



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #479

### Well Compensation Grant Appropriation (DNR -- Environmental Quality)

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#### CURRENT LAW

The well compensation grant program provides financial assistance for replacing, reconstructing, or treating contaminated wells that serve certain private residences or are used for watering livestock. As of 2007-08, grants can also pay costs of well abandonment. The Department of Natural Resources (DNR) must determine that the well meets certain eligibility criteria related to contamination from substances such as chemicals, heavy metals, volatile organic compounds, industrial solvents, gasoline, fuel oil, paint, and pesticides. Under certain circumstances, eligibility includes contamination from arsenic and livestock fecal bacteria. Grant recipients must have family income that does not exceed \$65,000. The maximum grant is the lesser of 75% of eligible costs or \$12,000. Grant recipients must pay a \$250 copayment, unless the grant is for well abandonment.

The well compensation grant program is funded from a continuing appropriation from the environmental management account. The program is appropriated \$276,000 SEG in 2014-15, and, in addition, had an unencumbered July 1, 2014, appropriation balance of \$587,300 available for expenditure in 2014-15 or subsequent years.

#### GOVERNOR

Maintain base funding of \$276,000 environmental management account SEG annually for well compensation grants.

#### DISCUSSION POINTS

1. Annual expenditure totals for well compensation grants vary from year to year because

of differences in the number and types of contamination events, number of impacted wells, number of wells abandoned, and the number of income-eligible applicants.

2. Well compensation grant program expenditures have averaged \$161,200 annually for the past 10 years (2004-05 through 2013-14), and include expenditures for well abandonments as of 2007-08. Expenditures ranged from a high of \$304,100 in 2007-08, after a major contamination event in 2007 in Outagamie County resulted in 28 well compensation grants to income-eligible owners, to a low of \$66,600 in 2004-05. The program has awarded an annual average of \$57,000 for well abandonment grants in approximately eight years of eligibility, from 2008 through 2015, with an average of 82 awards annually for \$700 each.

3. Over the past 15 to 20 years, the amount appropriated for well compensation grants has exceeded expenditures in most years. In each of the 2001-03 and 2005-07 biennial budgets, \$1,000,000 of the unencumbered balance of the appropriation was lapsed to the balance of the environmental management account, making it available for other appropriations in the account. In addition, between 2008-09 and 2010-11, DNR transferred \$631,934 from the well compensation grant appropriation balance to the general fund as part of the Department's agencywide lapse plans required by biennial budget acts.

4. DNR indicates it is helpful to have some account balance in reserve in case a major unpredictable contamination event, such as a manure or gasoline spill, occurs in a year. A reserve of approximately \$270,000 would allow providing awards of up to the maximum \$9,000 to 30 well owners. However, in the years that DNR transferred funds from the well compensation grant appropriation to the general fund, the year-end unencumbered balance decreased to less than \$100,000.

5. DNR suggests that it is possible that the number of well abandonment grants may increase in future years. This would be due to administrative code revisions that went into effect in October, 2014, that now require that if an inspection is conducted of a private well at the time of a property transfer, it must include a search for wells that need to be filled and sealed. In 2014-15, as of April 10, 2015, there were 63 well abandonment awards, in comparison with 39 as of the same time in 2013-14 and 74 as of the same time in 2012-13.

6. For at least 16 years prior to 2009-10, DNR encumbered awards when made, and then expended the funds when eligible work was completed. As of 2009-10, DNR stopped encumbering awards. Therefore, the year-end unencumbered balance does not reflect awards that have been made but not expended. In 2014-15, expenditures as of March 31, 2015, total \$112,980, and include expenditure of awards made in the current or prior year. In addition, \$99,500 has been awarded and not paid yet. If the number and amount of awards during the remainder of 2014-15 are similar to the prior year, that amount will be approximately \$55,000, and it can be anticipated that the total amount expended or awarded for expenditure in 2014-15 will total an estimated \$267,500. Thus, it is likely that none of the \$587,300 carry-in balance from 2013-14 will be expended in 2014-15.

7. The state-funded response appropriation from the environmental management account is primarily used for DNR-lead cleanups of contaminated sites where the responsible party

is unknown or cannot or will not clean up the site. Under administrative code NR 738, it is also used to provide permanent replacement of water supplies if the owner of the contaminated well demonstrates financial hardship beyond the financial assistance available through a well compensation grant. These expenditures are made through the state-funded response appropriation rather than the well compensation grant appropriation. This included expenditures of \$81,348 for seven wells in 2012-13 and \$23,584 for four wells in 2013-14.

8. The Committee could consider lapsing money from the balance of the well compensation appropriation that is not anticipated to be needed in the next few years. This would make these funds available for other appropriations from the environmental management account. For example, lapsing \$500,000 from the appropriation balance [Alternative 1a] would leave a balance of approximately \$100,000 to be carried forward into 2015-16, plus it also assumes that at the end of 2014-15, DNR will have awarded approximately \$150,000 in grants that are committed but not spent. Thus, this would exceed the balance at the end of each of 2008-09 through 2010-11 after the Department lapsed funds from the appropriation to the general fund. Lapsing \$320,000 from the appropriation balance [Alternative 1b] would leave a balance of approximately \$270,000, which is the amount of reserve DNR indicates would fund an unanticipated major contamination event, plus would allow for the estimated \$150,000 in awarded unencumbered funds.

9. In addition to, or instead of, lapsing funds from the well compensation appropriation balance, the Committee could consider decreasing the appropriation amount to be closer to the long-term average annual expenditure amount. This would also make these funds available for other appropriations from the environmental management account. For example, the appropriation could be decreased by \$76,000 annually, from \$276,000 to \$200,000 [Alternative 2], which is a 27% decrease, but would still be 24% higher than the long-term average annual expenditure amount of \$161,200. This would provide DNR with flexibility to make additional awards if applications exceed the long term average. This alternative could be adopted in addition to, or instead of, Alternative 1a or 1b.

10. Under the bill, it is probable that the well compensation appropriation balance will continue to increase [Alternative 4]. DNR will have the flexibility to address unpredictable contamination events. The growing balance will not be available for other appropriations in the environmental management account. Another option would be to convert the appropriation from continuing to biennial. This would provide a specific appropriated amount that could be used during the two years of the biennium. However, the unencumbered balance would lapse to the balance of the environmental management account at the end of each biennium. If a major contamination event were to deplete the two-year appropriation, DNR could request additional funds from the Joint Committee on Finance under s. 13.10 of the statutes. This alternative could be adopted in addition to, or instead of, one or both of Alternatives 1 and 2 [Alternative 3].

## **ALTERNATIVES**

1. Lapse one of the following amounts in 2015-16 from the balance of the well compensation grant appropriation to the segregated environmental management account:

a. \$500,000

<b>ALT 1a</b>	<b>Change to Bill</b>
SEG-REV	\$500,000

b. \$320,000

<b>ALT 1b</b>	<b>Change to Bill</b>
SEG-REV	\$320,000

2. Delete \$76,000 SEG annually from the well compensation grant appropriation, to appropriate \$200,000 annually for grants.

<b>ALT 2</b>	<b>Change to Bill</b>
SEG	- \$152,000

3. Convert the well compensation grant appropriation from continuing to biennial.

4. Take no action.

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