

ENVIRONMENTAL PROTECTION

Clean Water Fund and Capital Bill Appropriations FY20



- **WHAT:** The Clean Water Fund was established by Act 64 of 2015 for the purpose of providing additional state funds to help municipalities, farmers, and others implement actions that will reduce pollution washing into Vermont's rivers, streams, lakes, ponds, and wetlands.

Current law revenues dedicated to the Clean Water Fund include:

- Approximately \$5 million per year generated from a 0.2% surcharge on the property transfer tax (PTT); and
- Approximately \$2 million per year (\$1 million in FY20 because only 6 months) in unclaimed beverage container deposits remitted to the State.

The Governor has proposed a multi-year transition to dedicating estate tax revenues to the fund, beginning with \$8 million in FY20. With this additional source of revenue in FY20, \$15 million will be available for allocation from the Clean Water Fund.

- **CLEAN WATER BOARD:** Current law requires the Clean Water Board to recommend to the Secretary of Administration expenditures from the Clean Water Fund and to allocate the clean water projects appropriated for that purpose in the Capital Bill.
- **CLEAN WATER FY20 BUDGET:** At its December 21, 2018 meeting, the Clean Water Board recommended that a total of \$28.35 million from the Clean Water Fund and proposed FY20 Capital Bill be appropriated as follows:
 - \$9.64 million for work in the agricultural sector, including \$2.8 million for land conservation and water quality project work by VHCB
 - \$2.55 million for innovation and partner support
 - \$2.8 million for natural resources restoration
 - \$7.45 million to manage stormwater runoff from developed land and roads
 - \$5.91 million for wastewater treatment
 - \$25,000 to start work on a statutorily required clean water audit
- **GOVERNOR'S RECOMMENDED FY20 CLEAN WATER ALLOCATIONS:** The Governor's proposed budget allocated the \$28.35 million as recommended by the Clean Water Board. The Governor was, however, able to reduce reliance on the capital bill by \$2.85 million. The Governor's recommended state revenue sources to fund the \$28.35 million allocation are as follows:
 - \$12.15 million in Capital Funds
 - \$15.1 million in Clean Water Funds
 - \$1.1 million in the Transportation Bill

With an additional \$19.26 million in federal funding being leveraged by our state dollars, approximately \$47.61 million in state and federal funds are allocated to clean water projects.

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ENVIRONMENTAL PROTECTION

Clean Water Funding – Long Term Approach



- **WHAT:** The Governor is committed to providing long-term funding for funding clean water programs. The Administration proposes to fund clean water efforts with a suite of existing revenue sources – primarily the estate tax and the property transfer tax. The combination of these revenue sources provides a predictable stream of funding on an annual basis which, in turn, provides consistency that partners can rely on in developing and implementing clean water projects.

It is anticipated that Vermont’s total clean water appropriations will increase from \$47.61 million in FY20 to between \$50-60 million per year by FY24 and be sustained at this level for 20 years in order to fulfill the commitments made in Act 64. The suite of revenue sources will include: Clean Water Funds; Capital Bill appropriations; and, Transportation Bill appropriations. In turn, these funds will be used to leverage additional federal dollars that flow through the state budget, primarily thru the Clean Water State Revolving Fund (SRF) and Federal Highway Surface Transportation Block Grant (STBG) Fund, for clean water work.

The anticipated allocations from these sources are anticipated as follows:

- Clean Water Fund: \$25-28 million/year
- Capital Bill: \$10-12 million/year
- Transportation Bill: \$5 million/year
- Leveraged federal funds: \$10-12 million/year

The revenue sources that have been identified to ensure the Clean Water Fund is sustained at this level are:

- Property Transfer Tax (PTT) 0.2% surcharge: \$5 million/year
 - Unclaimed beverage container deposits (escheats): \$2 million/year
 - Estate Tax: \$8-11 million/year
 - Additional PTT allocation to clean water: \$10 million/year
- **WHY:** The quality of Vermont’s rivers, streams, ponds and lakes, and our natural environment as a whole, is one reason Vermont is the healthiest state in the nation and offers such a high quality of life that keeps and attracts families and jobs.

Over the next 20 years, Vermont – both the public and private sectors – will need to invest \$2.3 billion to meet federal and state clean water goals.¹ This effort will require the construction and on-going stewardship of thousands of water quality projects across the landscape. Some projects will be required by permits or regulations, while others will be “above and beyond” or non-regulatory activities that are necessary to restore and maintain the quality of Vermont’s rivers, streams, lakes and ponds.

¹ According to State Treasurer’s 2017 report (www.vermonttreasurer.gov/sites/treasurer/files/committees-and-reports/FINAL_CleanWaterReport_2017.pdf)

The Legislature has voiced a preference for using a revenue source that has a nexus to the issue of clean water and popular concept is either a per parcel tax or an impervious surface tax. The Administration is choosing to use the Estate Tax as dedicated revenue, as property transfer has been accepted as having a nexus to clean water, and the Estate Tax does represent a real estate property transfer in about half of the estates examined.

- **HOW:** The Governor’s proposed budget for FY20 will redirect a portion of the Estate Tax revenue from the General Fund to the Clean Water Fund. The Administration anticipates that all Estate Tax revenue will be directed to the Clean Water Fund starting in FY22, and that revenues to the Clean Water Fund will be further augmented by an additional allocation from the PTT.

Year	Exclusion Amount (Millions)	Revenue (Millions - Approx)	Clean H2O Need	Estate Tax to Clean H2O	Property Transfer Tax to Clean H2O	Lost GF Revenue (Millions)	GF Year to Year Change (Millions)
FY19	\$2.75 (Current Law)	19.9	-	-	-	-	-
FY20	\$3.50	20.2	8	8	-	-8.9	-8.9
FY21	\$4.25	15.3	12	12	-	-17.8	-8.9
FY22	\$5.00	13.1	18.8	13.1	5.7	-26.8	-9
FY23	\$5.75	11.5	20.9	11.5	9.4	-30.5	-3.7
FY24	\$5.75	11.1	20.7	11.1	9.6	-30.7	-2

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