

Natural Resources

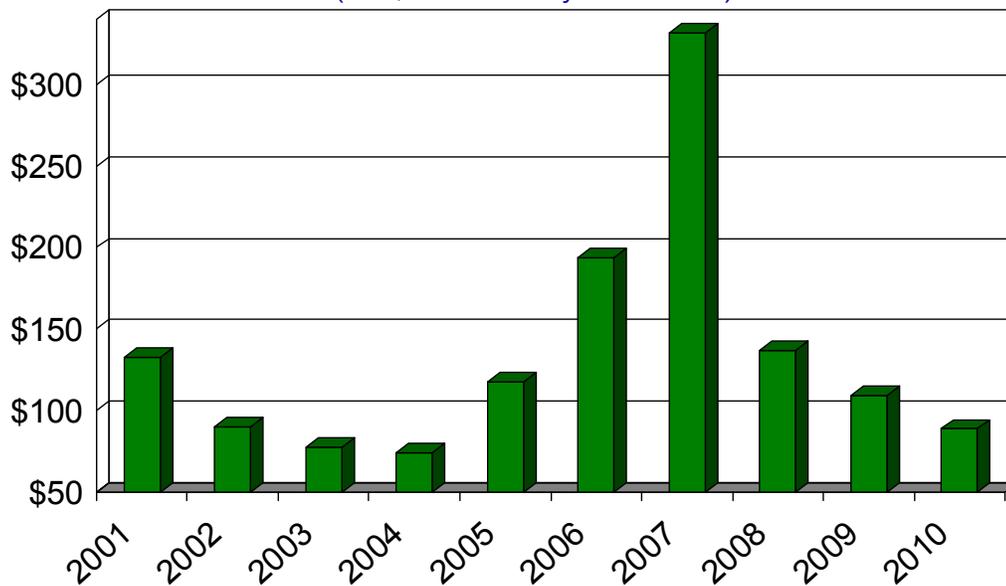
**Senate Finance Committee
November 19-20, 2009**

Overview of Funding for Natural Resources

- Funding for Natural Resources has consistently accounted for less than one percent of the Commonwealth's general fund budget.
 - Virginia ranks near the bottom in terms of per-capita and percentage of state budget spent on Natural Resources when compared to other states, although direct comparisons are difficult.
- Sporadic general fund support has made it difficult to set and reach long-term goals.
- There is no base budget for some of the largest funding needs.

General Fund Support for Natural Resources

(GF \$ in Millions by Fiscal Year)



Major Natural Resources Funding Needs

- Water Quality Improvement
- Air, Water, and Solid Waste Regulation and Monitoring
- State Parks Development and Management
- Dam Safety
- Stormwater Management and Wastewater Infrastructure
- Open Space Preservation



Funding for Water Quality Improvement

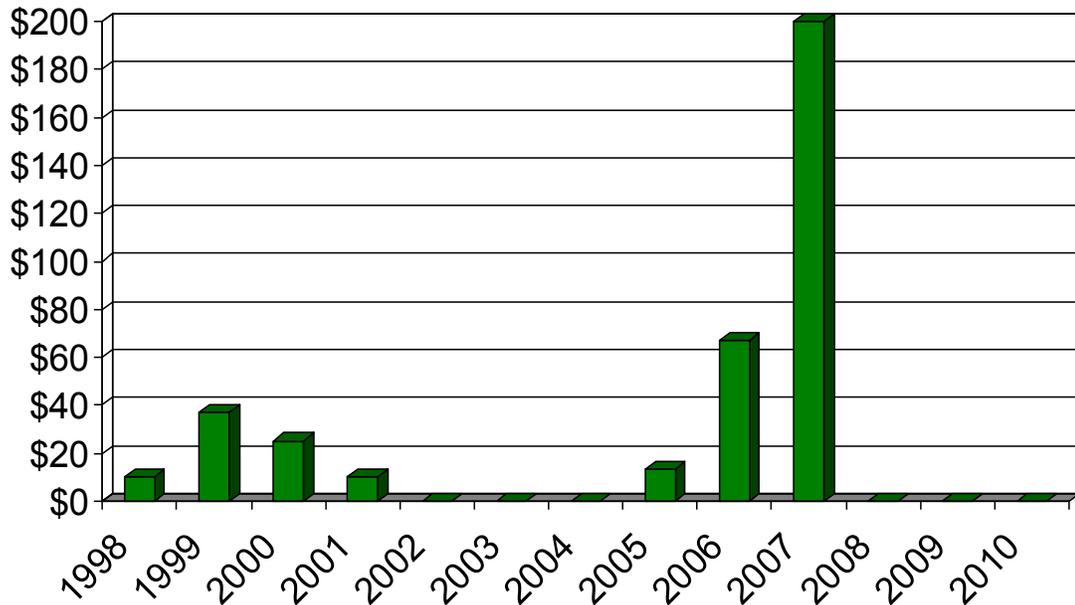
- In 1997, the General Assembly created the Water Quality Improvement Act to provide a dedicated source of funds for point and nonpoint source water pollution control.
- The Act established the Water Quality Improvement Fund (WQIF) and required the following deposits to the fund:
 - Ten percent of general fund revenue collections in excess of official estimates; and
 - Ten percent of all unreserved general fund agency balances at the close of the fiscal year.
- The Secretary of Natural Resources recommends how available WQIF resources are to be divided between point source and nonpoint source projects.
- Since FY 1998, a total of \$490.8 million GF has been deposited into the WQIF:
 - The Department of Environmental Quality (DEQ) has received 74 percent (\$362.8 million) for point source projects.
 - The Department of Conservation and Recreation has received 26 percent (\$128.0 million) nonpoint source projects.

Point Source Funding

- WQIF point source funding must be used for grants to publicly owned treatment works for design and installation of nutrient removal technology.
 - Grants range from 35 percent to 75 percent of costs based on the financial need of the community.

WQIF Point Source Funding

(GF \$ in Millions by Fiscal Year)

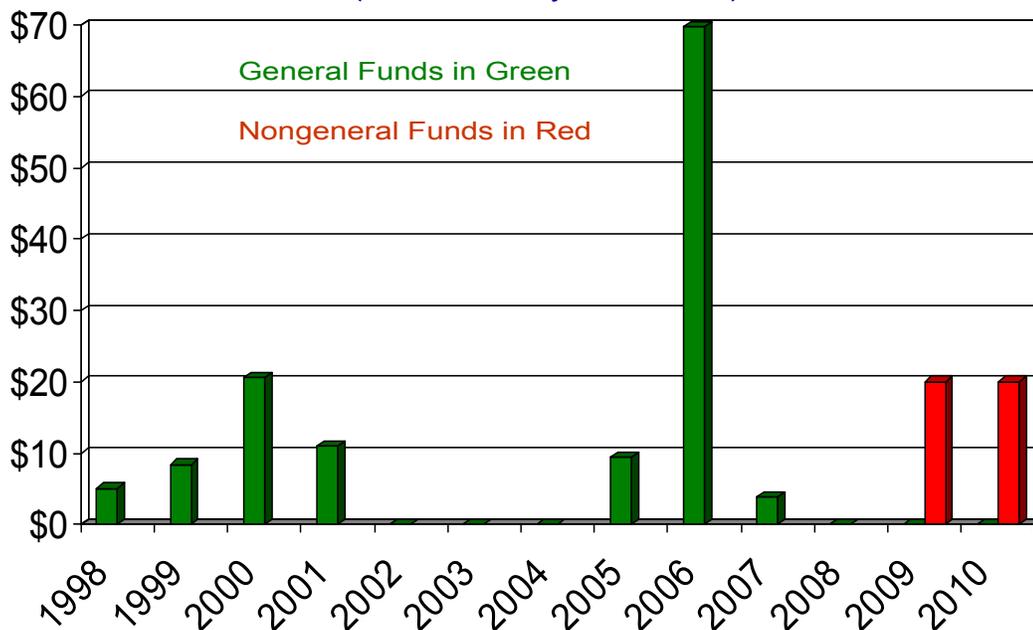


- DEQ has signed agreements for projects that will be completed in the next two years, which total \$138 million more than is available (including \$250 million in bonds approved by the 2007 General Assembly).
- Virginia received \$80 million in ARRA Clean Water funds, which could not be used for existing projects.
 - DEQ received 294 applications requesting \$1.36 billion for point source projects around the state.
 - DEQ awarded \$77.7 million to 32 new projects.

Nonpoint Source Funding

- WQIF nonpoint source funds are used for grants to local governments, soil and water conservation districts and individuals for a variety of programs, with priority given to agricultural best management practices.

WQIF Nonpoint Source Funding
(\$ in Millions by Fiscal Year)



- For FY 2009, \$15.0 million in WQIF point source interest and \$5.0 million from WQIF reserve funds were provided.
- For FY 2010, \$15.2 million in ARRA flexible funds and \$4.2 million in WQIF nonpoint source interest funds were provided.
- WQIF interest and reserve funds are exhausted and it appears unlikely there will be any statutorily-required WQIF deposit in FY 2010.

Nonpoint Source Funding Needs

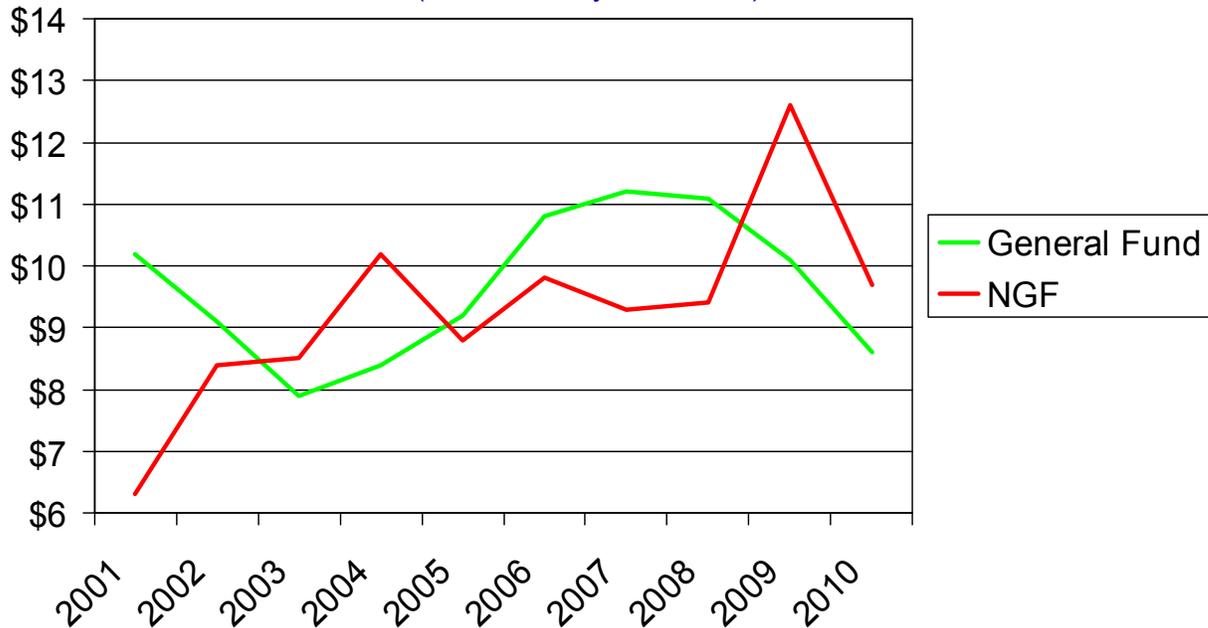
- Agricultural best management practices (BMPs) are voluntary programs, such as planting cover crops, using no-till systems and fencing livestock out of streams, to prevent nutrients and sediment from entering state waters. BMP programs are funded on a cost-share basis with farmers.
 - The State's share of BMPs to meet 60 percent of current Chesapeake Bay goals is projected at \$45.9 million per year.
 - The cost to the State for Southern Rivers BMPs for Total Maximum Daily Load limit implementation is estimated at \$98.8 million per year.
- These estimates do not include other nonpoint source needs, such as:
 - Riparian buffers;
 - Stream and bank restoration;
 - Wetlands restoration; and,
 - Failing septic systems.
- With inconsistent funding levels, it is difficult to keep farmers enrolled in BMP programs in years where there are no state grant funds.
- Failure to meet goals through voluntary programs could lead to a federally-imposed regulatory program, which is likely to be more expensive.

Funding for Virginia's Marine Resources

- The Marine Resources Commission has become more reliant on nongeneral funds to support operations.

Funding for Marine Resources Commission

(\$ in Millions by Fiscal Year)



- The Oyster Replenishment program, which received \$1.2 million GF annually, now has no general fund support and relies totally on sporadic federal funding.
- General fund support for Habitat Management has been reduced by 50 percent.
- Saltwater Recreational Fishing License fees generate \$2.2 million per year.
 - With September, 2009 general fund cuts, \$1.8 million is now used for law enforcement and fisheries management, leaving little for projects to support saltwater recreational fishing.

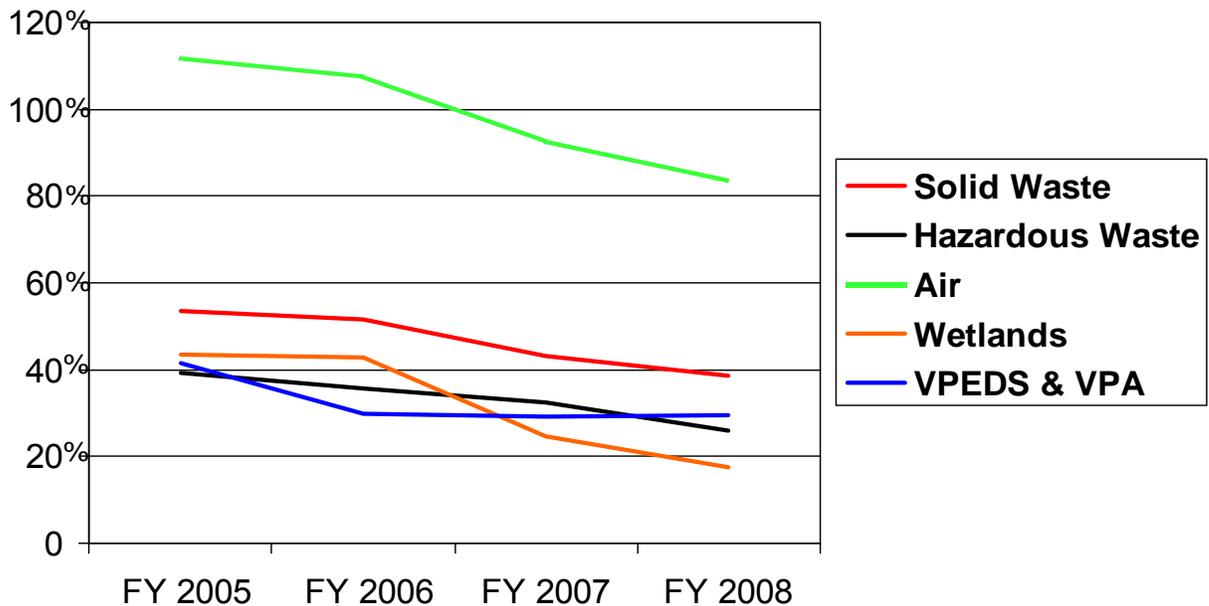
Permits for Air, Water and Solid Waste

- DEQ is responsible for a variety of environmental permit programs, including:
 - Virginia Pollutant Discharge Elimination System Permit (VPDES);
 - Virginia Pollution Abatement Permit (VPA);
 - Virginia Wetlands Protection Permit (VWP);
 - Air Permits;
 - Solid Waste Permits; and,
 - Hazardous Waste Permits.
- These programs are funded by a combination of permit fees and federal funds, with general funds covering program costs in excess of dedicated revenue sources.
- Direct permit costs are driven by both state and federal minimal requirements.
- DEQ has taken actions to reduce costs where possible:
 - Online permit applications and payments;
 - Streamlined applications for renewals;
 - Reduced inspections based on compliance;
 - Online submission of monitoring data; and
 - Reduced administrative expenses and eliminated positions.

Permit Fees Have Not Kept Up With Costs

- Permit fees cover only a portion of direct program costs, and even less if indirect costs are factored in.

DEQ Permit Fees as a Percentage of Direct Program Costs



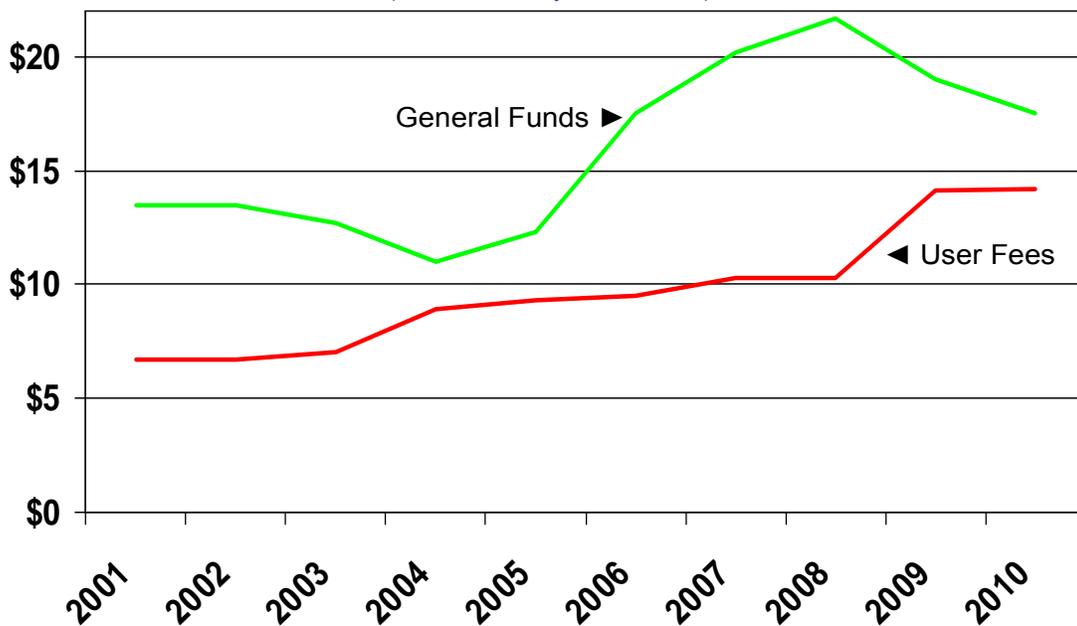
- The permit fees for air and water programs are set in the Code of Virginia while waste fees are set by the Waste Management Board.
- Since current fees and federal funds cover only a percentage of each program's costs, DEQ relies on general fund support to cover the difference.
 - However, DEQ's general funds have been significantly reduced over the past two years.
- Could some programs be turned over to the federal government to eliminate state costs?

Funding for Virginia's State Parks

- Virginia operates 35 State Parks that receive nearly 7.5 million visitors per year.
- According to an economic impact analysis conducted by DCR, visitors to State Parks spent \$181.8 million in FY 2009, providing for 2,810 direct and indirect jobs with total personal income estimated at \$93 million, generating:
 - \$11.8 million in state income tax,
 - \$4.6 million in state sales tax, and
 - \$1.3 million in local sales tax.

State Parks Have Become More Reliant on Fees for Operations

(\$ in Millions by Fiscal Year)



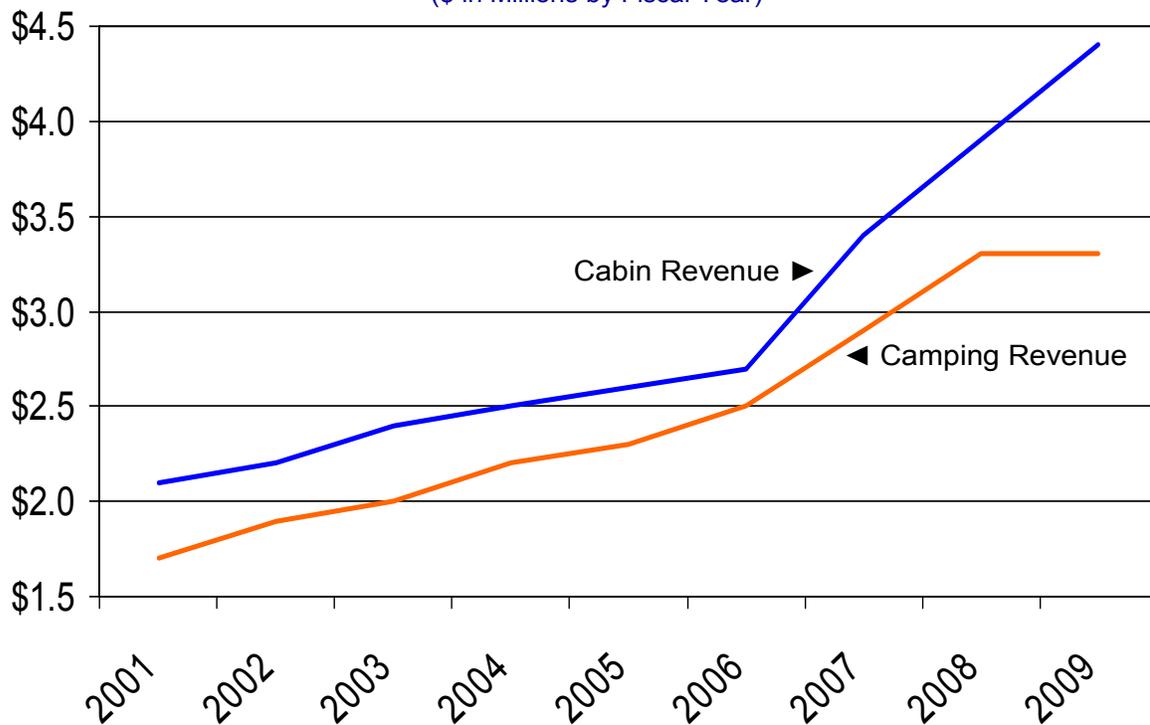
- User fees now account for 45 percent of State Parks' operating budget, up from 33 percent in FY 2001.

Balancing State Park Fees with Affordability

- State Park user fees are set by DCR.
 - Recent budget actions have relied on DCR to raise fees as a strategy to offset general fund cuts.
- State Park visitation remains high despite fee increases.
 - There is a point of diminishing returns on higher fees, and concern of affordability for some citizens.

State Park Revenue from Cabins and Camping

(\$ in Millions by Fiscal Year)



- One goal of 2002 Parks General Obligation Bond Act was to focus on revenue-generating facilities.
 - Revenue from cabins and camping facilities has consistently increased as GOB projects have come on line.

State Park Budget Needs

- In 2002, the Commission on the Future of the Environment recommended rebenchmarking State Parks' employment level and funding to maintain current programs and support additional facilities created by the 2002 Bond Act.
 - To meet this goal, a base budget increase of \$12.2 million GF per year was recommended.
 - Increases totaling \$8.7 million GF were approved by the General Assembly between 2006 and 2008.
 - Budget cuts in FY 2009 and FY 2010 have reduced this general fund support by about \$3.5 million.
- The Commission recognized a need for Maintenance Reserve funding of \$8.0 million per year.
 - With an inventory of 1,150 buildings, this provides about \$7,000 per building per year.
 - The current Maintenance Reserve budget is \$640,000 per year, or about \$550 per building.
- Property has been acquired for six additional State Parks (Powhatan, Middle Peninsula, Seven Bends, Widewater, Mayo River and High Bridge).
 - Capital costs for fully developing these new parks are estimated at about \$50.0 million.
 - Annual operating costs for these six parks are estimated at about \$5.5 million.

Funding for Dam Safety

- Out of 1,678 regulated dams in Virginia, 143 are high hazard dams, whose failure could result in loss of life and significant property damage.
 - Fifteen percent of these high hazard dams have no emergency action plan in place.
- Currently 125 of these dams are in need of rehabilitation to meet applicable state dam safety standards. Some of these are privately-owned while others are publicly-owned.
 - State agencies own 52 dams, 13 of which are high hazard. Eight of these are in need of major repair to meet state regulations.
 - Soil and Water Conservation Districts (SWCDs) own 104 dams, 24 of which are high hazard. Thirteen of these are in need of major repair.
- The 2008 General Assembly provided bonds totaling \$20 million for state and SWCD-owned dams and \$10 million for two municipally-owned dams.
 - Costs for rehabilitation of other state and SWCD owned dams are estimated at over \$100 million.
- The Dam Safety, Flood Prevention and Protection Assistance Fund was established in 2006 to make grants to localities and low-interest loans for privately-owned dams.
 - The current fund balance is less than \$1.3 million.

Stormwater and Wastewater Infrastructure

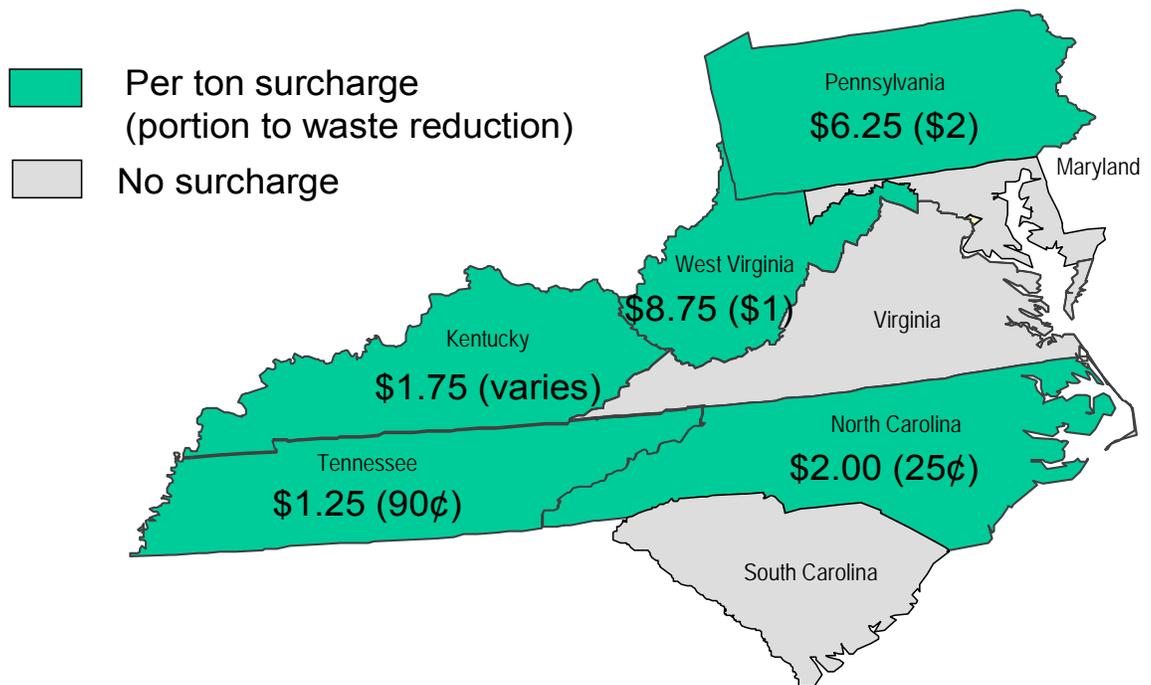
- Runoff from stormwater continues to be a major contributor of pollution to State waters.
- New Stormwater Management Program Regulations, in the final stages of approval, will have significant impact on design and construction of new development.
 - A revised fee structure will hopefully cover state and local costs to implement the new regulations.
- Stormwater Management to retrofit current urban/suburban development in the Chesapeake Bay watershed alone is estimated at \$7 billion, with the state share estimated at over \$1 billion (based on historic cost-sharing).
- According to a 2008 survey of the state's civil engineers, Virginia has \$4.74 billion in wastewater infrastructure needs (above what is currently funded from rate payers).
- Failing septic systems will be a major environmental issue in the future.
 - The Health Department has no estimates on the number of failing septic systems in Virginia.
 - One locality recently completed an assessment of septic systems within their jurisdiction and found more than half were not likely to meet current water quality standards.

How Have Other States Funded Natural Resource Programs?

Maryland generates a significant amount of funding for its environmental programs through dedicated fees and taxes.

- **Chesapeake and Atlantic Coastal Bays 2010 Trust Fund**
 - Portion of existing taxes on motor fuel and rental vehicles dedicated to nonpoint source pollution control, projected to generate \$50 million per year (revenue shortfall has reduced this amount to \$10 million in FY 10).
- **State Transfer Tax**
 - Assessed at 0.5 percent of all real property conveyed, used to fund land conservation.
 - Generates over \$110 million per year.
- **Maryland's Bay Restoration Fee**
 - Generates \$70+ million annually.
 - Fee on wastewater facility users;
 - \$2.50 monthly for residential (\$30/year).
 - Up to \$120,000 per year on nonresidential users based on volume of wastewater.
 - Used for wastewater facility upgrades.
 - Fee on septic system users \$30 annually;
 - Added on water bill or real estate tax bill.
 - 60 percent used for septic system upgrade grants.
 - 40 percent used for cost-share payments to farmers to plant cover crops.

Most Nearby States Have Tipping Fee Surcharges on Municipal Solid Waste



- A \$2.00 per ton surcharge on Municipal Solid Waste in Virginia would generate \$32+ million per year.
 - According to JLARC, 30 percent would be paid by out-of-state waste haulers. The cost to the average Virginian would be less than \$3.00 per year.
 - Funds could be split between supporting local solid waste/recycling efforts and other Natural Resources programs.

Many States Assess Advance Disposal Fees and Other Taxes on Waste

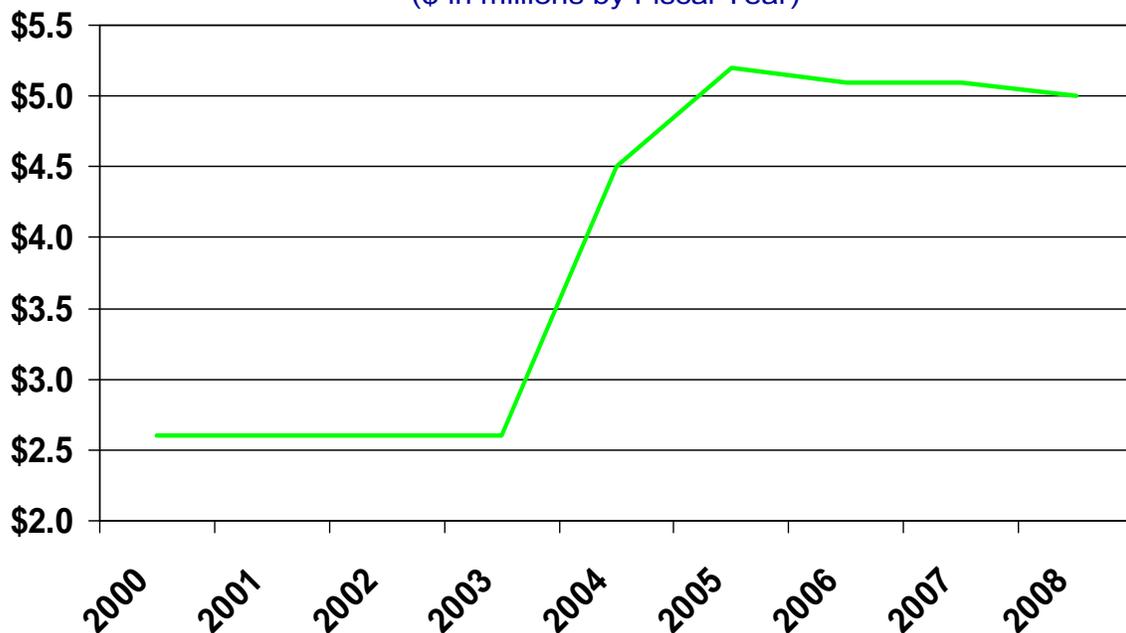
- An Advance Disposal Fee (ADF) is collected at the time of sale of items that, if disposed of improperly, create environmental hazards. Fees are used to create markets for recycling materials, providing for current and future management of waste materials and other environmental programs.
- Kentucky, Maryland, North Carolina, South Carolina, Tennessee and Virginia all charge ADFs on tires.
- Maryland includes motor oil and electronics.
- North Carolina includes appliances.
- South Carolina includes motor oil, batteries, and appliances.
 - South Carolina funds its waste management and reduction programs entirely through these fees, which generated \$6.9 million last year.
- Minnesota has a solid waste management tax levied on producers of waste, which is collected by waste management service providers as a percentage of service fees.
 - The tax generated \$64 million last year with 70 percent going to environmental programs and 30 percent deposited into the state's general fund.

Virginia's Success with the Waste Tire Fund

- The 1989 General Assembly created the Waste Tire Trust Fund.
 - A fee is assessed on each new tire, collected by tire retailers at the time of purchase and remitted to the state.
 - The fee was initially set at \$0.50 per tire but was increased to \$1.00 in 2003. The fee is set to return to \$0.50 in 2011 but the sunset has been extended twice by the General Assembly (in 2006 and 2008).
 - Revenue from the fee has paid for the collection of over 25 million tires in 1,200 locations since 1994.
- “Program success resulted from dedicated and stable funding for market development” (JLARC).

Waste Tire Fee Revenue

(\$ in millions by Fiscal Year)



Open Space and Civil War Battlefield Preservation

- Other states have funded land conservation through dedicated revenue sources (MD State Transfer Tax) or dedicated appropriation level (Florida Forever=\$300 million per year).
- The 2008 General Assembly approved \$30 million in bonds for purchase of public open space land and \$5 million GF for Civil War battlefield preservation.
- Virginia has the most generous Land Preservation Tax Credit (LPTC) in the nation.
 - Land owners who donate perpetual conservation easements can claim a tax credit of 40 percent of the fair market value of the donation.
 - The total amount of credits is capped at \$100 million per year (+ CPI).
 - These lands are generally not open to the public.
- Land Preservation Tax Credits are transferable.
 - A fee of 2 percent of the assessed value, up to a cap of \$10,000, is levied for the transfer of LPTCs.
 - In FY 09, the fee generated \$2.1 million for TAX and \$90,000 for DCR to administer the LPTC program
 - The General Assembly could consider a more equitable fee while also generating additional revenue for administering the program and monitoring easements.

Conclusion

- General fund support for Natural Resources programs has been sporadic and inconsistent.
- After September, 2009 reductions, general fund expenditures for Natural Resources represent 0.7 percent of the Commonwealth's general fund budget.
- Continued demands for general funds for education, public safety and human services will overshadow Natural Resources agency needs.
- Nongeneral fund options have helped fill this gap and other NGF options could be considered.



Summary of Funding Options That We Have Used or Considered

Additional GF Support?	Federal Funds?
Additional Bonds?	Advance Disposal Fees on Other Materials
Adjust Fees for Air/Water/Waste Permits to Cover Costs	Tipping Fee on Municipal Solid Waste
Water Utility Fee	Enhance Penalties for Violations of Environmental Laws/Regs
Stormwater Management Fees	Expand LPTC Transfer Fee or Remove Cap
State Park User Fees	Expand Entrance Fees to Natural Areas, Forests, WMAs

