

MEMORANDUM

TO: Anson Tebbetts, Secretary
FROM: Jeffrey B. Cook, Financial Manager I
DATE: February 11, 2019
SUBJECT: Capital Construction Funding Summary

Below is a summary of the capital construction accounts for the Water Quality Division at the Agency of Agriculture (Agency) through February 11, 2019. These funds provide financial assistance for the Best Management Practice (BMP) Cost Share Program, Conservation Reserve Enhancement Program (CREP), Agricultural Clean Water Initiative Program (CWIP), and the Capital Equipment Assistance Program (CEAP).

| <u>Department ID</u> | <u>Unspent Funds As Of 07/01/18</u> | <u>Encumbered/ Expended Thru 02/11/19</u> | <u>Funding Remaining</u> | <u>Financial Obligations</u> | <u>Funding Not Obligated</u> |
|----------------------|---|---|------------------------------|----------------------------------|----------------------------------|
| 2200991602 (BMP) | \$1,071,057.22 | \$921,430.53 | \$149,626.69 | \$149,626.69 | \$0.00 |
| 2200991702 (BMP) | \$2,422,975.32 | \$1,236,075.35 | \$1,186,899.97 | \$1,186,899.97 | \$0.00 |
| 2200991802 (BMP) | \$3,608,777.00 | \$89,343.41 | \$3,519,433.59 | \$2,533,669.74 | \$985,763.85 |
| Totals - BMP | \$7,102,809.54 | \$2,246,849.29 | \$4,855,960.25 | \$3,870,196.40 | \$985,763.85 |
| 2200991703 (CWF) | \$592,231.00 | \$12,810.20 | \$579,420.80 | \$21,406.80 | \$558,014.00 |
| 2200991803 (P Eq) | \$1,397,590.00 | \$112,500.00 | \$1,285,090.00 | \$127,500.00 | \$1,157,590.00 |
| Totals - All | \$9,092,630.54 | \$2,372,159.49 | \$6,720,471.05 | \$4,019,103.20 | \$2,701,367.85 |

These obligations represent 165 projects in 93 grants and contracts on farms statewide. Typically, the Agency expends between \$1.0 and \$1.8 million annually for these programs. In FY 2018, increased funding resulted in capital expenditures totaling \$3.16 million. In addition, this division currently tracks over \$6.6 million in 98 non-capital grants and contracts. The table above shows \$2,701,367.85 in funding as unobligated. Below is a breakdown of the various programs:

CREP works in conjunction with the United States Department of Agriculture (USDA) and establishes buffers along waterways in Vermont. When a farmer signs up for this program, he/she receives a federal contract and a state grant. The farmer receives federal funding for participating in the program and an up-front incentive payment from the Agency. CREP is authorized under the U.S. Farm Bill. \$239,952.75 of the unobligated funds is earmarked for CREP.

The Agency received capital funding from the Clean Water Fund for on-farm implementation in Fiscal Year 2018. The Agency is evaluating CWIP proposed projects and will create grants and contracts in the next couple months. \$558,014.00 of the unobligated funds are for this purpose and are anticipated to be allocated this fiscal year.

The remaining funds are available for the BMP and CEAP programs. The BMP program help farmers install structural practices to reduce impacts on Vermont's landscape and improve water quality. Examples of such practices are liquid waste storage structures, barnyard improvements, silage leachate containment systems, and clean water diversion projects. These funds also pay for external engineering services provided to farmers for approved projects which cannot be handled by Agency staff. The Agency's engineering design and construction oversight capacity varies based on the recommended structural improvement but is typically between 40 to 50 farms annually.

BMP dollars also augment federally funded projects through USDA's Environmental Quality Incentives Program (EQIP) contracts providing farmers additional cost share dollars making implementation of their projects more feasible financially. The Agency allocates funds associated with EQIP year round and will continue as information becomes available from USDA.

The Agency received 139 BMP applications in Fiscal Year 2018 and 50 thus far in Fiscal Year 2019. Our engineering staff has been working on contacting applicants, evaluating their needs, and ranking projects for potential funding. This significant increase in requests comes from a number of factors. Some are:

- The implementation of the Required Agricultural Practices rules in December 2016. Many small farms need financial assistance to comply with these regulations.
- The adoption of a new policy which increases the maximum cost share rate and amount of cost share dollars available to farms, especially to farms enrolled in the federal EQIP program.
- Increased enforcement efforts by the Agency.
- The execution of the Phase I Implementation Plan for the Lake Champlain Total Maximum Daily Load (TMDL).

CEAP helps offset costs of new or innovative equipment to aid in the reduction of surface runoff of agricultural wastes to state waters, reduce odors from manure application, separate phosphorus from manure, decrease greenhouse gas emissions, and reduce costs to farmers when they apply manure. Examples of such practices are no-till corn planters, manure application record keeping units, drag line manure systems, and phosphorus removal technology or equipment projects. The Agency received requests for over \$2.7 million for CEAP and has begun entering grant agreements which will total over \$1.1 million.

New in Fiscal Year 2019, the Legislature appropriated \$1,397,590.00 for phosphorus removal equipment. To date, the Agency has entered six grants to implement Stage 2 of the Governor's initiative, Vermont Phosphorus Innovation Challenge (VPIC), for prototype and business case development. VPIC was designed to support solutions for reducing phosphorus loading to Vermont's landscape and waterways by harnessing opportunities that innovative technologies and developing markets may offer.

In Fiscal Years 2018 and 2019, the Agency received \$4.05 million and \$3.615 million respectively in capital funding. Small farms needing improvements are becoming a priority for the Agency. USDA has targeted \$45 million over five years for the Lake Champlain Basin through their EQIP program.

In past years, the Agency has returned \$958,770.97 in capital construction funds to Buildings and General Services through the FY2011 Capital Budget Act (\$355,241.68 from FY2001 through FY2005 allocations), in FY2012 (\$250,000 was removed from the Agency's allocation and redirected for the Vergennes Capital Project) and in FY2018 (\$353,529.29).