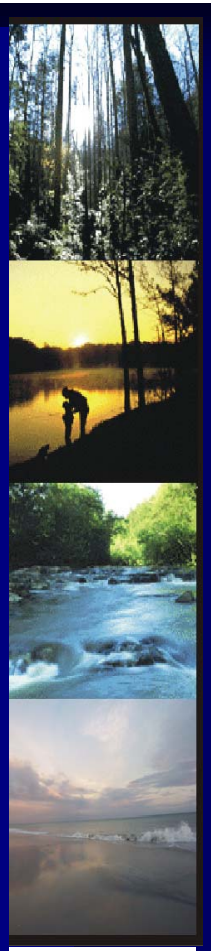


Transitioning the EEP Nutrient Offset Program to an Actual Cost Method

James B. Stanfill
Ecosystem Enhancement Program

October 9, 2008

Transitioning the EEP Nutrient Offset Program to an Actual Cost Method

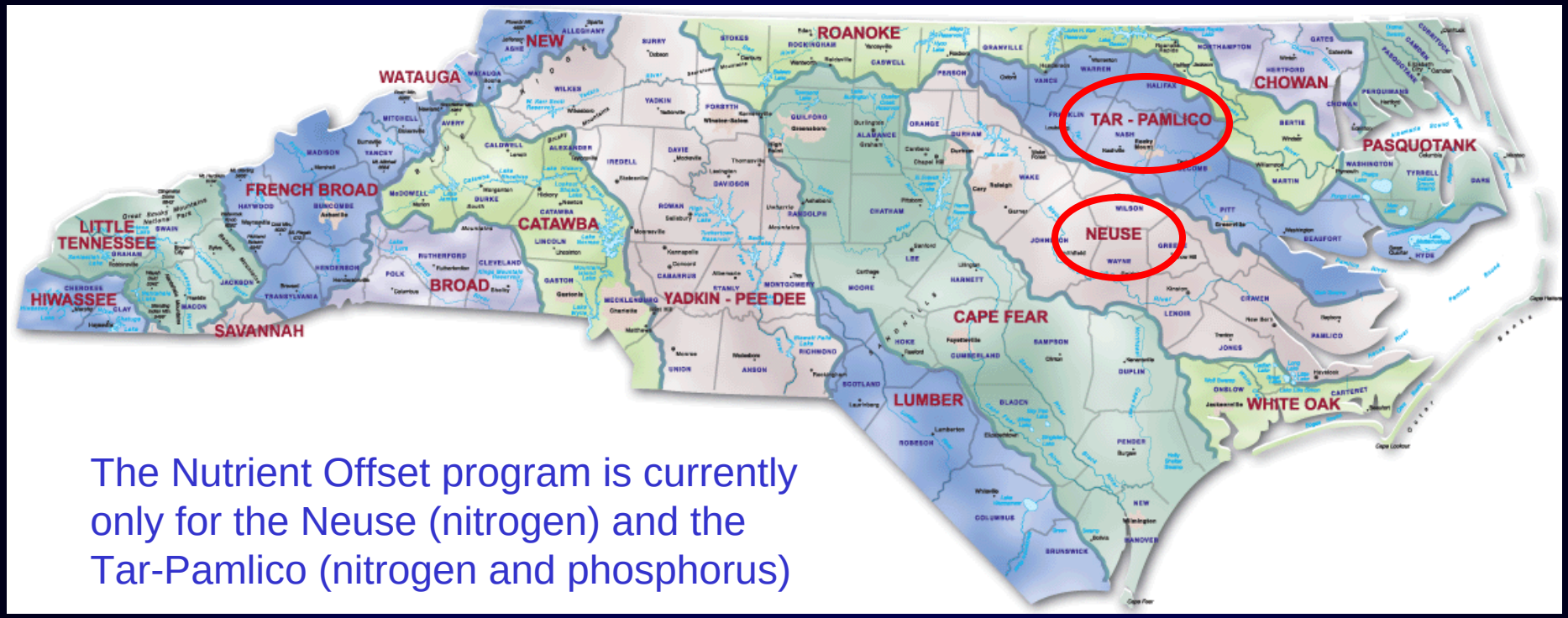
Background History

Actual Cost Objectives

Actual Cost Method

Next Steps

Neuse and Tar-Pamlico River Basins



The Nutrient Offset program is currently only for the Neuse (nitrogen) and the Tar-Pamlico (nitrogen and phosphorus)

Ecosystem Enhancement PROGRAM

History

1996-1998

- Legislation and rules establish WRP Nutrient Offset Program
- Fee established at $11 pound Nitrogen for Neuse

2001

- First payment received, May 2001

2005

- Fee adjustment initiated

History

2006

- EMC adds Tar-Pamlico River basin

- EMC sets new fees
  - Nitrogen $57 per pound
  - Phosphorus $45 per 0.10 pound

- First Tar-Pamlico payment

History

August 2006

Session Law 2006-216

- Reset fees
  - $11 per pound Nitrogen
  - $11 per 0.10 pound Phosphorus

- Required refunds for any fees paid in excess

- Commissioned ERC cost study

History

2007

- RTI International completes cost study and recommends fee structure

- Session Law 2007-438
  1. Reset Fees:
     - Neuse
       - » $28.35 per pound nitrogen
     - Tar Pamlico
       - » $21.67 per pound nitrogen
       - » $28.62 per 0.10 pound phosphorus

  2. Transition to actual cost method by Sept. 1, 2009

  3. Progress reports due Sept. 1, 2008 and March 1, 2009

  4. Required mitigation to occur in same watershed as impact

Actual Cost Method Objectives:

- Must use actual costs of generating nutrient reduction credits.
- All costs must be accounted for in the method.
- Must be a self-sustaining financial model.

Actual Cost Method Objectives:

- Rates must change (upwards or downwards) as actual costs change.
- Method must be applicable at either Cataloging Unit (CU), Basin, or State levels.
- Must be applicable to either nitrogen or phosphorus offsets.

Actual Cost Method Objectives:

- Must be understandable and easy to use.
- Must be predictable and equitable.
- Transition Plan by September 2009.

Actual Cost Method

Simple Premise:

Actual Costs / Total Pounds = Actual Cost per pound

Draft Actual Cost Method

$$ActualCostRate = \frac{ActualCosts}{TotalPoundsOffset} + AdjustmentFactor$$

Draft Actual Cost Method

$$ActualCostRate = \frac{ActualCosts}{TotalPoundsOffset} + AdjustmentFactor$$

$$ActualCosts = ProjectCosts + AdministrationCosts$$

Completed Projects
Terminated Projects
Projects in Process

Staff
Supplies
Rent

Draft Actual Cost Method

$$ActualCostRate = \frac{ActualCosts}{TotalPoundsOffset} + AdjustmentFactor$$

Total Pounds of Nutrients that will be offset by Projects

Draft Actual Cost Method

$$ActualCostRate = \frac{ActualCosts}{TotalPoundsOffset} + AdjustmentFactor$$

Purpose:

Adjusts rates up or down so that collected fees equal actual costs

Adjustment Factor

$$AdjustmentFactor = \frac{(ActualCosts - ActualReceipts)}{(Time * TotalPoundsPaidPerYear)}$$

Essential element

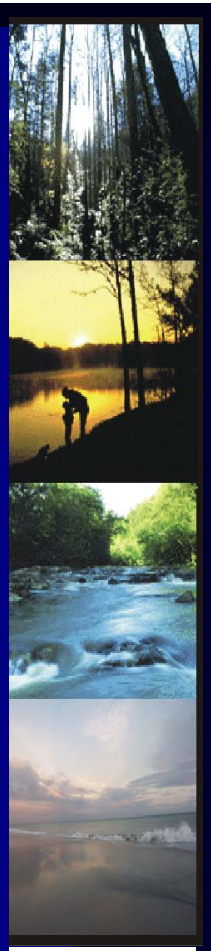
- Unexpected costs and savings will occur on incomplete projects.
- Adjustments can be moderated by spreading over many payments.

Actions Taken to Support Actual Cost Method

- Improved Financial Accounting System
  - Comprehensive project and program costs
  - Receipts collected from applicants
  - Mitigation requirements
  - Facilitates on demand actual-cost calculations
  - Prototype expected November 2008
- Coordination with Division of Water Quality

Next Steps

- Engage Stakeholders
- Completion of Database
- Report to ERC in March 2009
- Pursue Establishment of Agreed-Upon Method in Rule



Questions?

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