



STATE OF VERMONT

February 26, 2019

Rep. Janet Ancel
Chair, Committee on
Ways and Means

Dear Chair Ancel:

I am writing to provide the input of the Committee on Natural Resources, Fish, and Wildlife (Natural Resources Committee) regarding options for raising the revenue necessary to successfully implement the State's Clean Water Initiative. This letter first identifies the additional revenue that the State must generate to reach the desired goal of statewide clean water. The letter then reviews options for raising the necessary revenue, most notably by reviewing the options presented in H.171, An act relating to clean water funding, introduced by Rep. George Till.

A. Revenue Necessary to Fund the Clean Water Initiative

After enactment in 2015 of Act 64, known as the Vermont Clean Water Act, the State Treasurer completed a report addressing funding of the Clean Water Initiative. In the report, the annualized cost of implementing the Initiative was projected to be \$120 million a year. The Treasurer identified existing State and federal revenue of \$52.4 million a year, leaving a funding gap of \$67.7 million a year. To avoid shifting all of the \$67.7 million onto the regulated community, the Treasurer recommended that the State subsidize a portion of the \$67.7 million by raising an additional \$25 million in revenue to fund the Clean Water Initiative.

However, the Treasurer's recommendation did not include operational and maintenance (O&M) costs for municipal water quality projects. Because O&M will be integral to performance of water programs and projects, the Natural Resources Committee believes O&M costs should be part of the revenue raised for the Clean Water Initiative. When an estimated O&M of \$8 million annually is added to the Treasurer's recommendation, the revenue target increases from \$25 million to \$33 million annually.

Some of the \$33 million has been realized through extension of the property transfer tax (PTT) surcharge and remittance to the State of the unclaimed beverage container deposits, also known as the escheats. When combined, the PTT surcharge and the escheats generate approximately \$6 million in revenue. Thus, the target

for additional revenue to fund the Clean Water Initiative should be \$27 million in revenue in addition to the PTT surcharge and the reclaimed escheats.

In addition, the Natural Resources Committee recommends raising the necessary revenue as soon as possible. Any delay in raising revenue for water quality projects delays opportunity to fund, construct, and administer the projects. For many of the contemplated clean water projects, such delay will lead to increased costs and a corresponding need for more revenue.

The Natural Resources Committee also recommends that the \$27 million in revenue should not be raised through additional capital funding. Some capital funding is necessary and recommended in order to draw down federal dollars for wastewater systems, drinking water systems, and agricultural improvements. Capital dollars require the full faith and credit of the State and can over the life of a bond cost the State three times as much as the original amount raised. Therefore, we believe bonded dollars should be used judiciously.

B. Funding Alternatives: H.171 and Additional Proposals

1. H.171, An act relating to water quality funding

H.171 as introduced proposed multiple alternatives to raise revenue for water quality funding. The Natural Resources Committee reviewed each proposal. The recommendation of the majority of the Committee is below for each proposal.

a. Impervious Surface Fee

The Natural Resources Committee recommends further consideration and conversation regarding implementation of an impervious surface fee. The State Treasurer recommended in her 2017 report that any fee, tax, or other revenue mechanism enacted to raise revenue for water quality should have some nexus to the water quality problems facing the State. Because stormwater runoff from impervious surface is one of the major contributors of pollution to State waters, it is logical to connect a revenue mechanism to the source of the problem.

With the near completion by the Vermont Center for Geographic Information of impervious surface mapping for all parcels in the State, implementation of an impervious surface fee is more feasible today than ever before. The Natural Resources Committee recognizes that there may be political and operational complexities in the implementation of an impervious surface fee. Nevertheless, the General Assembly should continue the conversation regarding implementation of a statewide impervious surface fee.

b. Repeal of the Sunset on the Property Transfer Tax Surcharge

The Natural Resources Committee recommends repealing the sunset on the property transfer tax surcharge. The surcharge has been a reliable, effective, and

efficient method of generating funding for water quality programs. It should remain in place for the foreseeable future. When water quality improves in the State, the General Assembly can revisit whether the surcharge should be repealed.

c. Water Quality Occupancy Surcharge

The Natural Resources Committee recommends continued conversation regarding imposition of an occupancy surcharge to raise revenue for water quality funding. Tourism in Vermont generates approximately \$2.5 billion annually, much of which is connected to the use and enjoyment of the State's environment. Assessing a small surcharge per night on persons utilizing the State's natural resources in order to cleanup and maintain these resources should remain an option open for discussion by the General Assembly.

d. Milk Handling Fee

The Natural Resources Committee does not support the proposed milk handling fee. Although runoff from agriculture is one of the contributors to water quality problems in the State, the milk handling fee would be a tax ultimately passed on to consumers in the price of food. The State generally has avoided taxing food and therefore the Natural Resources Committee recommends not pursuing this option.

e. Asphalt Assessment

The Natural Resources Committee recommends not pursuing the assessment on asphalt. Although the asphalt assessment does have a nexus to water quality, as stormwater runoff from impervious surfaces is a major contributor to the State's water quality problems, the Natural Resources Committee learned that it will be difficult to administer the assessment and that it likely will not generate significant revenue for water quality efforts. Since the administrative burden of implementing and administering the assessment appears to outweigh its benefit, the Natural Resources Committee does not support the asphalt assessment.

2. Other Revenue Options

a. Escheats

The Natural Resources Committee fully supports the requirement that beverage manufacturers and distributors return to the State the unclaimed beverage container deposits, known as the escheats. These funds are unclaimed property of citizens of the State and should be used for the benefit of the State, not for the benefit of private businesses.

b. Other Proposals

The Natural Resources Committee is aware of a bill introduced by Representative Dolan that includes Individual Income Tax, Bottled Water Excise Tax, Sugar Sweetened Beverage Tax, and Barbering and Cosmetology Sales Tax.

We have not had time to discuss these options in detail but support the Committee on Ways and Means in considering them as they move forward on funding water quality clean up.

c. H.64 Report on Materials or Activities that Contribute Pollutants to Waters

The Natural Resources Committee has been assigned H.64, as introduced by Rep. Browning, relating to financing water quality programs. The Natural Resources Committee has reviewed H.64 briefly and wants to keep it in committee for further review.

C. Continued Support

The Natural Resources Committee appreciates the opportunity to provide input to the Committee on Ways and Means regarding water quality funding. The Natural Resources Committee supports the efforts of your Committee in assessing the best options to generate the funding necessary to achieve the Clean Water Initiative's goal of clean water across the State. Achieving this goal will benefit the people, environment, and economy of the State of Vermont.

Please contact me or other members of the Committee if you need additional information or have questions regarding the recommendations of the Natural Resources Committee.

Sincerely,

Rep. Amy Sheldon
Chair, Committee on Natural Resources,
Fish, and Wildlife