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Secretary Julie Moore
Agency of Natural Resources
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Submitted Via Email: penny.percival@vermont.gov

Thank you for the opportunity to comment on the Act 73 draft report.

I want to thank you and your staff as well as the members of the Working Group on Water Quality Funding. While the treasurer's office has neither the revenue generation nor appropriation authority to initiate the next steps, we whole heartedly support a robust approach to addressing our clean water needs and stand ready to assist in the review of finance options.

With that, I did want to clarify a couple of points as we move forward with the discussion. First, while various parties continue to cite the "Treasurer's numbers" in putting together the current report, they are, in fact, shared numbers derived from joint work from 2015 to 2017. As noted in the 2017 report:

> "Costs were originally estimated by State Agencies: Natural Resources, Agriculture and Transportation, and then heavily vetted with stakeholders. Stakeholders included municipalities, agricultural interests, large and small businesses, regional planning commissions, as well as federal agencies and non-governmental organizations. In total, at least 23 meetings were held with approximately 1,000 stakeholders to review and revise those estimates. A survey was also conducted to evaluate accuracy of cost information for municipal wastewater treatment. Each sector's new compliance costs over a 20-year planning horizon, a similar period being used for TMDL compliance, were itemized. Known revenues and financing options available to address those costs were also assessed. The differences determined the "gap" or shortfall in funding resources needed to support the additional compliance costs."

Certain costs were not included as referenced in the 2017 report. Operations, maintenance, and labor costs (with some exceptions) were not included. We recognize that costs will be revised over time and the overall goal of meeting the long-term funding needs must be met. As a point of clarification, I would note that the 20- year horizon was a joint structure and developed in spreadsheets provided by the Department of Environmental Conservation (DEC). This is not to say that shorter segmented horizons within the 20-year period can't be examined, but the report does recommend movement toward a long-term funding plan for years 3 through 20, after the two-year interim plan.

For the purpose of facilitating the long-term plan, the 2017 report attempted to distill the 60 plus revenue suggestions generated during the stakeholder and public meetings into a more manageable set of options and provided some discussion of their relative advantages and disadvantages for review. As such, I would encourage further analysis of specific long-term options with the aim of producing a 20-year plan.

The 2017 report also included some potential strategies and technologies that would potentially bend the cost curve or create some cost-efficiencies. You and your staff have followed up on many of these and I believe we can jointly look at some initiatives, such as: financing options to deploy anaerobic digester technologies and changes to the existing SSRF funds.

I would also point out that the total tier 1 costs[1] were estimated at $48.5 annually, encompassing the 'all in" approach; i.e. state, municipal, private residences and businesses, and farms. An "all in" approach requires shared responsibility for the costs across all sectors. The funding and financing plan laid out in the 2017 report attempts to provide more than $25 million per year, over and above 2017 maintenance of effort levels, for the first two years of implementation, with the opportunity to expand as needed and as the proposed long-term options and programs take effect. I would encourage the Working Group to work toward a funding model that achieves this goal.

With respect to the current proposal to use a significant portion of capital dollars, I believe there are two issues that must be addressed: 1) the appropriateness of clean water funding as a capital expenditure and 2) the capacity for funding within the existing state long-term capital funding program.

With respect to the first, I would concur that capital dollars provide an option for at least partial financing of clean water projects. The State's clean water initiatives should be considered as an integral part of the long-term capital planning process and should be viewed as an investment in maintaining and improving our infrastructure. We previously identified that this is an investment in a healthier, more prosperous Vermont. The investment supports, at significant portion of Vermont's 2.5 billion tourism industry, over $300 million in tax and fee revenues through visitor spending and supported an estimated 30,000 jobs for Vermonters.[2] We view the capital budget as an appropriate financing source.

That said, however, capital dollars (unless using pay-go resources) are a financing vehicle and must be repaid and our previous recommendations stated that the amount allocated to clean water must be incorporated within the existing debt level recommendations of the Capital Debt Affordability Advisory Committee (CDAAC). While a two year "window" existed to finance

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[1] Tier 1 costs represent the regulatory cost of compliance with federal and state-required clean water plans, or TMDLs, compliance with Act 64 of 2015, and the 2016 Combined Sewer Overflow Policy. Tier 1 costs are $82.2 million annually. After subtracting annual Tier 1 revenues ($33.7 million), a gap of $48.5 million remains. Tier 2 costs are not required for compliance with the new legal obligations facing Vermont, and represent the costs that support, enhance, catalyze and accelerate compliance, such as capital equipment assistance for agricultural and municipal stormwater runoff controls. Annual Tier 2 costs are $33.43 million. After subtracting annual Tier 2 revenues ($19.57 million) an annual "gap" of $13.86 million remains.

[2] Jones, Kenneth – Vermont Agency of Commerce and Community Development, "Benchmark Study of the Impact of Visitor Spending on the Vermont Economy: 2013: Tourism is Vital to Vermont.";
Vermont Department of Tourism & Marketing, "The Vermont Travel & Tourism Industry – 2013."

clean water projects within the existing capital authorizations based on some "lag" in utilization of capital dollars in other departments, I believe the amount recommended in the Working Group's draft report for future "funding" would, in fact, take up an increasing share of future debt authorizations, causing clean water projects to displace other state infrastructure needs.

Over the past two two-year capital cycles, the CDAAC Committee has recommended, and the State adopted, debt authorization levels that are 18% lower than the preceding levels. While it is too early to project the CDAAC recommended authorization levels for the next two-year cycle (beginning in year FY2020), initial evidence would indicate some decline in the capital authorizations is probable. Moreover, we are currently issuing more debt than we are retiring and the decline in recommended authorization levels over the last several years is likely to continue as we aim to reduce our debt exposure. The Treasurer does not make decisions as to the type of projects that are funded through capital project/debt issuance. These are made by the Administration and the General Assembly. As such I am not able to provide an absolute number as to what can be contemplated for clean water in the capital budget. But I would urge extreme caution in assuming that the capital budget can absorb most dollars needed for clean water projects over a five-year period. I would be happy to engage in a review of the capacity with ANR staff, the Administration, legislative leadership and the capital committee chairs if that would be helpful.

There are other sources of capital financing including dollars set aside to fund the Transportation Infrastructure Bond (TIB) program, which incorporates a pay-go and bond program. These were recommended in the 2017 Treasurer's report as a possible funding source since the existing motor fuel assessment already funds this program and no new taxes would be needed. For the first two-year interim plan, the Agency of Transportation (AOT) elected instead to use other (non-TIB) transportation dollars in order to use the TIBs for matching with federal grant dollars. I would recommend further discussion with AOT about options to utilize at least a portion of these dollars to fund clean water, or to use these to 'free up" other transportation dollars. If you look at the enabling statute for TIBs, it could be used to provide grants to municipalities for qualified highway costs related to stormwater management and VTrans roads and highway related stormwater management efforts. I recognize that the state's transportation budget is stretched but further discussion of options should be considered.

Our report also made some suggestions as to reallocation of a portion of the fees collected in the Clean Water State Revolving Fund (CWSRF) to incentivize certain clean water projects and potentially "pairing" traditional waste water treatment projects with stream or wetland restoration/protection projects. It is my understanding that ANR staff is investigating this option and securing relevant financial data. Thank you for prioritizing this and we remain available to assist in any financial review.

Also, on the capital project front, we would also recommend a continued deeper dive into the use of anaerobic digesters and thank the Working Group for their inclusion of this option in the report. Employing public private partnerships around their financing, including deploying of private activity bonds remains a viable financing tool. This is particularly helpful in addressing both agricultural and food waste and could have considerable impact on the agricultural sector. In the 2017 report we also proposed a program of incentivizing Best Management Practices (BMP) on farms through teaming with the Vermont Economic Development Authority (through the Vermont Agricultural Credit Corporation or VACC program) to buy down the interest payments on loans for BMP implementations. Your report, in looking at a five-year period, assumes that "funding and capacity constraints will lead to a gap in agricultural sector spending." Certainly, the respective Secretaries of the Agency of Administration and the Agency of Agriculture, Food and Markets are in the best position to assess the capacity and workforce needs of the Agency of Agriculture, Food and Markets. If helpful, we can provide assistance on both the digester financing and loan programs above which may assist in accelerating improvements in that sector.

Previous DEC reports as well as the 2017 Treasurer's report state that some sort of parcel/stormwater/impervious surface usage fee should be developed. The Treasurer's report states that this should be explored to the extent that existing sources are not available. The Treasurer's Office, while recognizing that stormwater usage fees may be needed, also strongly encourages using continued efforts to identify reallocations within the existing appropriation or resources. But in looking at existing resources, they must be predictable, reliable, and built into the base budget.

While some capital dollars, the use of transportation/TIB dollars and private activity bonds, in combination with the existing property transfer tax surcharge, may provide some resources over the next several years, they do not appear to be sufficient to meet the funding needs over either a five-year or twenty-year period. With the issue of competing needs in the capital budget, concerns about the predictability and reliability of the resources is also a concern. In the absence of other existing resources having been identified to meet the gap, I would recommend that the Working Group further explore options related to such fees (parcel/stormwater/impervious surface usage fee) or other options and provide recommendations and a road map to achieving this as well as further articulating the delivery strategies to deploy resources, whether through a utility, block grants or direct grants. The Working Group certainly acknowledges the need to do this in the long-term and has incorporated some important discussion of next steps. Since a subsequent five-year glidepath poses some concerns, the Administration and the General Assembly may need to accelerate a more detailed plan of next steps, with appropriate benchmarks, prior to the expiration of the two-year interim financing period. There is an urgency to the issue and I would encourage you to continue to work with the Administration, General Assembly, and stakeholders to work towards a long-term solution this legislative session.

A great deal of work has been accomplished and the Working Group has taken significant and important steps forward. To the extent these can be expanded and further detailed in the final report, and in subsequent efforts, is important to continue to move forward on this critical initiative. I again commend you and your staff as well as the members of the Working Group for their thoughtful efforts. I remain available to discuss various financing and funding options.

Sincerely,

Beth Pearce
Vermont State Treasurer