

**Joint Subcommittee to Study Options to Provide a
Long-term Funding Source to Clean up Virginia's
Polluted Waters, Including the Chesapeake Bay and its
Tributaries (HJR 640)**

Virginia Division of Legislative Services
September 29, 2005

Cost Sharing Borne by the Commonwealth

- State funding for cleanup of Virginia's waters is driven by the costs to be paid by the Commonwealth.
 - △ Under current cost-sharing policies the Commonwealth is responsible for 50 percent (on average) of point source cleanup costs (waste water treatment plants) and 75 percent of nonpoint source cleanup costs (pollution relating to agriculture and stormwater management).
 - △ Current cost-sharing policies hold the Commonwealth responsible for \$2.34 billion of the total estimated \$12.5 billion cost for cleanup of Virginia's waters.

Current Sources of Funding

- Currently 10 percent of the annual revenue surplus and 10 percent of the annual unreserved general fund balance is deposited into the Virginia Water Quality Improvement Fund (WQIF).
 - △ Deposits from the surplus and unreserved general fund balance totaled \$7.7 million in Fiscal Year 2005 and \$32.4 million in Fiscal Year 2006.
- Additional non-surplus appropriations have been made to the WQIF.
 - △ An additional \$15 million in Fiscal Year 2005 and \$65 million in Fiscal Year 2006 from the general fund was deposited into the WQIF.
- If there are changes to the sources of funding, will this impact the current dedicated funding from the surplus and unreserved general fund balance?

Funding Considerations – Threshold Questions

- What is the target level of funding? How is this allocated between point and nonpoint sources of pollution?
- Should just general funds be used for funding cleanup of Virginia's waters? This is the current method of funding.
- Should one or more specific, current revenue sources (e.g., all or portions of insurance license taxes, recordation taxes, sales taxes, current fees, etc.) be dedicated for the cleanup of Virginia's waters?
- Should a new or higher tax, fee, or other charge be imposed with the resulting revenue dedicated for cleanup purposes?
- Should funding be a combination of the foregoing?
- What role should bonds and leveraged financing play?

Funding Sources – Criteria Considerations

- Some or all of the following criteria may be used in considering funding sources:
 1. The nexus between the source of funding and the use of the funds;
 2. The ease of collection;
 3. The breadth of applicability to the general public;
 4. The stability of the funding source;
 5. The amount of revenue generated;
 6. The ease of understanding; and
 7. Practical feasibility.

Governor's Natural Resources Funding Commission

- The Governor's Natural Resources Funding Commission recommended \$27 million in additional general funds in Fiscal Year 2006 for natural resources funding.
- The Commission recommended that appropriations for natural resources should be no less than 1 percent of total appropriations.
- The Commission also recommended two new nongeneral fund sources of revenue for natural resources funding:
 - △ A \$2 per month water utility fee for each customer collected by waterworks companies (\$45.9 million per year); and
 - △ A \$10 document recording fee on deeds and court judgments (\$20 million per year). A \$10 document recording fee was included in the 2002 budget bill but revenues were deposited into the general fund.

Governor's Natural Resources Funding Commission

- The Commission undertook a full evaluation and discussion of 3 other new nongeneral fund sources of revenue.
 - △ The Commission did not reach a consensus on the following 3 funding mechanisms:
 1. A \$3 per ton tipping fee on municipal solid waste imposed on landfill operators (\$36 million per year);
 2. A \$0.006 per gallon petroleum fee on fuel sold in the Commonwealth (\$36 million per year); and
 3. A \$2 per month electric utility fee for each metered and nonmetered account collected by electricity distributors (\$75.3 million per year).

Other Funding Mechanisms for Possible Consideration

- Some funding mechanisms for possible consideration include dedicating specific, current revenues for cleanup of Virginia's waters.
 - △ The year-to-year growth in recordation tax revenues has averaged about \$60 million for the past decade.
 - △ State Corporation Commission license tax revenues from farmowner, homeowner, and commercial multi-peril insurance policies are approximately \$42.7 million per year.
 - △ House Bill 2777 and Senate Bill 1235 (2005) would have dedicated for water cleanup one-twelfth of the revenue (up to \$160 million a year) from the 2 percent sales tax currently deposited into the general fund.

Other Funding Mechanisms for Possible Consideration

- Other mechanisms for possible consideration include new taxes, fees, surcharges, etc.
 - △ Insurance premiums collected from farmowner, homeowner, and, commercial multi-peril policies were approximately \$1.9 billion in 2004. Each 1 percent charged to insured persons on these premiums would generate \$19 million per year. Insurance companies could collect the new charges.
 - △ A sliding scale higher capital gains tax could be imposed on gains from the sale of certain real estate. The scaled tax would depend on the percentage size of the gain and the length of the holding period. The sale of certain real estate such as the taxpayer's personal residence and certain farms could be excluded.

This would be similar to the capital gains tax proposed in HB 1782 (1989).