Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2011 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **11-3542/1**	Introduction Number **AB-0627**

Description
Trading of water pollution credits, granting rule-making authority, and making an appropriation

Fiscal Effect

State:

☐ No State Fiscal Effect
☒ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☐ Decrease Existing Revenues
- ☒ Increase Costs - May be possible to absorb within agency's budget ☒ Yes ☐ No
- ☐ Decrease Costs

Local:

☐ No Local Government Costs
☒ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☒ Decrease Costs ☒ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory

5. Types of Local Government Units Affected
☒ Towns ☒ Village ☒ Cities ☒ Counties ☐ Others ☐ School Districts ☐ WTCS Districts

Fund Sources Affected **Affected Ch. 20 Appropriations**

☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DNR 3/2/2012

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Description Trading of water pollution credits, granting rule-making authority, and making an appropriation		

Assumptions Used in Arriving at Fiscal Estimate

This bill requires DNR to administer a program for the trading of water pollution credits, whereas current statutes limit trading to just pilot studies located in the Rock River, Red Cedar, and Fox-Wolf Basins. In addition to providing for agreements as under current law, the bill provides that DNR may authorize a person who is required to obtain two water pollution permits to discharge more pollutants than would otherwise be allowed under one permit if the person agrees to reduce the amount of water pollution below what would otherwise be allowed under the second permit. The bill also provides that DNR may authorize a person to discharge more pollutants than would otherwise be allowed if the person agrees to construct a project or implement a plan that results in reducing water pollution from sources other than the permitted source.

Under current law and under the bill, a water pollution credit trading agreement is only allowed if it results in an improvement in water quality and if the increase and the reduction involve the same pollutant or the same water quality standard. Under current law, a water pollution trading project may only be conducted within a project area that meets specified criteria. This bill eliminates the requirement concerning a project area, but requires that the increase and the reduction in pollution occur within the same water basin or portion of a water basin, as determined by DNR. Under current law, the term of a water pollution trading agreement may not exceed five years. This bill eliminates the restriction on the term of an agreement.

Assumptions

Because of the recent promulgation of phosphorus nutrient criteria, most of the interest in trading has revolved around phosphorus. To quantify the potential net savings from adoption of a statewide water quality trading program, compliance costs for Wisconsin's recently promulgated phosphorus water quality standards can be used as a starting point from which the net savings afforded by water quality trading can than be estimated. According to the economic impact analysis for the "phosphorus rule", the net cost to comply with water quality-based phosphorus limits statewide is estimated to be $1,082,200,000. This projected cost is associated with equipment upgrade costs, and operation and maintenance costs required to meet phosphorus water quality-based effluent limits. While water quality trading provides an overall savings, there are costs associated with implementing a trading program including the cost to evaluate trading as a compliance option, the cost of administrating trades, and the cost of maintaining the trade during permit term, typically 5 years. When comparing these implementation costs against facility upgrades a minimum net savings of 25% is projected by using water quality trading over just performing a facility upgrade.

1. The fiscal effect of the bill on local units of government and the private sector is difficult to estimate accurately. Depending upon the number of facilities that are eligible for trading and that voluntarily select water quality trading as their preferred compliance option for phosphorus; the net savings to local governments and industries could vary widely from as little as $20 million or less to as high as $200 million.

2. The Department anticipates an increase in demand for Clean Water Fund loans from local units of government that are looking to invest in phosphorous-related equipment and facility upgrades. However, the demand would be moderated to the extent that local units of government select water quality trading instead of those upgrades.

3. An expansion of a water quality trading program would result in an indeterminate increase in staff time associated with reviewing and approving trading requests that would be reallocated from other activities.

4. Given the amount of variables involved , the amount of water pollution credit payments made to the Department cannot be accurately estimated and is therefore characterized as indeterminate.

Long-Range Fiscal Implications

As facilities move into compliance with phosphorus limits, less financial benefit will be achieved as operation and maintenance costs are projected to match water pollution trade costs. However, if new standards are promulgated, trading would continue to be a cost saving compliance option.