well that is required to be abandoned or that DNR may require to be abandoned because it is unused or poses a hazard to health or safety. Authorize claims for well abandonment, even though a new private water supply would not be constructed or a connection would not be provided to a public or private water supply. Direct DNR to establish requirements for the filling and sealing of wells subject to abandonment. Specify that the new eligible use of grant funds would be subject to current requirements for household income and grant maximum. Specify that the current requirement of a \$250 copayment by claimants with a contaminated private water supply would not apply to claimants where a claim is solely for well abandonment. The bill would continue base funding of \$294,000 annually.

DISCUSSION POINTS

1. DNR administrative rules and publications state that unused and improperly abandoned wells are a threat to groundwater quality and personal safety. If abandoned wells are not properly filled with impermeable material, contaminated water can get into abandoned wells, flow into groundwater and move to nearby drinking water wells, making active wells unusable for drinking water. Large-diameter open wells can pose hazards for small children and animals.

2. DNR has used its current statutory authority related to provision of pure drinking water and management of the waters of the state (chapters 280 and 281 of the statutes) to promulgate administrative rules in chapter NR 812 that contain requirements for well abandonment by permanent filling of unused wells. In general, owners are required to permanently abandon a well that is contaminated, poses a hazard to health or safety, does not comply with minimum well construction standards, has been taken out of service, or has not been used for three or more years and is not needed by the owner in the immediate future.

3. DNR officials estimate there are approximately 800,000 to one million wells in the state, of which, perhaps, 100,000 to 200,000 are unused and have not been properly abandoned. Most of these wells are private residential wells. However, DNR officials indicate that it is difficult to learn when wells are no longer being used and need to be abandoned. Thus, there is no exact count of unused and improperly abandoned wells.

4. The bill would add a provision to the well compensation grant section of chapter 281 that would direct DNR to establish requirements for the filling and sealing of wells subject to abandonment. DNR would use the existing provisions of administrative rule NR 812 as the requirement that claims for well abandonment would have to meet. Proper abandonment of wells usually involves filling with cement or chipped bentonite (a type of clay), depending on the type and depth of the well.

5. Under the bill, no new funds would be appropriated for well abandonment grants.

The grants would be paid from the existing well compensation grant program, with continued base funding of \$294,000 SEG annually from the environmental management account.

6. The number of grant applicants for the current well compensation grant program has declined from the levels that occurred in the late 1980s to mid 1990s. During those years, DNR's drinking water and groundwater program sampled numerous wells each year, but the program has done less sampling in recent years because of budget reductions. With less sampling of wells, less contamination is discovered than in the past. Individual households sometimes choose to have tests performed on their well water, for example, for pesticides (roughly \$25) or volatile organic compounds (roughly \$200).

7. In the late 1990s, the well compensation grant program was appropriated \$400,000 SEG annually, but expenditures were less than available funds. A balance in the continuing appropriation account grew, and in the 2001-03 biennial budget act, \$1,000,000 was lapsed from the continuing balance of the appropriation to the environmental management account for use by other contaminated land and groundwater and brownfields appropriations. Expenditures have continued to be lower than the appropriated amount, and the continuing balance grew to \$936,400 on July 1, 2004. In 2001-02 through 2003-04, a total of 45 grants were made with final payments, or encumbered but not yet paid awards, totaling \$344,700. (The maximum grant of \$9,000 is usually encumbered at the time of the award, and grant recipients have one year after the award date to complete the work and submit the request for payment.) In 2004-05, as of April 15, 2005, the program awarded eight grants totaling \$72,000.

8. The unencumbered balance of the grant appropriation is expected to exceed \$1.0 million on June 30, 2005. This balance, in combination with the base funding of \$294,000 annually, would provide almost \$1.7 million during the 2005-07 biennium for the existing replacement grants and new well abandonment grants under the bill.

9. Although no good data exists, DNR believes that during the first few years of eligibility for well abandonment under the bill, the Department might receive 500 applications annually, and the number may increase to 1,000 applications per year after a few years. DNR estimates that the average cost of properly abandoning a well is \$500 to \$700. Since the grant would be for 75% of eligible costs (same as for other grants under the program) the average size of well abandonment grants would be \$375 to \$525. Under this scenario, the demand for well abandonment grants could, perhaps, range from \$187,500 (500 grants at \$375 per grant) and rise to \$525,000 (1,000 grants at \$525 per grant) annually eventually.

10. It is unknown how many of the owners of the estimated 100,000 to 200,000 unused and improperly abandoned wells would meet the income eligibility requirements under the program. Applicants for well abandonment grants would be subject to the same \$65,000 income limit as for current grants. Well abandonment applicants would also be subject to the current law provision that the grant be reduced by 30% of the amount by which the claimant's income exceeds \$45,000. For a well abandonment that costs \$700, the effective maximum income would be \$47,400, as the \$2,400 increment of income over \$45,000 would decrease the grant by \$720.

11. The reason no \$250 copayment would be required for applicants for well abandonment grants is that the average cost of well abandonment is much lower, at \$500 to \$700, than the average cost of well replacement under the current program. The final cost for grants under current program eligibility averages approximately \$7,500. However, as noted earlier, the state would pay a maximum of 75% of project costs under the program.

12. DNR officials anticipate that applications for well abandonment grants could be simple enough that staff could process them in approximately 30 minutes per grant. This would include about 15 minutes of time by a hydrogeologist in the Bureau of Drinking Water and Groundwater and about 15 minutes by a financial assistance specialist in the Bureau of Community Financial Assistance. This could add 125 to 250 hours of work to the existing workload of each of the two Bureaus. Existing staff would perform the grant application review activities.

13. It is possible that demand for the new grant eligibility could use roughly \$375,000 to \$525,000 of the \$1.7 million expected to be available for the purposes of the program during the 2005-07 biennium. Under this scenario, and based on levels of activity in the current program (perhaps \$100,000 annually), there would be sufficient funds for the existing and new purposes of the appropriation during 2005-07. However, if demand were to grow significantly in 2007-09, the balance could, potentially, be depleted in future biennia.

14. If the new well abandonment grants receive sufficient publicity from DNR and well drillers, it is possible that long-term demand for the grants would increase to a level that uses all of the continuing balance of the appropriation and that exceeds the base funding level of \$294,000 annually. It is unknown how many of the owners of the roughly 100,000 to 200,000 unused or improperly abandoned wells would meet the well compensation grant income requirements (maximum \$65,000 income), how many of those would apply for grants, and how long a time period the demand for the grants might be spread over.

15. The environmental management account, which provides revenue for the well compensation grant program, is used for contaminated land and brownfields cleanup programs, including administration of remediation and redevelopment, groundwater management and solid waste management activities, brownfields grant programs in DNR and Commerce, debt service costs for general obligation bonds issued for state-funded cleanup of contaminated land and sediment, and state-funded cleanup of contaminated properties where there is no responsible party able or willing to pay for the cleanup. Over half of the revenue to the environmental management account comes from the vehicle environmental impact fee (a \$9 per vehicle title transfer fee). The fee currently ends on December 31, 2005, and the Governor's recommendation to make the fee permanent is discussed in a separate budget paper. The account also receives revenues from three solid waste tipping fees totaling 64¢ per ton of non- high-volume industrial solid waste, of which 4¢ per ton is from a well compensation tipping fee. Other fees to the account include petroleum inspection fees, pesticide and fertilizer fees, hazardous waste generator fees and sanitary permit surcharges.

16. If the vehicle environmental impact fee is not continued through the 2005-07

biennium, there will not be sufficient revenues to fund all of the appropriations from the environmental management account. Under this scenario, the Committee may wish to consider not approving the Governor's recommendation to expand the purpose of the well compensation grant program. Instead, most of the continuing balance of the well compensation grant appropriation could be lapsed to the environmental management account. For example, if \$1,000,000 would be lapsed from the balance of the well compensation grant appropriation, it would be available for existing administrative and brownfields programs funded from the account.

17. It could be argued that in the current tight state budgetary times, the state should not create a new purpose for the well compensation grant program. In particular, it is possible that sometime after the 2005-07 biennium, demand for well abandonment grants could exceed available funds. Currently, and under the bill, well compensation grants are awarded in the order that applications are received, and there is no proration of grants. If demand during the 2005-07 biennium would use most of the \$1.7 million available, and if demand would continue at a rate exceeding the annual appropriation, it is possible that consideration would have to be made of whether or how to fund the ongoing demand under the program in future biennia.

18. It could also be argued that the groundwater and public safety benefits of the new grant use warrant using currently available funds to encourage as many people as possible to properly abandon wells.

19. The Committee may wish to consider approving the use of well compensation funds for well abandonment as a pilot program. For example, the provision in the bill could be modified to specify that DNR could not encumber funds for well abandonment grants after June 30, 2009. This would provide four years to learn what the level of demand for such grants would be. Ongoing eligibility and funding could then be reviewed in the 2009-11 biennial budget.

ALTERNATIVES

1. Approve the Governor's recommendation to: (a) expand eligibility for the well compensation grant program to include claims for compensation for a well that is subject to abandonment; (b) authorize claims for well abandonment, even though a new private water supply would not be constructed or a connection is not provided to a public or private water supply; (c) direct DNR to establish requirements for the filling and sealing of wells subject to abandonment; (d) specify that the new eligible use of grant funds would be subject to current requirements for household income and grant maximum; and (e) specify that claims solely for well abandonment would not be subject to the current requirement of a \$250 copayment by claimants with a contaminated private water supply.

2. Approve the Governor's request. In addition, specify that no funds may be encumbered from the appropriation for well compensation claims for well abandonment after June 30, 2009.

3. Do not adopt the Governor's recommendation. In addition, lapse \$1,000,000 in

2005-06 from the balance of the well compensation appropriation to the segregated environmental management account.

<u>Alternative 3</u>	<u>SEG-REV</u>
2005-07 REVENUE (Change to Bill)	\$1,000,000

4. Maintain current law.

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