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**State of Vermont
Agency of Natural Resources**

Julia S. Moore, P.E.
Agency Secretary

MEMORANDUM

To: House Appropriations Committee
From: Julie Moore, Secretary, Agency of Natural Resources
Cc: Commissioner Louis Porter, Commissioner Michael Snyder, Commissioner Peter Walke
Date: May 28, 2020
Re: FY21 Budget

As you know, the COVID-19 pandemic has, and will continue to have, significant impacts on many of the major revenue streams that fund State government. As we begin the hard work of reopening the state’s economy, there remains a great deal of uncertainty as to the full impact the COVID-19 pandemic will have on State revenues. As a result, the Administration and the Legislature have agreed to pursue a FY 2021 Q1 stand-alone (or “skinny”) budget in order to be able to take advantage of better information later this summer in planning for the remaining three-quarters of FY 2021. In the interim, agencies have been directed to develop a budget that limits FY 2021 Q1 spending to 23% of our FY 2020 as passed budget.

Were these spending limits to be annualized, it would represent an 8% reduction in ANR’s General Fund allocation from FY 2020 levels or a 15% reduction in General Fund, approximately \$4.3m, from the \$30.9m in the Governor’s FY 2021 Recommended Budget for the Agency of Natural Resources.

Overview of Funding Streams

Of the \$168.0m proposed to support ANR operations in the Governor’s FY 2021 Recommended Budget, 18.4% (\$30.9m) was General Fund. The remaining \$137.1m is comprised of Federal Funds (36.2%), a myriad of special funds (39.1%), and some funding from other departments through interdepartmental transfers (6.3%). The overall funding structure is outlined in the table below:

Summary of ANR Appropriations by Fund

Fund Type	FY 2020	% of total	FY 2021	% of total
General Funds	\$ 29.0	18.0%	\$ 30.9	18.4%
Federal Funds *	\$ 64.2	39.9%	\$ 60.9	36.2%
Special Funds	\$ 57.5	35.7%	\$ 65.6	39.1%
IDT Funds	\$ 10.2	6.3%	\$ 10.6	6.3%
Funds Total	\$ 160.8		\$ 168.0	

* Federal Funds include Federal Fish and Wildlife Funds

ANR’s federal funding sources have generally been stagnant over the past decade and, as a result, the fraction of the Agency’s overall budget comprised of federal funds has decreased over time. In FY 2021, Federal Funds comprised approximately 36.2% of the Agency’s annual budget. ANR anticipates that Federal Funds the Agency receives annually will be unchanged as a result of COVID-19.

Special funds make up nearly 40% of the overall funding for the Agency’s work. Each of the ANR departments is currently evaluating their special funds to determine the impact of the economic downturn on projected revenues for FY 2020 Q4, FY 2021 and FY 2022. These funds include the FWD license fund, the State Parks fund, Solid Waste Management and permit funds, and the Petroleum Cleanup Fund. Based on a preliminary analysis, it appears prudent to assume that ANR’s special fund revenue will decrease between 10 to 25% through the end of FY 2021, when compared to pre-pandemic projections.

FY 2021 Budget Implications

Taken together, the reductions in the General Fund and special funds, suggest that a 15% reduction in the total funding available to support Agency operations (exclusive of federal funds and pass-through grants) in FY 2021 as compared to the FY 2021 Governor’s Recommended Budget is warranted. This equates to a reduction of \$13.7m. Absorbing a reduction of this magnitude will require structural changes to the operation of the Agency, impacting – and possibly eliminating – the capacity of the Agency to administer certain programs.

Calculation of 15% Reduction in ANR’s FY 2021 State-Funded Operating and Personal Services Budget

ANR FY 2021 Proposed Budget	\$168.0m
Less Federal Funds	\$60.9m
FY 2021 ANR State Funds Budget	\$107.1m
Less Non-Federal Funded Grants	\$15.8m
ANR FY 2021 State-Funded Operating & Personal Services Budget	\$91.3m
15% of ANR FY 2021 State-Funded Operating & Personal Services Budget	\$13.7m

The spending authority provided in the FY 2021 Q1 budget will allow ANR to continue base operations for the first quarter of FY 2021. To remain operationally feasible throughout the whole of FY 2021, however, the Agency will need to manage its spending in the first quarter through the limited tools we have at our disposal such as maximizing vacancy savings, limiting discretionary spending, reducing equipment and travel expenditures, postponing other operations to generate savings, reviewing and utilizing special fund balances where prudent, utilizing carryforward if available, and delaying payments for internal service funds (i.e., workers comp, fee-for-space, Agency of Digital Service charges) to the extent possible in order to preserve spending authority to make payroll and meet obligations to our vendors and other partners.

In parallel with the work needed to manage to the FY 2021 Q1 budget, Agency leadership has begun the difficult exercise of evaluating programs, initiatives and pass-through grants with respect to the core mission of the Agency in recognition of the sober revenue outlook in FY 2021. Understanding that specific proposals will ultimately need to be discussed with and considered by the General Assembly, our recommendations are anticipated to include some or all of the following: shifting staff to more stable funding sources to the maximum extent practicable; aligning staff resources with the highest priority work; eliminating grants and contracts where feasible; and, reducing overall staff costs through attrition. Eliminating filled positions will only be considered an option of last resort. The Agency anticipates that it may be necessary to seek statutory changes to

align its commitments with the financial and staff resources available to perform the work. And throughout FY2021 Q1 we will continually evaluate any and all recommendations in light of evolving fiscal projections.

Going into this work, we know that changes are unlikely to be felt evenly across the Agency, or even within individual departments, as each ANR program relies on a unique mix of these funding sources. We are grateful to House Appropriations for the expressed willingness to work with the Administration in these extremely difficult times to develop a path forward.