

CCRPC Comments on the
10/18/2017 Draft Report of the Working Group on Water Quality Funding,
Required by 2017 Act 73, Section 26

Approved by the CCRPC Executive Committee on November 1, 2017

Thank you very much for the hard work and consultation that went into developing this report and its recommendations. It is important to our environment and economy that the State develop a long-term funding system that is equitable and is effective in achieving our shared clean water goals.

I. We have some broad comments about the draft report for your consideration:

1. The State of Vermont made commitments through Act 64 and other mechanisms to the Federal Government and our residents to reduce phosphorous loading to Lake Champlain in previous years. While it is good to examine short-term cash flow needs, it is critical that the State address the long-term funding needed to follow through on these commitments. We encourage the Group to invest more time and effort in developing the long-range funding system.
2. We support the implementation of a statewide fee and system to provide adequate funding over the next 20 years. More details about our thoughts on this can be found in Section III.
3. There is a big assumption in this report that the municipal portion of funding (\$25M) needed already exists. It would be more accurate to let Legislators and the public know that the municipal funding that is assumed will be new funding that will have to be raised from property tax payers. This “revenue” does not yet exist except in a very few towns.

II. We recommend the following revisions to the Draft Report:

1. Operations and Maintenance Costs.

- i. At the bottom of page 12, the report notes the Treasurer’s Report did not include cost estimates for operations and maintenance. Please add a sentence or two about the significance of that long-term cost. Ongoing O&M costs are present for any facility, can be significant, are necessary to realize the water quality benefits of any physical improvements, and should be considered and planned for as part of the overall statewide water quality funding needs. Our stormwater utilities report between ½ to 2/3 of their budgets being needed for operation, maintenance, and administrative activities. This O&M investment is critical to maintaining the functioning of water quality projects and their water quality benefits.

2. Municipal Revenue/Share.

- i. On page 11, Paragraph C. Municipal, leads a reader to conclude that most if not all municipalities have ratepayers. Please break this paragraph into two paragraphs, one that discusses sewer systems and a second that talks about developed lands. It would help the legislators to better understand the real-world situation by including what % of municipalities have sewer systems and what % have stormwater utilities. Perhaps even include the percent of residents covered by these utilities. It should

also be noted in the paragraph for developed lands (roads and 3-acre) that the vast majority of municipal costs will be borne by the residents through the property tax. A sentence should also be added noting that this revenue source already has high demands on it to pay for schools and municipal services.

- ii. On page 18, the table of estimated costs and revenues assumes a substantial portion (\$11M) to be paid for by private landowners. This assumption needs to be explored more deeply as it seems that a significant percent of those costs may be borne by municipalities. There should be a recommendation for several million dollars of additional revenue to help with these municipal costs. See recommendations v. and vi. below.
- iii. On page 18, the Working Group assumes that municipalities will have an equal share of the capital cost with the State of 33%. See comment #1 above. This equal share of capital cost represents an unequal sharing of overall costs because O&M costs are excluded. We would ask the Group to take into consideration the O&M burdens being placed on municipalities and explain the current cost sharing in a pie chart that includes O&M. Instead of a bullet on page 19, move this up in the conversation so that the reader can understand the full cost of compliance, including O&M.
- iv. We appreciate that the Group is anticipating a 20% cost share on municipal roads on page 26.
- v. On pages 27 & 28, we recommend that the State should raise enough revenue to cover 80% of capital costs (including federal funds) for Sector 3.C. Municipal Non-Road Developed Lands and Sector 3.D. Private Non-Road Developed Lands when the municipality takes the lead on a project. The recommendation of 50% to be borne by municipal tax payers is overly onerous and does not take into account the long-term O&M costs that the municipality will bear.
- vi. On page 35-36, please revise Recommendation #1 to seek additional funding to provide a larger percentage of capital funding by the State and Federal sources and reduce the percentage to be borne by municipalities because of the O&M costs being factored in.

3. Project Development Needs.

- i. Please add an additional bullet to page 15 about project development needs. A strong point needs to be made that 20% of funding needs to be non-capital to provide adequate resources for the initial two or three stages of work described in the project life cycle graphic on page 6. Some of that funding is available for Tactical Basin Plans, but much more is needed to develop projects, or “evaluate options and select approach” and working with sponsors and landowners. Look to VTrans as a model for this.
- ii. Please add an additional bullet about project development needs on page 19.
- iii. Please address this issue in Recommendation #1. There is not effort being invested in evaluating issues identified in TBPs to develop a good pipeline of projects. Either a greater percent of the Clean Water Fund needs to be devoted to this work or additional funding needs to be found for this work in the short term.

III. **Long-term Funding.** We endorse Recommendation #5 on page 37 that takes a statewide perspective to develop a long-term mechanism for raising revenue to address water quality. Below are comments endorsed by the CCRPC Board on February 17, 2017 related to long term funding as discussed in the State Treasurer's Report.

1. Raising the majority of needed funding statewide will allow the State to best manage investments that have the greatest cost-effectiveness. The cost to society will be less if effective investments are made in high-priority locations. This is important to most efficiently and effectively meet our Clean Water goals.
2. Raise funds statewide equitably. These compliance efforts will be most assisted by meeting a significant portion of the cost through statewide revenues. Municipal budgets, and their limited base of property taxes, cannot afford the significant cost of water quality compliance on their own. This will allow for equitable revenue-raising statewide and decrease inequity among municipalities in raising sufficient revenue to implement what needs to be done. Please keep in mind that any municipal costs that are not covered by the State will still be borne by taxpayers at the municipal level, but probably in very unequal ways as some towns move more quickly and some more slowly.
3. **Nexus.** That there be a clear nexus between how funding is raised and water quality; that is, the revenue source should be closely related to either a significant pollution source or a direct beneficiary of improved water quality. Meeting the documented stream impairment and phosphorus, stormwater, and nitrogen TMDL requirements should be the principal targets.
4. **Parcel Fee/"All-in."** A broad-based approach that spreads these costs out among all Vermonters. A parcel-based fee of some kind makes the most sense in terms of having a rational nexus and having an "all in" approach. This would include properties that are exempt from property tax including government facilities, State roads and buildings. In concept, we support the recommendation to implement a parcel-based tiered fee at the beginning of FY19, with a more accurate impervious-based tiered fee to follow when ready.
5. **Additional revenue source options.** With regard to the various fee/tax mechanism listed on pages 59-60 of the Treasurer's Report, the State should continue to explore the adoption of fees with a clear and defensible nexus to water quality.
6. **Additional Resources.** The State of Vermont should raise revenue and bond, as necessary, to provide the match necessary to obtain additional Federal or private funding opportunities. DEC should take an active role in finding and applying for federal funding.
7. **Clean Water Fund Board.** At least one municipal representative should be added to the Clean Water Fund Board in 2017.
8. **Administration Options.** Of the four Administration Options presented (see last page for summary table), we would like to see Option 1: Water Quality Improvement District as a Utility implemented by 2019. Funds should be raised in a statewide system with billing, parcel (GIS and impervious) analysis, and consistent determinations regarding billing, trading, credits, and enforcement decisions made at this level. Some percentage of the funding should be kept at the state level for administration and so that high level priorities can be decided by the Clean Water Board about priority investments in different categories and/or watersheds. This will facilitate development of trading networks so that real prioritization takes place and also

provides mechanism for municipalities with less cost-effective implementation options to meet their regulatory obligations.

The majority of funds should be distributed to regions for project identification, management, technical assistance, and long-term operation and maintenance. Providing these functions regionally will minimize costs and reduce potentially redundant services if all of this work were to happen at a municipal level. Regardless of which option is chosen, it should provide funding for and support:

- a. regional prioritization of projects;
 - b. a pool of project development, engineering, management/monitoring funds in each region;
 - c. a regional or municipal capital improvement plan approach to project selection rather than competitive grants;
 - d. partnerships between municipalities, property owners, RPCs, conservation districts, and watershed associations;
 - e. development of a long-term framework for ensuring proper maintenance, operations and management of these new clean water assets
9. **Administration Options Cost Analysis.** While we assume Option 1 will be most cost effective if billed and collected at the state level, we need some more analysis of the cost of administration for the four administrative options. In particular, the cost of billing and collecting the fees needs to be examined. Municipalities have major concerns about being asked to bill on behalf of the state including tax exempt properties that do not receive municipal tax bills.

Relationship to existing municipal stormwater programs:

10. **Don't double-charge.** We strongly believe that property owners/municipalities with existing stormwater fees not be "double charged". Any statewide fee levied for the purpose of water quality should not reduce existing funding of municipal stormwater programs/utilities. A statewide fee should provide for credits if a property owner is paying into a municipal stormwater programs/utility or for their own permit (3 acre, Ag). We want to make sure that municipal stormwater programs have the flexibility to meet the requirements of their current permits with DEC.
11. **Access to State funding.** Even if a municipality has established a stormwater utility or some other locally-based revenue raising mechanism, municipalities would still like to be able to access additional state funds because no municipalities have the capacity to raise all of the revenues required to address the new TMDL requirements on top of existing MS4 requirements.
12. **Regional Collaboration.** We support a system that allows for regional collaboration with other municipalities or with property owners with separate stormwater permits when individual municipalities determine that this option would be in their best interest.

With regard to how the State of Vermont **collects** water quality funding, we have the following concerns and suggestions:

13. **Collection generally.** It is important that the collection system address:
 - a. How to impose a new fee on tax exempt property

- b. How residents will be able to easily distinguish this fee from local property taxes.
 - c. The cost of administration.
 - d. Method of enforcement/penalties when entities do not pay fee
14. **Not municipal collection.** There is not a correlation between making funding decisions at a local/regional level and collecting the fees. While we appreciate the idea of driving the revenue generation and use to a local level, requiring municipalities to collect these funds is problematic because:
- a. Any municipality that does not already have a stormwater utility/program would have to develop a new water quality fee collection system for all properties including tax exempt properties, separate from tax bills.
 - b. Property owners will not be able to distinguish the state fee from locally imposed taxes. Municipalities are clearly opposed to adding additional costs to the property taxes.
 - c. There will be a new cost burden imposed on every municipality to collect and enforce this fee.
15. **Statewide collection.** We believe that a detailed analysis of collection options will conclude that it will ultimately be more effective to develop a statewide billing system (paid for out of the revenues) than asking 251 municipalities to develop separate billing systems to bill the fee and deduct their administrative costs. The state will have to develop an administrative monitoring system either way. This could build from state efforts to develop statewide parcel mapping (and maybe impervious layer if that is needed). Municipalities should have the option to add a surcharge to the State fee to obtain the costs needed to cover the 20% not being collected by the State.
16. **Collection costs.** The cost of collecting parcel fee revenue needs to be better defined as different options could vary widely. These costs should be covered by these new revenues and not be passed onto regulatory permit fees. If the State does decide on a municipally-based collection system, there needs to be further discussion as to how much, if any, beyond the cost for administration, of these state fees, remain with the municipality.
17. **Trust Fund.** Will these funds carry over from year to year, or be returned to the General Fund if unspent? We'd like to see some sort of trust or enterprise fund be established so that this revenue is always reserved for its intended purpose.