

# Vermont Legislative Joint Fiscal Office

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## FISCAL NOTE

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### Senate Bill No. 96: An act relating to the provision of water quality services – as amended by the House Committee on Ways and Means

<https://legislature.vermont.gov/Documents/2020/WorkGroups/House%20Ways%20and%20Means/Bills/S.96/S.96~Michael%20Grady~As%20Recommended%20by%20the%20House%20Committee%20on%20Ways%20and%20Means~5-3-2019.pdf>

#### Bill Summary

As amended by the HWM Committee, S.96 creates a new recurring stream of revenue for the Clean Water Fund (CWF) by reallocating a portion of the meals and rooms tax from the Education Fund (EF) to the CWF beginning in FY2020. In FY2020, this would generate \$7.7M for the CWF, which would bring total clean water funding to \$50.5M.

The amendment would also repeal the current-law sales tax exemption for prewritten software accessed remotely to replace most of the meals and rooms revenue diverted from the EF to the CWF. In FY2020, this would generate \$6M for the EF. These funds, along with other new revenue sources, will more than offset this reduction in revenue

The Senate-passed version of S.96 provides no new sources of funding for the CWF nor does it contain any appropriations. These new revenues for the CWF, along with other State and Federal funds dedicated to clean water funding, are to be appropriated in the Big Bill.

#### Fiscal Impact

As discussed below, S.96 as amended by the HWM Committee, would have offsetting fiscal impacts on the CWF and the EF.

(1) **Reallocation of Meals & Rooms Tax Revenue.** Under current law, 25% of the meals and rooms tax revenue is dedicated to the EF and 75% is dedicated to the GF. The proposal would reduce the allocation to the EF and divert 4% of meals and room tax revenue or \$7.7 million to the CWF beginning in FY2020. The allocation to the GF would remain unchanged.

(2) **Sales Tax on Cloud-based Software.** Under current law, there is a sales tax exemption for prewritten software accessed remotely (commonly known as cloud computing). As amended, S.96 would repeal this exemption and raise an additional \$6.0 million in sales tax revenue in FY2020 that would be entirely dedicated to the EF.

### **Fiscal Impact on the Clean Water Fund in FY2020**

As amended, S.96 would increase funding for the CWF by \$7.7M in FY2020. Current-law CWF revenues for FY2020 include \$6.6M from a property transfer tax surcharge and \$1M from unredeemed bottle deposits. Total CWF revenue for FY2020 with existing sources would be \$14.8M.

Note that the CWF provides only part of the funding for clean water projects in the State. When other funding from Federal funds and other bills are included, there would be about \$50.5M available in FY2020 meeting the clean water funding target for the year. The Department of Environmental Conservation has indicated that dedication of this recurring meal and rooms tax revenue to the CWF would receive the approval of Environmental Protection Agency.

### **Fiscal Impact on the Education Fund in FY2020**

Standing alone, S.96 as amended, would result in a \$1.6 million reduction in EF revenue in FY2020. However, the HWM Committee also raised new non-property tax revenue for the EF in three other bills: H.514 (sales tax on veterinary supplies: \$1.3M); H.536 (sales tax on marketplace facilitators: \$13.4M), and H.541 (meals and rooms tax on online travel agents: \$0.9M). The net impact on the EF when these other bills are taken into consideration is an additional \$13.9 million in FY2020.

### **Explanation/Methodology**

Section G.8 of 2015 Acts and Resolves No. 51 contains an exemption for prewritten software accessed remotely. This is commonly known as cloud computing or cloud-based software. S.96 as amended would repeal that exemption and generate an addition \$6 million in sales tax revenue in FY2020 and growing to \$6.3M in FY2021.

This estimate is based upon data from the Bureau of Economic Analysis' Prices and Output for Information and Communication Technologies data<sup>1</sup>. These are national data that are scaled to Vermont.

JFO estimates that 30% of all software is accessed remotely. A recent report completed by Gartner, a management consulting firm, found that worldwide cloud software sales were \$206 billion in 2019<sup>2</sup>. Using this figure, and calculating the U.S. share, results in an estimate of between 22% and 30% for cloud computing's share of total software purchases.

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<sup>1</sup> <https://www.bea.gov/prices-and-output-information-and-communication-technologies>

<sup>2</sup> Christopher, N. (2018). *Gartner forecasts worldwide public cloud revenue to grow 17.3 percent in 2019*. *The Economic Times*. <https://economictimes.indiatimes.com/tech/software/gartner-forecasts-worldwide-public-cloud-revenue-to-grow-17-3-percent-in-2019/articleshow/65796242.cms>

**Clean Water Funding**

**S.96 as passed by HWM Committee**

(millions of dollars)

**Clean Water Fund  
New and Existing Revenue for FY2020**

Meals & Rooms Tax	
• Reallocation to CWF - 4% (S.96)	7.6
• Online travel agents (H.541, S.96)	0.1
Property Transfer Tax	
• Surcharge (Act 64 of 2015; Act 208 of 2018)	5.0
Carryforward	1.1
Unredeemed Deposits (Act 208 of 2018)	1.0 *
<b>Total</b>	<b>14.8 *</b>

**Total Clean Water Funding in FY2020**

Clean Water Fund	14.8
Capital Bill	12.1
Other Bills**	17.4
Federal - Nonrecurring	6.2
<b>Total</b>	<b>50.5</b>

**Education Fund  
New Non-Property Tax Revenue for FY2020**

Sales Tax	
• Marketplace facilitators (H.536)	13.4
• Cloud computing (S.96)	6.0
• Veterinary supplies (H.514)	1.3
Meals & Rooms Tax	
• Reduced EF allocation from 25% to 21% (S.96)	(7.6)
• Online travel agents (H.541, S.96)	0.8
<b>Total</b>	<b>13.9</b>

\* Half-year estimate for FY2020; full-year available beginning in FY2021.

\*\* Includes Federal funds.