

STATE of VERMONT
AGENCY of NATURAL RESOURCES

MEMORANDUM

TO: Justin Johnson, Secretary, Agency of Administration
Andy Pallito, Commissioner, Department of Finance & Management

THROUGH: Deb Markowitz, Secretary, Agency of Natural Resources

From: Steve Chadwick, Agency of Natural Resources

Date: September 26, 2016

Subject: ANR Budget Submission: FY18 Budget Exercise and FY17 Budget Adjustment

Enclosed are the budget proposals for ANR Central Office and our three Departments.

Summary:

FY18 Proposals:

As usual the major upward pressure for ANR relates to the annualization of negotiated steps and COLA's. This amounts to approximately \$2,000,000 of extra expense to overcome. While ANR does not have any new viable options for elimination of programs or major program modifications, the Departments have used a variety of strategies, including use of alternate funding sources and a range of operating expense cuts to overcome the majority of the upward pressures and to maintain current service levels. The individual Department proposals detail those strategies. The ANR submission does include the necessity to reduce one position, the Principal Assistant in the ANR Central Office. The position focuses on climate change issues.

A few areas for discussion:

- Elimination of the use of Lands and Facilities Trust Funds for basic operating costs.
- A \$118,000 shortfall in the FPR budget proposal
- PILOT requirements due to new land acquisitions and potential appeals.

Not included in Budget Proposal:

One of BGS's Facilities Management representatives informed us recently that, when the National Life lease payment amounts were calculated at the time ANR moved in, some of the "common space" was not included. BGS intends to charge ANR about \$47,000 extra for our National Life lease starting in FY18. It is unclear to us if the State actually legally owes additional money to National Life. If extra money is owed to National Life, our belief is that, had the calculation error not occurred, ANR would have received the full and proper General Fund base back when we moved in and our office space funding was restored. Please note that after Tropical Storm Irene ANR's space funding was removed from our budgets then GF was restored to match the new National Life lease amounts that we were provided at that time.

FY17 Budget Adjustment:

ANR does not have any FY17 Budget Adjustment requests at this time. However, the ANR Central Office is very concerned about the trend in Act 250 permit fee receipts in the start of our second year budgeting this new funding source. Receipts were down 12% from budget in FY16 (-\$27,000) and in FY17 so far receipts are trending down 57% from FY16. Since it is still early in the year we are hopeful for revenues to recover. Our contingency plan is to rely on vacancy savings and approval of FY16 GF carry forward to help close the gap.

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From: Steve Chadwick, Agency of Natural Resources

Date: September 26, 2016

Subject: ANR Central Office FY18 Budget Exercise

Major budget pressures for the ANR Central Office budget include the annualization of negotiated steps and COLA's, impact estimates from the statewide IT reclassification initiative, and from a negative trend in budgeted Act 250 permit fee receipts.

ANR Administration Appropriation: The Central Office has a small staff that serves the leadership and support needs of the Agency. The Central Office budget has few options for cuts or alternate funding sources. To overcome our budget pressures we are proposing; to reduce the Principal Assistant position that focuses on climate change issues, to eliminate the Connecticut River Joint Commission grant, to continue to tighten our operating expense budget, and to increase vacancy savings. Details are provided in the attached Budget Development Form.

Notes: Vacancy savings is based on a 5-year average with some adjustment made related to a few high level IT positions that took a particularly long time to fill. Energy cost estimates are based on a 4-year average with adjustments made for changes in office space. Internal service fund charges are paid 100% with General Funds.

PILOT (Payment in Lieu of Taxes) Appropriation: The appropriation for PILOT payments for state lands has historically been funded separately from the budget exercise. After the FY15 moratorium on PILOT increases, there is finally a new PILOT calculation formula established in statute that eliminates the huge reappraisal increases. \$141k is the current estimated PILOT need for new acquisitions, appeals (after a 3-year hiatus), and due to the new formula. We anticipate having a refined new acquisition increase amount by our October 4th meeting.

Fiscal Year 2018 Budget Development Form - ANR Central Office

	General \$\$	Special \$\$	Federal \$\$	Interdept'l Transfer \$\$	Total \$\$
Administration: FY 2017 Approp	4,850,163	472,400	275,000	163,738	5,761,301
Standard adjustments: Insurances, VISION/HCM, DII, DHR, (2.5%)	2,412				2,412
Salary and Benefit changes	123,071	17,940			141,011
Statewide IT reclassification initiative "estimate"	50,000				50,000
Reduce Act 250 permit fees to reflect latest trend	30,000	(30,000)			0
Misc CO operating expense cuts (energy costs, phones, DII demand services).	(40,000)				(40,000)
Increase vacancy savings	(11,516)				(11,516)
RIF of Principal Assistant position (Climate Change)	(119,007)				(119,007)
Eliminate grant to Conn. River Joint Commissions	(34,960)				(34,960)
Switch funding source for IT project work			(15,000)	15,000	0
Allocation of base funding (including DEC Federal indirect funds) for National Life Lease and associated Property Management surcharge to Depts (no net impact)	(786,674)		(260,000)		(1,046,674)
Subtotal of increases/decreases	(786,674)	(12,060)	(275,000)	15,000	(1,058,734)
FY 2018 Governor Recommend	4,063,489	460,340	0	178,738	4,702,567
Percent Change	-16%	-3%	-100%	9%	-18%
Local Property Tax (PILOT): FY 2017 Approp	1,953,905			421,500	2,375,405
Net change with new formula for PILOT payment calculations and prior period acquisitions	21,355				21,355
New acquisitions and appeals estimated at 3% and 2%	119,838				119,838
Subtotal of increases/decreases	141,193	0	0	0	141,193
FY 2018 Governor Recommend	2,095,098	0	0	421,500	2,516,598
Percent Change	7%			0%	6%
ANR Central Office FY 2017 Appropriation	6,804,068	472,400	275,000	585,238	8,136,706
TOTAL INCREASES/DECREASES	(645,481)	(12,060)	(275,000)	15,000	(917,541)
ANR Central Office FY 2018 Governor Recommend	6,158,587	460,340	0	600,238	7,219,165

Department of Fish and Wildlife
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Agency of Natural Resources

TO: Justin Johnson, Secretary, Agency of Administration
Andrew Pallito, Commissioner, Department of Finance & Management

THROUGH: Deb Markowitz, Secretary, Agency of Natural Resources
Steve Chadwick, Director of Administrative Services, Agency of Natural Resources

FROM: Louis Porter, Commissioner, Fish & Wildlife Department

DATE: September 26, 2016

RE: State Fiscal Year 2018 Budget Proposal

The Vermont Fish & Wildlife Department's (Department) state fiscal year 2018 budget proposal provides a balanced approach to maintain its current service level through budgeted savings and the use of various funding sources. The Department's proposal includes:

- No net increase in General Funds
- A shift in existing expenses from license fees to other funding sources
- A transfer of expenses and revenues from the Agency of Natural Resources Central Office to the Department for costs associated with the National Life lease.
- Adjustment to budget for addition of three limited service positions in state fiscal year 2017.

Base Pressures

The Department expects an increase in base budget pressures from annualized personnel service costs, the National Life lease agreement, internal service funds, and operating costs at the Roxbury Fish Culture Station. The Department anticipates a \$464,940 increase from annualized personnel service costs that will be paid for primarily through license fees and federal funds.

The Department will have increased expenses related to the annual increase of the National Life lease and internal service fund. These increases are budgeted as General Fund expenses.



The Roxbury Fish Culture Station has been operating at a limited capacity since it was damaged in Tropical Storm Irene. The Department anticipates that it will be fully operational starting in September of 2017 and has budgeted \$29,000 to reflect the difference between current operating expenses and the fully operational expenses for 10 months in state fiscal year 2018.

The Department budgets its gasoline, electricity and heating oil costs based on the U.S. Energy Information Administration short-term price outlook. This allows the Department to identify the average state fiscal year 2016 cost and compare it to the average projected cost for the first two quarters of state fiscal year 2018. The electricity budget in state fiscal year 2018 is based on a 4.35% increase from state fiscal year 2016 plus a \$9,000 increase at the Roxbury Fish Culture Station for becoming fully operational again. This results in a \$21,310 increase for the entire Department. The gasoline budget is based on a 3.8% projected increase between state fiscal year 2016 and state fiscal year 2018 plus an additional \$16,500 for 11 new positions the Department plans on hiring by state fiscal year 2018. The heating oil budget for state fiscal year 2018 is based on a 33% increase from fiscal year 2016 actual cost. The propane budget for the Department was calculated using the projected consumer price inflation for the end of calendar year 2017; 2.4%.

Various Adjustments

Vacancy Savings calculation represents the average vacancy savings realized by the Department in SFY15 and SFY16.

The Department has budgeted for a net increase in shift differential based on cost of living and step increases that employees will receive, resulting in a higher shift differential rate. There is a budgeted net increase in temporary costs based on two new positions that will be hired. One will focus on surveying Department owned lands and the other will assess bridges and culverts for fish passage on Agency owned lands. There is also a planned decrease in overtime based on temporary employee staffing levels in the Hunter Education program.

The Agency of Natural Resources Central Office will transfer the expenses and General Fund revenue for the National Life lease and property management surcharge starting in state fiscal year 2018. This change has a net zero impact on the Department's budget.

The Department plans on shifting funding sources for existing expenses to utilize available fund balances. The Department has this flexibility due to higher than budgeted revenues in previous fiscal years. A total of \$33,151 of expenses from General Fund will be transferred to License Fees to ensure that General Fund will be net zero between FY2017 and FY2018. A total of \$141,259 of expenses will be transferred from License Fees to Interdepartmental (\$9,319), surplus property (\$50,000), and timber sale receipts (\$81,940).



Program Changes

The Department will complete one-time projects from state fiscal year 2017 and continue others. The completion of projects includes the second year of the Reel Fun Fishing program, an agency-wide training on handling controversial issues, boating access development, and land acquisition projects. Below is a summary of the completed projects by funding source:

- License Fees: Reel Fun Fishing program and agency wide training.
- Motorboat Registration: boating access development.
- All Other: land acquisition projects.

The Department will also continue to strengthen existing projects, resulting in increased expenses, such as sub-grant programs for Boating Infrastructure Grants and Clean Vessel grants, and Vermont Watershed grants. The Department will provide additional funding for habitat conservation and protection projects. Below is a summary of the funding source for these projects:

- Federal: Boating Infrastructure Grants and Clean Vessel Act grants.
- All Other: Vermont Watershed grants and habitat conservation.

The Department requested three limited service positions through the Joint Fiscal Office at the end of state fiscal year 2016, which were approved in early state fiscal year 2017. These positions are focused on habitat and regulatory projects in both the fisheries and wildlife divisions. The Aquatic Habitat Biologist is responsible for working with landowners, towns, regional planning commissions, watershed associations, environmental groups, conservation districts, and other state entities, through technical assistance and outreach, to ensure that aquatic habitat goals are met. The Wildlife Habitat Biologist with Vermont landowners to improve wildlife habitat and bring awareness around conservation. This includes involvement with the Use Value Appraisal Program, conducting workshops, and developing tools for landowners and land managers. The Regulatory Biologist is responsible for implementing habitat protection and mitigation measures through the review of development projects in Act 250, the Public Service Board's section 248, the Vermont Wetland rules permitting process, Vermont Lakeshore encroachment permitting process, and others. This includes providing fish and wildlife technical expertise in the review of development projects and submitting biological opinions. These positions are funded with dedicated sources including a combination of federal funds, habitat stamp funds, and regulatory fee receipts.

Budget Items Included in Transition Plan

The Department has four initiatives with both programmatic and budgetary considerations that are planned for state fiscal year 2018.



The first initiative is a moose survivability and mortality study. Concern has risen in Vermont and neighboring states over the past decade regarding higher mortality and lower recruitment rates of resident moose populations. High winter tick (*Dermacentor albipictus*) infestations are considered to be a major cause of these trends, and although previously high host (moose) densities likely contributed to high parasite (tick) loads, a warming climate may also be playing a part by allowing for higher survival of engorged female ticks after they drop off moose in late spring, and extending the questing period of larval ticks in the autumn. Management of Vermont's moose would benefit greatly from keener estimates of mortality and recruitment rates. Studies of radio- and/or GPS-collared moose have been and are currently being conducted in Maine, New Hampshire, and New York. While findings from these studies are often applicable to Vermont, there are differences in moose and deer densities, parasite loads, soils, climate, weather, predators, land use, and habitat quality that can affect this applicability to unknown degrees. In addition, Vermont can contribute significantly to the region's understanding of the influence of these factors, particularly moose and tick densities, and the potential for managing moose populations as a strategy to manage mortality rates from winter ticks. The estimated cost of for this initiative is \$408,000 over three fiscal years. The Department has secured funding for the state fiscal year 2017 segment of the study and the federal funds for state fiscal years 2018 and 2019. The matching share for state fiscal years 2018 and 2019, in the amount of \$55,000, still need to be obtained.

The second initiative is aquatic organism passage on Agency owned lands. This initiative is focused on designing replacement stream crossing structures, such as culverts, that currently prevent the movement of aquatic species. Many existing stream crossing structures act as barriers to numerous species, isolating populations. This initiative proposes to design five replacement structures, one in each fisheries' district in Vermont. The total estimated cost for this initiative is \$115,000 with \$75,000 funded through federal State Wildlife Grant funding and \$40,000 through currently available state funds.

The third initiative is a land acquisition in Fair Haven and Castleton, Vermont that borders the Kehoe Conservation Camp. The parcel is over This parcel is 281 acres and plays a vital role in the programs at Kehoe, primarily during the GMCC season, as this is our main "classroom connection" to wild terrestrial and aquatic habitats. Without this parcel, GMCC may lose its ability to provide hands-on learning opportunities about natural ecosystems, as the fields and wooded area near the Education Center and cabins at Kehoe is too small and does not include a diversity of ecosystems. The parcel also has a good bass fishery and is across the road from the old slate quarry where many black rat snakes and other herps find habitat, including five-lined skinks. There is potential, if the parcel is acquired, to convert the acquisition into a wildlife management area. The total estimated cost is \$200,000 with \$100,000 funded through Green Mountain Conservation Camp tuition fees. The remaining \$100,000 may be funded through federal State Wildlife Grant or Wildlife Restoration funding.



The fourth initiative is a media satisfaction survey that the Department contracts to have completed. The media satisfaction survey will be the five-year follow up to the survey conducted in 2013 which set baseline expectations for outreach planning and five-year goals. This survey will provide an analysis of how successful the strategies have been in the years since the initial survey, provide a snapshot of media usage among our constituents, and will inform the next five years of message development, media and marketing planning, and website and electronic outreach refinements. The estimated cost of the survey is \$32,000 with \$16,000 funded with license fees and \$16,000 funded with federal Wildlife Restoration funds.

Special Fund Revenue Forecasts

Please see the table below for an explanation of how special funds were budgeted.

Fund Name	Fund Code	Existing balance, projected revenue or both?
20305	F&W Fund - Nondedicated	Both
20310	Nongame Wildlife Fund	Both
20315	Fish & Wildlife Trust Fund	Existing balance
20320	Duck Stamp Fund	Existing balance
20340	Species and Habitat Conservation Fund	Existing balance
20345	Threatened and Endangered Species Fund	Existing balance
20390	Watershed Management Fund	Both
21584	Surplus Property Fund	Both
40900	Lumberjack Fund	Existing balance



Fiscal Year 2018 Budget Development Form - Vermont Fish and Wildlife Department									
	General \$\$	F&W License Fees \$\$	Federal \$\$	Motor Fuel Tax \$\$	Motorboat Registration \$\$	Interdept'l Transfer \$\$	All other \$\$	Total \$\$	
Approp #1 [Fish & Wildlife 6120000000]: FY 2017 Approp	4,987,323	7,121,757	7,531,572	888,000	200,000	115,848	1,461,510	22,306,010	
Base Pressures:								0	
Annualized personnel service costs		276,923	170,972	7,000	6,628	2,634	783	464,940	
National Life and Property Management increase	7,702							7,702	
Standard adjustments: insurances, VISION/HCM, DII, DHR. (2.5%)	25,449							25,449	
Roxbury fish culture operations (prorated for 10 months)		29,000						29,000	
Various Adjustments:									
Vacancy savings		(156,625)	(54,375)					(211,000)	
Changes in overtime, shift differential, and temporary staff costs		19,204	(4,689)					14,515	
National Life lease (ANR net zero)	141,424							141,424	
Property Management surcharge (ANR net zero)	7,222							7,222	
Change in funding sources for expenses	(33,151)	(108,108)				9,319	131,940	0	
Program Changes:									
Net changes for one-time projects		(40,146)	39,589		(49,443)		(170,000)	(220,000)	
3 limited service positions added in state fiscal year 2017		19,925	182,163				40,796	242,884	
Subtotal of increases/decreases	148,646	40,173	333,660	7,000	(42,815)	11,953	3,519	502,136	
FY 2018 Governor Recommend	5,135,969	7,161,930	7,865,232	895,000	157,185	127,801	1,465,029	22,808,146	



State of Vermont
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Agency of Natural Resources

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To: Justin Johnson, Secretary of Administration
Andrew Pallito, Commissioner, Department of Finance and Management

Through: Deb Markowitz, Secretary, Agency of Natural Resources
Steve Chadwick, Director of Administrative Services, Agency of Natural Resources

From: Michael C. Snyder, Commissioner, Department of Forests, Parks and Recreation

Date: September 22, 2016

Subject: FY18 Budget Exercise

The Department of Forests, Parks and Recreation proposes a combination of strategies to manage upward pressures while fulfilling our mission and providing high quality service for the State. Expense pressure results primarily from personnel costs due to pay act and an increased budget for parks temporary staff to meet visitation demand and retain a skilled workforce. We propose conservative spending, utilizing special fund revenue and fund balances, budgeting vacancy savings, and adding non-general fund revenue where possible. Our budget proposal addresses all but \$118,000 and avoids reductions in force and elimination of programs. There are no appropriate programs available for elimination or major modification.

Vacancy Savings

We propose offsetting expense pressure with budgeted vacancy savings of \$252,000 in the forestry and parks divisions. This vacancy savings is calculated using the average vacancy savings accrued over the last three fiscal years in the forestry and parks divisions. Due to the small staffing size in the administration (9 permanent staff) and lands administration divisions (5 permanent staff) we are not proposing vacancy savings for these divisions. Turnover within such small divisions is not a reliable source of savings.

Special Funds

The state park system has seen a 40% increase in visitation over the last 10 years. Wages for the temporary workforce that provides service and generates parks revenue have not been adjusted in at least 20 years. It is important that we pay competitive wages to sustain this positive visitation trend. To support visitation, provide a quality and safe experience at the parks, and to continue to receive the park revenue that we rely upon we need to meet visitation demand with adequate staffing. We propose a \$818,000 increase to the parks temporary staff budget, a 25% increase over the FY17 budget. We are not proposing additional positions with this increase, the cost is attributed to a combination of other factors. 43% of the increase is attributed to a more accurate projection of the temporary staff budget bringing our budget in



line with actual expenditures to eliminate the excess receipt request submitted each spring. The remainder of the increase is attributed to steps, a projected cost of living increase of 2.5%, and a temporary staff reclassification initiated during FY17 to pay competitive market rate wages and attract and retain a skilled workforce. To offset this expense we propose increasing the parks special fund revenue by \$318,000 or 3.4% compared to the FY17 budget and utilizing parks special fund and surplus property fund balance. We are holding back on the full recommended wage reclassification for the temporary parks workforce as we want to make sure that we can sustainably fund the first phase of reclassifications. Additional pressures on the parks special fund include the anticipated decrease in ski lease revenue in FY17 due to the lack of snow last winter and the projected and necessary upgrade of the parks reservation system. We rely on the parks special fund balance for continuity of operations amidst the unpredictable summer and winter weather, for priority projects such as the parks reservation software upgrade and investing in our temporary staff workforce.

We propose freeing up general fund by utilizing \$84,000 of special fund balance dedicated for conservation work. This funding will be used for the conservation education position in place of general fund. While our proposal to utilize this special fund balance helps with FY18 this approach will not support long-term reliance for operating expenses but will provide time to develop a more permanent strategy.

FY18 is the second year in a two-year plan initiated by Commissioner Reardon to restore general fund base and eliminate reliance on the Lands and Facilities Trust Fund for operating expenses. This plan was put into place to avoid complete depletion of the fund which was projected to reach a zero balance by FY22 if we continued to rely on the fund for operating expenses. Continued use of the Land and Facilities Trust Fund for operating expenses does not comply with statute and would require language for the continued use of the fund for purposes outside of statute. This plan which restores general fund also eliminates reliance on this one-time source to balance our budget. The restored general fund, if necessary, can be offset by a direct application of Lands and Facilities Trust Fund to the general fund.

Federal Funds

In the forestry division we propose a \$50,000 increase to our federal budget based on anticipated pass-through grant payment expenses to UVM and the corresponding revenue. We increased the federal budget by \$98,450 of which \$62,000 will support the invasive plant coordinator and \$36,450 will be used alongside new funds from the Public Service Department to fund a wood energy forester.

General Fund

The budget includes a general fund request for a critical operations director position. This position will coordinate and direct activities across division lines, continually monitor, evaluate and make changes to department systems and processes to assure outcome efficiency, and assure progress toward a common vision for the organization. Functionally serving as a Deputy Commissioner, this position would relieve the Commissioner from many internal management duties leaving the Commissioner with greater capacity to perform necessary external functions and serve a leadership role. Perhaps equally important, the position will serve a pivotal role to provide stability of continued operation over the next few years as the department faces a complete transition of top level management of all three major program areas due to retirement (Parks, Forestry and Lands Administration).

Internal Service Funds

The projected 2.5% increase in internal service funds amounts to an expense increase of \$21,355 which will be paid with general funds offset by operating expense reductions.

Fuel

We budgeted a \$113,000 reduction in fuel expenses which is a 32% reduction compared to the FY17 budget. This savings is used to offset operating expense pressures.

Fiscal Year 2018 Budget Development Form Overview- Forests, Parks and Recreation

	General \$\$	Special \$\$	Federal \$\$	Interdept'l Transfer \$\$	Total \$\$
Total FPR FY2017 Appropriation	6,657,488	11,926,445	3,586,534	376,749	22,547,216
Salary and benefit increases due to pay act, staff changes and benefit rate changes	166,363	84,927	0	0	251,290
Internal service fund expense increase of 2.5%: VISION, fee-for-space, DII, DHR, single audit, insurance	21,355	0	0	0	21,355
Increase budgeted vacancy savings	(180,000)	(72,000)			(252,000)
Add an Operations Director position to coordinate and direct activities across the department and functionally serve as a Deputy Commissioner. This position is critically important for continuity of operations as the department faces a complete transition of top level management for all three major divisions due to anticipated retirement.	120,000				120,000
Parks temporary staff increase of \$817,520 to support high visitation levels and eliminate an annual excess receipt	42,306	775,214			817,520
Add Wood Energy Forester funded by the Public Service Department and new federal funds			36,450	45,000	81,450
Invasive Plant Coordinator funded by DEC and F&W federal funds in FY17 and FPR federal funds in FY18			62,000	(62,000)	0
Utilize special funds to free up general fund for conservation education position	(83,500)	83,500			0
Increase federal revenue to offset a corresponding increase in grants out for ongoing UVM Vermont Monitoring Cooperative activity			50,000		50,000
Office rental rate increase in White River Junction, St. Johnsbury and Rutland North	14,398	20,174			34,572
Transfer of expenses and corresponding general fund from ANR central office to FPR for National Life lease and property management surcharge	106,576				106,576
General fund replacing Lands and Facilities Trust Fund for general operating expenses	429,132	(429,132)			0
Net operating expense reduction which includes a 32% reduction to fuel budgets	17,175	(84,500)			(67,325)
Subtotal of increases/decreases	653,805	378,183	148,450	(17,000)	1,163,438
FY 2018 Governor Recommend	7,311,294	12,304,627	3,734,983	359,749	23,710,653
% change from FY 2017 appropriated budget					5.2%
% GF change net of LFTF and Central Office GF Transfer for National Life					1.8%
Budget by Funding Source					
					31%
					52%
					16%
					2%

Fiscal Year 2018 Budget Development Form - Forests, Parks and Recreation

	General \$\$	Special \$\$	Federal \$\$	Interdept'l Transfer \$\$	Total \$\$
Approp #1 Administration 6130010000: FY 2017 Approp	1,154,294	1,456,877	1,169,535	0	3,780,706
Salary and benefit increases due to pay act, staff changes and benefit rate changes	10,099	2,172			12,271
Internal service fund expense increase of 2.5%: VISION, fee-for-space, DII, DHR, single audit, insurance	7,752				7,752
Transfer of expenses and corresponding general fund from ANR central office to FPR for National Life lease and property management surcharge	106,576				106,576
National Life lease increase	5,417				5,417
Miscellaneous operating expense increases	2,109				2,109
Utilize special funds to free up general fund for conservation education position	(83,500)	83,500			0
Add critical Operations Director position for succession planning	120,000				120,000
Subtotal of increases/decreases	168,453	85,672	0	0	254,125
FY 2018 Governor Recommend	1,322,747	1,542,549	1,169,535	0	4,034,831
% change from FY 2017 appropriated budget	14.6%	5.9%	0.0%	-	6.7%
Approp #2 Forestry 6130020000: FY 2017 Approp	4,231,560	717,701	1,250,000	257,999	6,457,260
Salary and benefit increases due to pay act, staff changes and benefit rate changes	156,871	50,000			206,871
Internal service fund expense increase of 2.5%: VISION, fee-for-space, DII, DHR, single audit, insurance	3,963				3,963
Increase budgeted vacancy savings	(180,000)				(180,000)
Add Wood Energy Forester funded by the Public Service Department and new federal funds			36,450	45,000	81,450
Fire warden annual payment and training payment to improve training attendance rate per statute change	6,000				6,000
Office rental rate increase in White River Junction, St. Johnsbury and Rutland North	14,398	20,174			34,572
Increase federal revenue to offset a corresponding increase in grants out for ongoing UVM Vermont Monitoring Cooperative activity			50,000		50,000
General fund replacing Lands and Facilities Trust Fund for general operating expenses	402,702	(402,702)			0
Invasive Plant Coordinator funded by DEC and F&W federal funds in FY17 and FPR federal funds in FY18			62,000	(62,000)	0
Subtotal of increases/decreases	403,934	(332,528)	148,450	(17,000)	202,856
FY 2018 Governor Recommend	4,635,495	385,172	1,398,450	240,999	6,660,116
% change from FY 2017 appropriated budget	9.5%	-46.3%	11.9%	-6.6%	3.1%

Approp #3 Parks 6130030000: FY 2017 Approp				571,102	9,392,286	0	0	9,963,388
Salary and benefit increases due to pay act, staff changes and benefit rate changes								
Internal service fund expense increase of 2.5%: VISION, fee-for-space, DII, DHR, single audit, insurance				2,091	32,755			34,846
Temporary staff increase of \$817,520, a 24% increase over FY17. 43% of this increase is to eliminate an annual excess receipt. This increase is offset by a \$317,714 budgeted increase in parks special fund revenue, utilization of parks special fund balance and surplus property balance, vacancy savings and reductions to operating expenses.				9,162				9,162
Increase budgeted vacancy savings								
Net reductions to operating expenses which includes a 32% reduction to the fuel budget				42,306	775,214			817,520
Subtotal of increases/decreases								
FY 2018 Governor Recommend				53,559	651,469	0	0	705,028
% change from FY 2017 appropriated budget				9.4%	10,043,755	0	0	10,668,416
					6.9%	-	-	7.1%
Approp #4 Lands Administration 6130040000: FY 2017 Approp				472,300	171,199	1,073,000	18,750	1,735,249
Salary and benefit changes due to pay act, staff changes and benefit rate changes				(2,698)				(2,698)
Internal service fund expense increase of 2.5%: VISION, fee-for-space, DII, DHR, single audit, insurance				478				478
Increase budget for temporary survey staff \$3,000 and miscellaneous operating expense increases \$649				3,649				3,649
General fund replacing Lands and Facilities Trust Fund for general operating expenses				26,430	(26,430)			0
Subtotal of increases/decreases				27,859	(26,430)	0	0	1,429
FY 2018 Governor Recommend				500,159	144,769	1,073,000	18,750	1,736,678
% change from FY 2017 appropriated budget				5.9%	-15.4%	0.0%	0.0%	0.1%
Approp #5 Youth Conservation Corps 6130080000: FY 2017 Approp				48,307	188,382	94,000	100,000	430,689
Subtotal of increases/decreases				0	0	0	0	0
FY 2018 Governor Recommend				48,307	188,382	94,000	100,000	430,689
% change from FY 2017 appropriated budget				0.0%	0.0%	0.0%	0.0%	0.0%
Approp #6 Forest Highway 6130090000: FY 2017 Approp				179,925	0	0	0	179,925
Subtotal of increases/decreases				0	0	0	0	0
FY 2018 Governor Recommend				179,925	0	0	0	179,925
% change from FY 2017 appropriated budget				0.0%	-	-	-	0.0%
FPR FY 2017 Appropriation				6,657,488	11,926,445	3,586,535	376,749	22,547,217
TOTAL INCREASES/DECREASES				653,805	378,183	148,450	(17,000)	1,163,438
FPR FY 2018 Governor Recommend				7,311,294	12,304,627	3,734,984	359,749	23,710,654
% change from FY 2017 appropriated budget				9.8%	3.2%	4.1%	-4.5%	5.2%
% GF change net of LFTF and Central Office GF Transfer for National Life				1.8%				

MEMORANDUM

TO: Deb Markowitz, Secretary
Agency of Natural Resources

FROM: Alyssa B. Schuren, Commissioner
George Desch, Deputy Commissioner
Department of Environmental Conservation

DATE: September 22, 2016

SUBJECT: FY 2018 Budget Proposal

Introduction

The following memorandum describes Department of Environmental Conservation's (DEC) State Fiscal Year 2018 (FY18) Operational Budget proposal. The proposal follows a thorough review of all of our operating expenses and utilizes existing cash balances in our federal and special funds to reach level funding.

It is worth noting that DEC does not rely only on fee or other revenue increases to meet the growing demand for quicker permits and other services. We continue to drive internal business process improvements, using operational improvement tools like Lean, new information technology, results based accountability/performance measures, and improved performance management of staff. These strategies have generated additional capacity that could be shifted to higher-value work, like addressing permit backlogs. This capacity has been critical as budget cuts have been absorbed in recent years. In this budget, we have also been able to realize substantial savings as a result of these efforts.

I. Budget Exercise:

The Agency of Administration has requested a level funded FY18 budget that reflects the adjusted FY17 General Fund levels. At DEC's current staffing levels, we would experience a Pay Act increase of \$1,144,071, not including any rate increases in benefit costs, and assuming only a 2.5% increase in internal service fund costs.

In total, this budget represents a net increase of \$676,270. The majority of this increase is DEC's share of the National Life Lease cost, transferred with funding by the Agency of Natural Resources (ANR) Central Office. Other increases were absorbed by reducing budgeted line items based on

realized savings, reallocating federal and special funds, utilizing existing cash balances, as well as redirecting programmatic work where possible in order to leverage new federal dollars.

Due primarily to a shift to shared supply rooms between divisions and away from individual purchasing budgets, we have realized savings in costs related to equipment, supplies and other purchased services in the amount of \$120K. We also made cuts to rentals and property management costs related mainly to one-time prior year fit up expenses as well as maintenance of equipment and hardware expenses in the amount of \$132K. In addition, we have reduced travel costs by \$33K, primarily in-state.

This budget includes the use of existing cash balances from the DEC Environmental Permit fund, as these funds are intended to cover cost on a three-year cycle, of approximately \$530K, as well as for the first time, the use of our Clean Water & Drinking Water State Revolving Loan Fund Program Administrative Fees. Annually, EPA awards federal grants to Vermont for the Clean Water (CWSRF) and Drinking Water (DWSRF) State Revolving Fund Programs, utilized by municipalities. The State can use 4% of those grants for program administration costs. The federal 4% administrative funds only partially cover the costs of running programs that administer these funds, which includes a wide array of engineering oversight, financial, and administrative activities. Historically, we have had multiple SRF grant awards open and available, which has covered these costs. In recent years, due to federal mandates, limitations have been placed around unliquidated obligations and funding availability involving these grant awards resulting in our need to access these funds in FY18 to cover administrative program costs. We also experienced a small decrease of \$25K in personnel costs in our interdepartmental fund primarily related to a reduction in expenses related to our Hazmat Response Team.

Another item of note is the sizeable reduction in the Clean Water Fund from \$4,280,000 in FY17 to \$2,090,000 in FY18. The Clean Water Fund was established by the legislature in FY15. It is funded through a property transfer tax, generating approximately \$5M per year through FY18. The funds support on-the-ground implementation of clean water compliance projects. The reduction in the FY17 appropriation was based on the utilization for revenues received in part during FY16 and then a full year of FY17. FY18 is now reflecting just one year of revenues/expenses.

II. Transition Items:

A. Environmental Contingency Fund

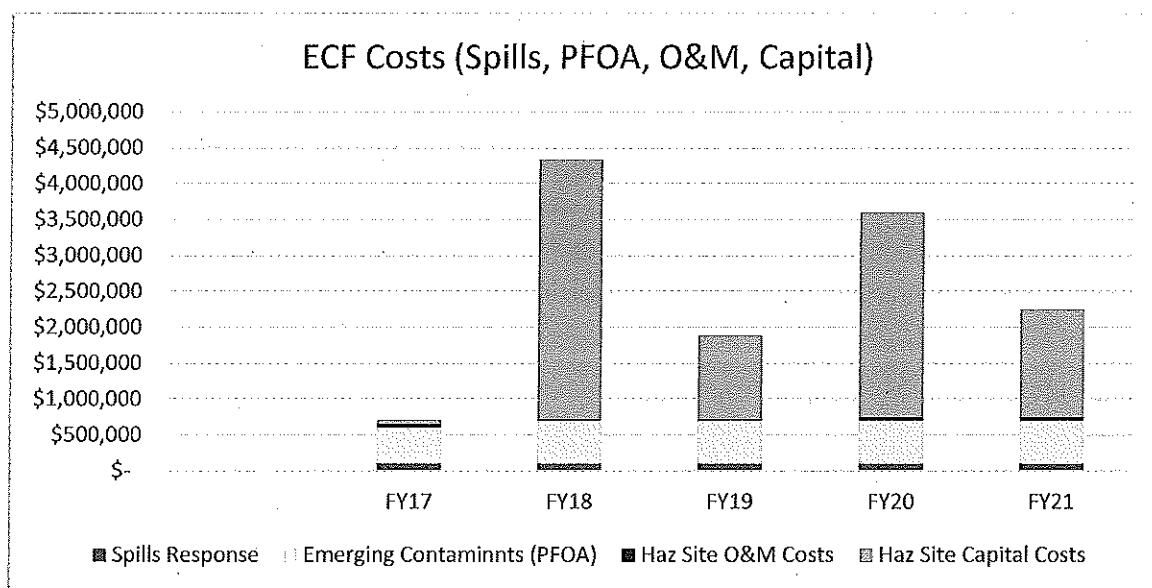
The Environmental Contingency Fund (ECF) was created in 1985 by the legislature to investigate and remediate hazardous waste sites when a responsible party is unwilling or unable to do so, or when the responsible party is unknown, 10 V.S.A. 1283. (Added 1979, No. 195 (Adj. Sess.), § 5). ECF expenditures generally fall into one of four categories: (1) hazardous spills

response, (2) state-lead hazardous waste sites, (3) Superfund sites, and (4) response to emerging chemicals such as PFOA.

Under federal law, the U.S. EPA has authority to designate hazardous waste sites as eligible for Superfund monies. Vermont has a legal obligation to share 10% of the capital costs at these Superfund sites. Several Superfund sites in Vermont will be entering construction phase during FY18-19, triggering the obligation to pay this share.

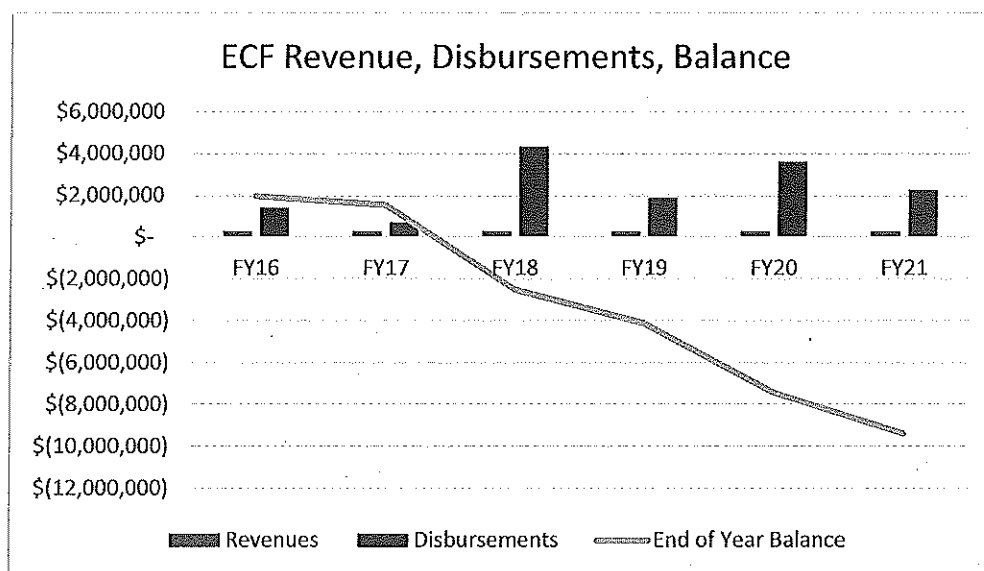
In FY16, the critical need for the ECF became evident with the discovery of PFOA contamination in Bennington, North Bennington and Pownal. Initial efforts to conduct immediate door-to-door sampling, analysis, staffing of an information center, and efforts of many DEC staff were made possible by the ECF.

Figure 1: Environmental Contingency Fund (Expenditures by Type of Cost)



The demand on the ECF over the next four years will greatly exceed the projected fund balance. The state's Superfund obligations and PFOA response are the drivers of the future projected deficit.

Figure 2: Environmental Contingency Fund (Revenues, Disbursements, Balance)



The Department of Environmental Conservation recommends two strategies to shore up the Environmental Contingency Fund against bankruptcy in FY18-19.

- First, the Department recommends that capital costs at state-lead and Superfund sites be incorporated into the FY18-FY19 Capital bill (\$3.7 million in FY18 and \$2.1 million in FY19). The ECF lacks resources to cover these non-discretionary costs, which will otherwise need to be absorbed by the General Fund.
- Second, the Department recommends pursuing new revenue options for covering the response to emerging contaminants such as PFOA. At the Legislature's request, the Department is preparing a report on possible revenue sources that will be submitted to the Legislature by the end of the calendar year.

B. Clean Water Fund

As part of the 2015 Clean Water Act, the Legislature created the Clean Water Fund to complement, enhance and leverage water-quality programs in Vermont. To maximize efficiencies, the Fund employs existing state grant and loan programs where feasible.

The Fund is supported by a Clean Water Surcharge that is applied to certain property transfers. The 0.2% surcharge generated \$4.65 million in fiscal year 2016, and it is projected to generate

\$4.9 million in 2017. The surcharge is presently the sole revenue source for the Clean Water Fund and is set for repeal on July 1, 2018.

At the request of the Legislature, the Treasurer's Office, with support from various agencies, is preparing a report to analyze future funding needs and revenue sources to comply with the 2015 Clean Water Act and with the EPA's mandated phosphorus reductions for Lake Champlain. In developing this report, the State hosted a series of stakeholder meetings in the spring and fall of 2016. By statute, the Treasurer will report to the Legislature by January 15, 2017 on: 1) Proposed revenue sources; 2) Recommendation for incentivizing Best Management Practices; 3) Estimated amount of revenue to be generated by source; 4) Summary of how each source will be administered, collected and enforced; 5) Assessment of whether the State should use bonds to finance water quality improvements; and 6) Legislative proposal to implement each of the proposed revenue sources.

The anticipated statewide funding gap for complying with the Clean Water Act and the TMDL is \$60 million to \$80 million a year for the next twenty years. During the 2017-18 biennium, the Legislature will need to address how the annual \$60 - \$80 million gap will be filled. It is not a question of whether to pay, but rather, who will pay. If State resources are not provided, municipalities and the private sector would absorb the costs of compliance. The Clean Water Fund will be a key component of the funding strategy.

C. Universal Recycling Implementation

In 2012, the Legislature passed Vermont's Universal Recycling Law (Act 148) in response to concerns about limited landfill capacity and to the state's stagnant recycling rate, which had hovered around 30-36% for more than a decade. The law achieves these objectives through phased in disposal bans on recyclables, leaf and yard debris, clean wood, and food scraps and by requiring transfer stations and solid waste haulers begin offering collection services for these landfill banned materials. The Universal Recycling law is seen as the most significant change to Vermont's solid waste policy since the early 1990s. The result has been an increase in recycling 2%, a decrease in disposal rates by 5%, and an increase in fresh food donations to the Vermont Food Bank. For example, in 2015 food donations increased 25%-30%, and increased by an additional 40% in 2016, in large part as a result of Universal Recycling.

After passage Act 78 in 1989, the Legislature provided capital funding grants of over \$40,000,000 to towns and solid waste districts for solid waste infrastructure projects, landfill closure, recycling infrastructure, and recycling processing facilities such as the Williston Materials Recovery Facility. This capital was what helped Vermont build much of the recycling infrastructure that is still in use today.

In order to achieve the goals of Act 148, Vermont's solid waste districts, composters, recyclers and haulers have expressed a need for additional capital to implement the law (composting facilities, totes, trucks, additional recycling facilities). Based on 2014 survey of both private and public solid waste stakeholders (haulers, transfer stations, recycling facilities, and compost operators), the industry identified approximately \$47 million in desired investments to best implement the Universal Recycling Law, of which municipal solid waste districts' share was roughly \$12 million.

While private stakeholders can tap private equity, municipal solid waste districts need public investment. The Department of Environmental Conservation proposes to recapitalize the Solid Waste Infrastructure Fund, 10 V.S.A. §6603c, which was used in the 1990s to implement Act 78. Grants can be awarded to municipal solid waste districts for up to 40% of the cost of eligible construction and equipment consistent with 24 VSA § 4348a and the State Waste Management Plan.

The Department of Environmental Conservation proposes to capitalize the Solid Waste Infrastructure Fund through the Capital Bill in the range of \$1 million to \$2 million a year. Impacted entities are also considering proposing a fee on plastic bags to the Vermont Legislature, and recouping those revenues for infrastructure investments related to Universal Recycling.

Fiscal Year 2018 Budget Development Form - Department of Environmental Conservation

FY2017 Budget	General \$\$	Special \$\$	Federal \$\$	Interdept'l Transfer \$\$	Total \$\$
FY'17 to FY'18 Salary & Benefit Changes - Net result of all salary and benefit changes	8,050,321	29,123,190	32,244,081	6,617,666	76,035,259
	9,918	783,039	370,627	(25,513)	1,144,071
Allocation from ANR-Central Office of National Life Office Space Lease and associated Property Management surcharge (2.5%)	531,452	0	260,000	0	791,452
Standard adjustments and Operating Reductions: Standard internal service fund adjustments include: DII (\$11,108), DHR (\$5,482), TVISION/HRMS (\$9,175), Insurances (\$1,636), FFS (\$3,621) departmentwide which were absorbed through operating reductions in equipment (computers), supplies and other purchased services, saving (\$-120K); through reduction in rentals and property management costs (mainly due to prior year one time fit up & maintenance costs related to equipment and hardware), saving (\$-132K); and through reductions in travel costs (mainly in-state travel), saving (\$-33K)	82	(75,748)	31,805	(241,882)	(285,743)
Contracts Adjustment: Decrease in general funds due to reduction of Leanovations contract (\$-10K); Net increase in special funds due mainly to the Stormwater MS4 Permit Program contract for monitoring/sampling (\$125K); increase in Clean Water Fund contracts (\$380K); Net decrease in federal funds due to completion of New England Information Exchange Network one-time project (\$-55K); reallocation of federal funds from "contracts" to "rental of office" expense for share of National Life leased space (\$-260K); and increase for the new "Commerce Street" redevelopment project award (\$300K)	(10,000)	505,015	(14,378)	0	480,637
Grants Adjustments: Net decrease in special funds due to reduction in allocation of Clean Water Fund one-time pass through grants (note that FY'17 appropriation was comprised of revenues in part from FY'16 as well as a full year of FY'17). Net increase in federal funds due to new one-time Lake Champlain Basin Grant projects (\$325K), additional project funding for NRCS/Regional Conservation Partnership Program grant (\$218K), and USGS geology project (\$27K)	0	(2,025,140)	570,992	0	(1,454,148)
TOTAL INCREASES/DECREASES	531,452	(805,834)	1,219,046	(267,395)	676,270
Environmental Conservation FY 2018 Governor Recommendation	8,581,774	28,316,354	33,463,127	6,350,273	76,711,529
% Change from FY'17 Appropriated Budget	6.5%	-2.8%	3.8%	-4.0%	0.9%

Fiscal Year 2018 Budget Development Form - Department of Environmental Conservation

Approp #1 Management & Support Services: FY17 Budget					
	General \$\$	Special \$\$	Federal \$\$	Interdept'l Transfer \$\$	Total \$\$
FY17 to FY18 Salary & Benefit Changes - Net result of all salary and benefit changes	374,367	385,773	724,194	5,207,132	6,691,466
Allocation from ANR-Central Office of National Life Office Space Lease and associated Property Management surcharge (2.5%)	10,000		193,207		203,207
	531,452		280,000		791,452
Standard adjustments and Operating Reductions: Standard Internal service fund adjustments include: DII (\$11,108), ↑DHR (\$5,482), ↑VISION/HRMS (\$9,175), ↑Insurances (\$1,636), ↑FFS (\$3,821) departmentwide which were absorbed in part through reductions mostly within our A&W and Office of Waters Appropriations. MSS reduced equipment (computers), supplies and other purchased services, saving (\$-22K), offset by increases in leased spaced costs outside of the base transfer of the National Life Lease from ANR Central Office	830	(33,922)	127,897	(50,293)	44,512
Contracts Adjustment: Decrease in general funds due to reduction of Leanorations contract (\$-10K); Net decrease in federal funds due to completion of New England Information Exchange Network one-time project (\$-55K); reallocation of federal funds from "contracts" to "rental of office" expense for share of National Life leased space (\$-280K)	(10,000)		(314,378)		(324,378)
Grants adjustments: Increase in federal funds due to additional from USGS for geology project (\$27K)			27,442		27,442
Subtotal of increases/decreases	532,282	(33,922)	294,168	(50,293)	742,235
FY 2018 Governor Recommend	906,649	351,851	1,018,362	5,156,839	7,433,701
Approp #2: Air & Waste: FY 2017 Budget					
FY17 to FY18 Salary & Benefit Changes - Net result of all salary and benefit changes	90,472	16,726,784	3,629,701	214,289	20,681,226
	4,540	407,624	39,738	(24,193)	427,709
Contracts Adjustment: Increase in federal funds of \$300K for new Commerce Street Federal Grant			300,000		300,000
Grants adjustments: Net Increase in one-time passthrough grants for AQCD Mobile Source Program		82,007			82,007
Standard adjustments and Operating Reductions: Standard Internal service fund adjustments include: DII (\$11,108), ↑DHR (\$5,482), ↑VISION/HRMS (\$9,175), ↑Insurances (\$1,636), ↑FFS (\$3,821) departmentwide which were absorbed through operating reductions in equipment (computers), supplies and other purchased services, saving (\$-56K); through reduction in rentals and property management costs (mainly due to prior year one time fit up & maintenance costs related to equipment and hardware), saving (\$-15K); but offset with a slight increase in travel costs of (\$6K)		(53,020)	(12,248)		(65,268)
Subtotal of increases/decreases	4,540	436,611	327,490	(24,193)	744,448
FY 2018 Governor Recommend	95,012	17,163,395	3,957,191	190,076	21,405,675

Fiscal Year 2018 Budget Development Form - Department of Environmental Conservation

Appropriation #3 Office of Water Programs: FY 2017 Budget					
	General \$\$	Special \$\$	Federal \$\$	Interdept'l Transfer \$\$	Total \$\$
FY17 to FY18 Salary & Benefit Changes - Net result of all salary and benefit changes	(4,622)	381,415	137,682	(1,320)	513,155
Contracts Adjustment: Net increase in one time pass through contracts for Clean Water Fund (\$380K) and for Stormwater MS4 Permit Program monitoring/sampling (\$125K)		505,015			505,015
Grants Adjustments: Net decrease in special funds due to reduction in allocation of Clean Water Fund one-time pass through grants (note that FY17 appropriation was comprised of revenues in part from FY18 as well as a full year of FY17). Net increase in federal funds due to new one-time Lake Champlain Basin Grant projects (\$325K), additional project funding for NRCS/Regional Conservation Partnership Program grant (\$218K)		(2,107,147)	543,550		(1,563,597)
Standard adjustments and Operating Reductions: Standard internal service fund adjustments include 1DII (\$11,108), 1DHR (\$5,482), 1VISION/HRMS (\$9,175), 1INSURANCES (\$1,636), 1FFS (\$3,621) departmentwide which were absorbed through operating reductions in equipment (computers), supplies and other purchased services, saving (\$-127K); through reduction in rentals and property management costs (mainly due to prior year one time fit up & maintenance costs related to equipment and hardware), saving (\$-97K); and through reductions in travel costs, saving (\$-40K)	(748)	11,194	(83,844)	(191,589)	(264,987)
Subtotal of increases/decreases	(5,370)	(1,209,523)	597,388	(192,909)	(810,414)
FY 2018 Governor Recommend	7,580,113	10,801,110	28,487,574	1,003,356	47,872,153
DEC FY 2017 Total Appropriated Budget	8,050,321	29,123,190	32,244,081	6,647,666	76,065,259
TOTAL INCREASES/DECREASES	531,452	(806,834)	1,219,046	(257,395)	676,270
DEC FY 2018 Governor Recommend	8,581,773	28,316,356	33,463,127	6,390,271	76,711,529