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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: David Deen, Chair, House Committee on Fish, Wildlife and Water Resources

FROM: Beth Pearce, Vermont State Treasurer

RE: S.260 Testimony

DATE: March 23, 2018

Thank you for the opportunity to testify before your committee on S.260. I would like to thank the committee for all of its work on clean water funding throughout this (and indeed the last) biennium. At the direction of the General Assembly, the past three years has seen an intensive statewide effort to understand the clean water challenges we face, identify the range of possible solutions, and develop funding mechanisms to pay for those solutions. The studies have spanned multiple Administrations and include the collaborative effort led by my Office pursuant to Act 64 of 2015, as well as Working Group on Clean Water Funding, led by ANR, pursuant to Act 73 of 2017. I would like to thank Secretary Moore for her hard work in this area.

Having studied the problem exhaustively, the General Assembly is now faced with making a policy decision on long-term funding for clean water, and it really has two choices: to act or to defer action. S.260, as it presently exists, makes the policy choice to defer action on a long-term solution for clean water funding by establishing two additional study committees with overlapping and redundant missions to make recommendations on equitable and effective long-term funding for financing water quality improvements. I disagree with this choice and urge this Committee that the time to act is now.

Background & Numbers

As your Treasurer, I approach this issue from a financial perspective. So please let me take this opportunity to remind you of some key numbers. First, the stakes. Over \$2.5 billion is spent annually in the State of Vermont by visitors and vacation homeowners in tourism, much of that is directly linked to the lakes and rivers throughout the state.

- In 2013, visitor spending contributed \$318 million in tax and fee revenues and supported an estimated 30,000 jobs for Vermonters. That \$318 million contributed \$115 million to the general fund, \$188 million to the education fund, and \$15 million to the transportation fund.¹

¹ Vermont Department of Tourism & Marketing, *The Vermont Travel & Tourism Industry – 2013*, available at http://www.uvm.edu/tourismresearch/publications/Tourism_Industry_Fact_Sheet_2013.pdf (adapting data from

- Water quality is also beginning to have a demonstrable impact on lakeside home prices. In 2015, the grand list in Georgia dropped by \$1.8 million due to reassessments of 37 lakeside properties with declining water quality.²
- In addition, the UVM Study projected that a one-meter increase in water clarity would result in a 37 percent increase in seasonal home prices.³

As we discuss long-term funding solutions for clean water, I would urge the committee to keep these figures in mind. The longer we defer action, the greater risk we face of a decrease in tourism revenues and property values.

Having identified the stakes, what are the costs? After working in close collaboration with ANR, DEC, other state agencies, and members of the public, the Act 64 Report identified a long-term funding need of \$2.3 billion to fund water quality improvements. Of that amount, \$1.06 billion was already funded with existing resources, leaving us with \$1.25 billion of funding gap. This leaves a gap of \$62.4 million/year, of which top tier, or “must do,” items amount to \$48.5 million/year. These are “all in” costs from the private sector, businesses, farmers, municipalities, and the State. To meet this need, the Act 64 Report recommended a target of \$25 million/year in additional revenue to be contributed by the State. While these figures did not include 100 percent of the costs needed for water quality improvements (e.g., with some exceptions, O&M and labor costs were generally not included), the collaborative Act 64 process established a strong baseline funding need that identifies the scope of the problem and allows the State to get to work on solutions.

As this committee is aware, the General Assembly has taken action to begin funding this long-term \$1.25 billion gap by re-allocating capital dollars in FY18 and FY19, consistent with the Act 64 Report’s recommendation. This two-year “bridge” was intended to use existing capacity in our capital spending to immediately get to work on solving the problem, while at the same time providing time for the development of a more permanent and sustainable funding source.

The Policy Choices

The time to identify a more permanent and sustainable funding source is now. While I appreciate that additional research and refinement is always in order, we should not allow a continuing search for the perfect solution to take the place of good concrete action based on known data. The Act 64 Report provides cost data by sector, existing resources, and gaps. We know the sources of pollution, the primary sectors, the TMDL targets, and the cost/benefit for

Kenneth Jones, 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* (Feb. 9, 2015), available at <http://www.uvm.edu/~snrvtdc/publications/vermont-tourism-benchmark-study-2013.pdf>.

² Taylor Dobbs, Vermont Public Radio, *In Georgia, Water Pollution Has Devalued Lakeside Properties by \$1.8M* (June 25, 2015), available at <http://digital.vpr.net/post/georgia-water-pollution-has-devalued-lakeside-properties-18m#stream/0>.

³ Brian Voigt, Julia Lees, Jon Erickson, University of Vermont, Gund Institute for Ecological Economics, *An Assessment of the Economic Value of Clean Water in Lake Champlain*, Lake Champlain Basin Program Technical Report No. 81 (September 2015), available at http://www.lcbp.org/wp-content/uploads/2013/03/81_VoigtEconomicsFinalReport1.pdf.

each of these sectors. Accordingly, I see little to gain by establishing the dual S.260 study committees, which appear to largely revisit the in-depth, collaborative studies that have already taken place. Perhaps more importantly, by deferring action in favor of further study, I believe we place ourselves and future generations at risk of facing increased costs to solve problems that are more easily and affordably solved by taking action now.

Concrete Decisions to Make This Year

I urge the General Assembly to take action now to make the following decisions: (1) how do we allocate existing clean water funding dollars; (2) how do we deliver the services needed to improve water quality; and (3) how do we generate any dollars that cannot be met with existing revenues. Please let me explain.

First, the General Assembly has the information necessary to make a policy decision on how to allocate the recommended dollar effort by the State (\$25 million per year) to the different sectors. Municipalities, farmers, and private sector entities will want to weigh in and make their respective cases. I urge you to listen to them, look at the data, and make a decision so that stakeholders can begin to make their plans accordingly. This is an economic development issue, as private sector actors will be reluctant to invest in an uncertain environment. Stakeholders need decisions so they can plan accordingly.

Second, a decision needs to be made on the delivery of services for administering an expanded clean water effort. If you look at the section of the Act 64 Report beginning on page 68, you will find a discussion on possible methods of delivery including an authority/utility model and block grants. Recently, I learned of a convergence of business leaders, municipal leaders, and environmental experts around delivery models in the Lake Champlain area.⁴ This is an opportunity. Regional Planning Commissions and other stakeholders need to be heard with the goal of making decisions on the broad parameters this year, not after another year of study.

Third, the General Assembly should lay the foundation to allow the State to generate funds for projects/improvements that cannot be met with existing revenues. S.260 puts off this issue to yet another year. I believe that the time to take testimony and develop guiding parameters is now, so that any additional research needed is more focused on a specific plan of action. While I am on record in support of a methodology that is based on a user fee with a nexus to the pollution rather than a flat parcel fee, the Act 64 Report contains a wealth of information on other methods, gleaned from expertise across multiple sectors throughout the State. Members of the business community and local government are ready to take this issue on and see the importance of moving forward. Before this session ends, testimony should be taken and a direction provided so that next year can be spent developing the details, implementation plan, and administrative infrastructure needed to put the General Assembly's decisions into action. Waiting until the next legislative session to begin this work will almost certainly result in a gap between the short-term "bridge" and the long-term deployment of resources.

⁴ VPR, Peter Hirschfeld, Jan 22, 2018, "Vermont Business Leaders Join Call for Clean Water Funding Plan."

Important Considerations when Making Decisions

As the General Assembly tackles this important issue, I would urge you to keep a couple points in mind. Our capital budget is not without limits. While I appreciate the recommendations made by the Working Group on Clean Water Funding, I believe that they are over-reliant on the capital budget. Over-reliance on the capital budget for clean water funding is not feasible given the significant demands on those funds and the trend toward reducing the state's overall reliance on debt financing. I do believe that *some of it* can be financed through capital spending, and that we should continue to look at ways to use existing resources and for public/private partnerships to lower the cost to the taxpayer.

That said, I am encouraged by some of the concrete steps being advanced by the Administration, some of which are now under consideration by the General Assembly as part of H.777. That bill expands the definition of projects that can be financed by the State Clean Water Revolving Fund to include not just infrastructure but wetland and riparian buffer restoration projects. That is an important step. Additionally, I have met with the Administration about the long-term use of integrated planning and implementation of technologies such as anaerobic digesters. These are great projects and the identification of dollars to be expended through FY19 in the "bridge" plan are good starts. But we must move now on the full 20-year plan.

As I've said in the past, a plan for water cleanup can't be a "catch as catch can" approach. You can't say, "well this year, we'll try this, next year we'll try this, and maybe we'll have some money next year." It doesn't work that way. In order to have a 20-year plan, you've got to have a 20-year plan! And you've got to put dollars into that that plan on an ongoing basis.

What I have learned through extensive work on our State's pension systems is that funding long-term liabilities can be done, but it takes work and it takes a plan. The sooner you make tough decisions, the greater the benefits you will reap. For example, by changing the amortization schedule of our unfunded liabilities in 2016, and essentially paying a little more each year, the State will save an estimated \$165 million in interest costs on behalf of the taxpayer over the next 20 years. These opportunities exist here as well. But so do the costs of deferring action. This is why I view the decisions we make this year—to defer action in favor of additional study or to act to identify solutions—as reflecting a policy choice. I would urge the committee to choose to act to identify solutions.

Conclusion

In conclusion, I would like to quote directly from my report of just over a year ago:

Clean water is a shared resource, belonging to all Vermonters. The quality of our waters is directly linked to Vermont's economy, the state of our environment, and a healthy future.

When assessing the financing plan for any State asset, the Treasurer's Office routinely considers what is the best value to the taxpayer. Cleaning our waters now is the best value to the taxpayer. Deferring actions down the road will only further impair

this critical asset, requiring increased remediation at a greater cost to the taxpayer.⁵

Our lakes, rivers and waterways are an asset that support our way of life, our property values, health and safety, and our economy. We need to invest in this asset. Like any investment, early, proactive, and disciplined practices are the key to success. We need to accelerate our decision making in this year so that S.260 can be a true plan of action for all of our citizens.

⁵ Act 64 Report at 78.