Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

June 2, 2011 Joint Committee on Finance Paper #249

Private Sewage System Replacement and Rehabilitation Grant Program (Commerce, DSPS, and WEDC)

[LFB 2011-13 Budget Summary: Page 130, #11 (part);
Page 383, #5 (part); and Page 526, #1 (part)]

CURRENT LAW

The Commerce Division of Safety and Buildings administers the private sewage system replacement and rehabilitation grant program, also referred to as the Wisconsin Fund. The program provides financial assistance to owners of a principal residence (residence which is occupied at least 51% of the year by the owner) and small commercial establishments who meet certain income and eligibility criteria, to cover a portion of the cost of repairing or replacing failing private sewage systems. A determination that the private sewage system is failing, and thus eligible for replacement under the grant program, happens when: (a) a state or local government employee who is certified to inspect private sewage systems by Commerce inspects the system and makes the determination; or (b) the owner has been issued a written enforcement order by the appropriate local government, Commerce, or the Department of Natural Resources (DNR), to correct a violation of the private sewage system statutes and rules. Highest priority for grants is provided to private sewage systems which fail by discharging sewage to surface water, groundwater, drain tiles, bedrock or zones of saturated soils. The annual family income of a residential property owner may not exceed $45,000. The maximum grant is $7,000. The annual gross revenue of the business that owns the small commercial establishment may not exceed $362,500, and the commercial establishment must have no more than a daily wastewater flow rate of 5,000 gallons per day. Grants for small commercial establishments are prorated so they do not exceed 10% of the total funds available.

The program is appropriated $2,815,000 GPR in 2010-11. It is administered by 1.0 GPR position in the economic and community development general operations appropriation.

GOVERNOR

Transfer the private sewage system replacement and rehabilitation grant program to the Department of Safety and Professional Services (DSPS) along with the rest of the Division of Safety and Buildings. Decrease the grant program appropriation by $476,400, to $2,338,600 GPR annually. Delete $74,600 GPR and 1.0 GPR position that administers the program. Provide the deleted $551,000 GPR annually to the Wisconsin Economic Development Corporation (WEDC).

DISCUSSION POINTS

1. The Secretary of the Department of Administration (DOA) submitted an errata letter to the Joint Committee on Finance which indicated the position responsible for administering the program was deleted in error. The Secretary recommended transferring $74,600 GPR annually and 1.0 GPR position to DSPS instead of deleting it, and deleting a corresponding $74,600 GPR annually from the WEDC GPR appropriation. (DOA's calculation reflects a reduction in fringe benefit costs related to employee pension and health insurance costs.) The bill provides that all positions and incumbent employees primarily related to the Division of Safety and Buildings would be transferred to DSPS on the effective date of the bill, and would retain their rights and status related to state employment relations in the statutes. The bill could be amended to accomplish the administration's intent that the authorized position and funding transfer to DSPS along with the program [Alternative 4].

2. In 2010-11, 844 applicants were eligible for $3,623,100 in grants after income factoring under the grant formula. The formula gradually reduces the grant amount for homeowners with income between $32,000 and $45,000 before eliminating eligibility for homeowners with income greater than $45,000. Eligible awards for small commercial establishments were reduced by 40% per recipient to stay within the statutory requirement that those systems may receive no more than 10% of the total funds available. Awards totaling $2,878,000 were made to the 814 applicants with the highest priority systems ("category one systems"), the awards were prorated to 86% of the eligible amount to remain within available funding, and the 30 eligible applicants with lower priority ("category two systems") received no grant award. Grants averaged $3,536 per recipient.

3. Households and small businesses must submit grant applications to the county within three years after the owner is notified (usually by the county) that the private sewage system has failed. The county makes an initial determination of eligibility and submits the applications to Commerce. Applications for 2011-12 grants were due to Commerce by February 1, 2011. Commerce staff are in the process of reviewing 899 applications, and have made a preliminary estimate that applicants would be eligible for $3.5 million after income factoring and proration of small commercial establishments to 10% of funding. Commerce estimates that, under the bill, approximately 884 applications would receive a total of $2,362,000 (due to carried over unused funds from 2010-11). Grants would be prorated to approximately 67% of the eligible grant amount (compared to 86% in 2010-11), and 15 category two grant applications would receive no funding.

4. Under the bill, grants in 2011-12 might average, perhaps less than $2,700 per household or small business, in comparison to over $3,500 in 2010-11. If base funding of $2,815,000 would be provided for the 2011-12 grant applications, grants would be prorated to approximately 81% of the eligible amount, and would average roughly $3,200 per grant recipient.

5. The grant program was appropriated $3.5 million annually in the late 1990s. As a result of funding reductions made in 2001-02, 2002-03 and 2009-10, base funding of $2,815,000 is 20% less than the $3.5 million appropriated in 2000-01. During 2005-06 through 2010-11, funding was prorated in three of the six years (to 95%, 94% and 86%) to remain within eligible funding. Under the bill [Alternative 1], the grant program appropriation of $2,338,600 would be 33% less than in 2000-01, and grants would be prorated to approximately 67% of the eligible amount.

6. It could be argued it is not appropriate to reallocate funds from expenditures for grants that help low- to moderate-income households and small commercial establishments replace failing private sewage systems to instead be spent on economic development activities of WEDC. Alternatively, it could be argued that reallocating the funds to the WEDC might create as many or more jobs or economic benefits than would be provided by businesses that install private sewage systems.

7. The reduction in funding may make it more difficult for low- to moderate-income households to pay for replacement of a failing private sewage system. Alternatively, the roughly $500 decrease in the average grant from current law to the amount provided in the bill may not have a large impact on the ability of households to replace a private sewage system.

8. The funding provided in the bill is a 17% reduction from base funding. The Committee could choose to instead reduce funding by 10%, to be consistent with the 10% reductions made in many GPR and PR appropriations throughout state agencies. The bill could be amended to restore $194,900 annually to provide $2,533,500, which is a reduction of $281,500 from current law [Alternative 2]. This could be done by transferring back to the program a portion of the funds transferred to WEDC. This alternative would increase the proration for 2011-12 grants from approximately 67% of the eligible amount under the bill to 73%, and provide an average grant of roughly $2,900 instead of $2,700 under the bill.

9. The Committee could also choose to maintain current funding levels for the program. This would restore $476,400 annually to the program and reduce the amount of GPR transferred to WEDC by the same amount [Alternative 3]. This alternative would increase the proration for 2011-12 grants from approximately 67% of the eligible amount under the bill to 81%, and provide an average grant of roughly $3,200 instead of $2,700 under the bill.

10. The technical correction to transfer the position and associated funding for administration of the program [Alternative 4] could be approved with any of Alternatives 1 through 3 related to the funding level for the program.

ALTERNATIVES

1. Approve the Governor’s recommendation to delete $476,400 GPR annually from the

private sewage system replacement and rehabilitation grant program to provide $2,338,600 GPR annually for grants, and to increase the WEDC GPR appropriation by $476,400 GPR annually.

2. Restore $194,900 GPR annually to provide $2,533,500 GPR annually for private sewage system replacement and rehabilitation grants (a 10% reduction of $281,500 from current law). Delete $194,900 GPR annually from WEDC.

ALT 3	**Change to DSPS** Funding	**Change to WEDC** Funding	**Net Change** Funding
GPR	$389,800	- $389,800	$0

3. Restore $476,400 GPR annually to provide current funding of $2,815,000 GPR annually for private sewage system grants. Delete $476,400 GPR annually from WEDC.

ALT 3	**Change to DSPS** Funding	**Change to WEDC** Funding	**Net Change** Funding
GPR	$952,800	- $952,800	$0

4. In addition to one of the above alternatives, adopt the administration's recommendation to: (a) provide $74,600 GPR and 1.0 GPR position annually to DSPS for administration of the program; and (b) delete $74,600 GPR annually from WEDC.

ALT 4	**Change to DSPS**		**Change to WEDC**		**Net Change**	
	Funding	Positions	Funding	Positions	Funding	Positions
GPR	$149,200	1.00	- $149,200	0.00	$0	1.00

Prepared by: Kendra Bonderud