

# Vermont Legislative Joint Fiscal Office

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## Preliminary FISCAL NOTE

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### **H.586 – An Act Relating to Improving the Quality of State Waters**

(As amended by the House Committee on Agriculture and Forest Products)

**Summary:** The bill proposes to establish an Ecosystem Restoration Fund and establish various State programs in order to meet the federally mandated total maximum daily load (TMDL) requirements for waters within the Lake Champlain basin and throughout the rest of the State. In order to fund water quality improvement initiatives, the bill proposes to raise revenues through increases to the meals and rooms tax, liquor and wine tax, and the rental car tax. Expenses would occur in order to fulfill the requirements of the Ecosystem Restoration Fund and implement the new programs.

**Fiscal Impacts:** The following estimates are preliminary and subject to change. EPA decisions could alter the resources needed by the State to meet water quality standards. Costs and numbers of FTE personnel were provided by the House Committee on Fish, Wildlife and Water Resources based on testimony and prior data. The bill does not contain a clause that establishes specific FTE positions but these would be needed in order to implement this bill. There are currently no appropriations in the bill to pay for the new positions or programs. As currently drafted, there are timing issues between expenses, which would begin in FY15, and revenues, which would not begin until FY16.

*The Joint Fiscal Office has not performed an independent review of the potential costs of this bill.*

#### Summary of Fiscal Impacts

|                             | <i>FY15</i>          | <i>FY16</i>        | <i>FY17</i>        |
|-----------------------------|----------------------|--------------------|--------------------|
| <b>Revenue</b>              |                      |                    |                    |
| -New Taxes                  | -                    | <u>\$4,240,000</u> | <u>\$4,700,000</u> |
| <i>General Fund</i>         |                      | \$700,000          | \$1,000,000        |
| <i>Ecosystem Fund</i>       |                      | \$3,540,000        | \$3,700,000        |
| -Ecosystem Restoration Fees | -                    | ?                  | ?                  |
| <b>Expenses</b>             |                      |                    |                    |
| -Staff                      | (\$750,000)          | (\$1,300,000)      | (\$1,300,000)      |
| -Infrastructure Funding     | (\$350,000)          | (\$700,000)        | (\$1,700,000)      |
| -Tax Exemptions             | -                    | (\$75,000)         | (\$75,000)         |
| <b>Net Fiscal Impact</b>    | <b>(\$1,100,000)</b> | <b>\$2,165,000</b> | <b>\$1,625,000</b> |

Revenues

- *Tax Changes (Sec. 17-21)*

- Meals and Rooms Tax – Currently the tax is set at 9% on Meals and Rooms and 10% on Alcohol with a 1% local option in some municipalities. The bill proposes to increase the tax by 0.25% on all three components to 9.25% and 10.25%. The tax increases are for FY16.

|                                     |                           |
|-------------------------------------|---------------------------|
| <b>FY16 New M&amp;R Tax Revenue</b> | <b><u>\$3,800,000</u></b> |
| <b>FY17 New M&amp;R Tax Revenue</b> | <b><u>\$4,200,000</u></b> |

2% of all meals and rooms revenues would be directed to the Ecosystem Restoration Fund. The estimated revenues that would actually go to the Ecosystem Restoration Fund are shown below. The difference between the new M&R tax revenue collected and the amount going to the Ecosystem Restoration Fund would remain in the General Fund.

|                                    |                           |
|------------------------------------|---------------------------|
| <b>FY16 Ecosystem Fund Revenue</b> | <b><u>\$3,100,000</u></b> |
| <b>FY17 Ecosystem Fund Revenue</b> | <b><u>\$3,200,000</u></b> |

- Rental Vehicle Tax – Currently the State tax on rental vehicles is set at 9%. The bill proposes to increase the tax by 1% to a total of 10%. The tax increase would not begin until FY16.

|  |                         |
|--|-------------------------|
| <b>FY16 New Rental Vehicle Tax Revenue</b> | <b><u>\$440,000</u></b> |
| <b>FY17 New Rental Vehicle Tax Revenue</b> | <b><u>\$500,000</u></b> |

- *Water Quality Financing (Section 16)* – The bill would require ANR to report to the General Assembly with recommendations for a financing mechanism that assesses property owners in the State based on the property’s impact on water quality. The report would be due on or before January 15, 2015. The “Ecosystem Restoration Fee” would be enacted on July 1, 2015. If the fee is enacted there would be a revenue impact to the State, however it is assumed at this point that the new revenue would go to the Ecosystem Restoration Program Fund and would not impact any of the major State funds. **No fiscal impact estimate is available at this time.**

- *Accepted Agricultural Practices under Use Value Appraisal (Section 23)* – **Recommended for removal by the House Committee on Agriculture and Forest Products.** The bill, as passed by Fish, Wildlife and Water Resources, proposes for the Agency of Agriculture, Food and Markets to submit a report to the General Assembly outlining a plan that would require agricultural land to comply with AAPs in order to be eligible for the use value appraisal program. If enacted, these new restrictions would potentially result in increases in property tax revenue to the Education Fund, however these increases would be presumed to be temporary and unpredictable. **No fiscal impact estimate is available at this time.**

## Expenses

- *Agency of Agriculture, Food, and Markets*
  - (Sec. 1) The bill proposes to add § 4858a. to 6 V.S.A., which would enable the Agency to require small farms to be inspected and certified based on the farm’s compliance with newly outlined “accepted agricultural practices” (AAP). Four new FTE positions would be needed within the Agency in FY15; three to begin inspecting small farms, and one for administration. In FY16, four additional FTE positions would be needed; three field engineers to assist small farms with implementation of AAPs, and one position for legal/enforcement matters.  
**FY15 Cost: 4 new FTEs x \$100,000 each** **\$400,000**  
**FY16 Cost: 4 new FTEs (plus FY15 FTEs) x \$100,000 each** **\$800,000<sup>1</sup>**
  - (Sec. 1) The bill proposes to increase financial assistance provided by the State for infrastructure improvements to small farms in order to achieve compliance with AAPs. All cost estimates include ongoing costs from the prior year(s).  
**FY15 Cost:** **\$330,000**  
**FY16 Cost:** **\$660,000**  
**FY17 Cost:** **\$1,700,000<sup>2</sup>**
  - (Sec. 2-9) These sections of the bill contain various provisions pertaining to improving water quality in the State and would be performed by the Agency. The sections would enact enforcement capabilities for the Agency, livestock exclusion mandates for certain waterways, seasonal manure application restrictions and certification of manure applicators, water quality training programs for farms, and requirements for agricultural activities that alter or impact streams within the State. The Agency’s cost estimates for these provisions are below.  
**FY15 Cost: 1 new FTE x \$100,000** **\$100,000**  
**FY16 Cost: 1 new FTE (plus FY15 FTE) x \$100,000** **\$200,000**
- *Agency of Natural Resources*
  - (Sec. 10-11) These sections of the bill would require the Agency to annually provide municipalities with outreach and education regarding the benefits of local storm water management ordinances and bylaws. The bill would also require the Agency to coordinate and assess water quality data.  
**FY15 Cost: 1/2 new FTE x \$50,000** **\$50,000**  
**FY16 Cost: 1/2 new FTE (plus FY15 FTE) x \$50,000** **\$100,000<sup>3</sup>**
  - (Sec. 12) This section would create a voluntary erosion control certification program for those individuals who disturb soil, clear vegetation or construct impervious surface of more than 500 square feet in a shoreland area. **No additional cost is estimated at this time.**

<sup>1</sup> AAFM estimates that \$800,000 per year would likely be required for at least 10 years.

<sup>2</sup> All small farm improvements would be implemented by the end of FY17.

<sup>3</sup> This expense would extend to at least FY17 and potentially well into the future.

- (Sec. 13) This section would create a General Fund appropriation to the Department of Forests, Parks and Recreation to perform technical assistance to logging and forestry operations and to help cover the capital costs of placing portable skidder bridges over stream crossings.

|                   |                               |                         |                         |
|-------------------|-------------------------------|-------------------------|-------------------------|
| <b>FY15 Cost:</b> | <b>1 new FTE x \$100,000</b>  | <b>\$100,000</b>        |                         |
|                   | <b>skidder bridge expense</b> | <b><u>\$20,000</u></b>  | <b><u>\$120,000</u></b> |
| <b>FY16 Cost:</b> | <b>1 new FTE x \$100,000</b>  | <b>\$100,000</b>        |                         |
|                   | <b>skidder bridge expense</b> | <b>\$20,000</b>         |                         |
|                   | <b>Continued FY15 costs</b>   | <b><u>\$120,000</u></b> | <b><u>\$240,000</u></b> |
| <b>FY17 Cost:</b> | <b>Personnel costs only</b>   |                         | <b><u>\$200,000</u></b> |

- *Agency of Transportation*

- (Sec. 14) The bill proposes to reduce the local funding match requirement by 5% for certain towns participating in the town highway structures program and the class 2 town highway roadway program. The reduced local funding match requirement would only be available to those towns that have adopted current road and bridge standards. Currently, these funds are dispersed from a fixed amount of money each year so the result of this provision would be that more funding would go to fewer available grants. This could result in increased pressure to increase the amount of money dedicated to the town highway structures program and the class 2 town highway roadway program. **No additional cost is estimated at this time.**

- *Department of Taxes/Agency of Agriculture, Food and Markets*

- (Sec. 9b) The bill, as amended by the House Committee on Agriculture and Forest Products, proposes to exempt from taxable income all financial assistance received from the State under 6 V.S.A. chapter 215 (Agricultural Water Quality) for investments in infrastructure or practices to improve agricultural water quality. **The tax exemption would cost approximately \$75,000 per fiscal year starting in FY16.**
- (Sec. 15) **Recommended for removal by the House Committee on Agriculture and Forest Products.** The bill, as passed by Fish, Wildlife and Water Resources, proposes to establish an Agricultural Best Management Practices tax credit. The credit would be available to taxpayers who are engaged in the business of farming who implement an agricultural best management practice during the tax year. The credit would equal 25% of the first \$70,000 expended by the taxpayer for improvements and would only be available for the tax year in which the funds were expended, but cannot exceed the total tax liability of the taxpayer. The Secretary of Agriculture, Food and Markets would certify the improvement as approved and completed and would forward the certification to the Tax Department. **The tax credit would cost approximately \$90,000 per fiscal year starting in FY15.**

### Other Issues to Consider

- *Capital Bill Impacts*

Currently the capital bill funds ecosystem restoration projects and best management practices. This bill increases staffing related to these projects and would increase capital fund demands in future years. Additionally, the process of managing the flow of funds should be reviewed. The process laid out may impact federal matching funds, the treasurer's process and the reallocation of capital bill funds.