

Vermont Clean Water Board Meeting Minutes

Date/Time: Friday, October 11, 2024, 9:00-10:30 am

Virtual Option to Attend: Microsoft Teams Meeting

Physical Location to Attend In-Person: Agency of Natural Resources, One National Life Drive, Montpelier, VT 05620-3510 in the Catamount Room (Davis Building, 2nd Floor, Room D215).

Meeting details, materials, and recordings available at: <https://dec.vermont.gov/water-investment/cwi/board/meetings>

Clean Water Board Members/Designees:

Douglas Farnham, Agency of Administration (AoA) Chief Recovery Officer and Designated Clean Water Board Chair (Present)
 Tayt Brooks, Agency of Commerce and Community Development (ACCD) Deputy Secretary (Present)
 Bob Flint, public member (Present)
 Joe Flynn, Agency of Transportation (VTrans) Secretary (Present)
 Julie Moore, Agency of Natural Resources (ANR) Secretary (Present)
 Jim Giffin, public member (Present)
 Anson Tebbetts, Agency of Agriculture, Food and Markets (AAFM) Secretary (Present)
 Chad Tyler, public member (Present)
 Jeanne Voorhees, public member (Present)

1. Welcome

Recording Time Stamp 00:01¹

Douglas Farnham, Agency of Administration Deputy Secretary and Clean Water Board Chair

The Chair, AoA Chief Recovery Officer Douglas Farnham convened the meeting at 9:00 am and introduced Jeanne Vorhees, a new public member of the Board. Chair Farnham invited any edits to the February 14, 2024 meeting minutes. No edits were offered, and minutes were adopted through the consent agenda.

2. Review State Fiscal Year (SFY) 2026 Clean Water Budget Process

Recording Time Stamp 6:00

Gianna Petito, Department of Environmental Conservation (DEC) Clean Water Initiative Program (CWIP) Grants Supervisor

Gianna Petito presented the budgeting timeline and highlighted key dates for public comment and future Clean Water Board meetings.

¹ Please refer to the available meeting recording to learn more about discussion content under each agenda item. Recording Time Stamps are highlighted to direct focus on the recording. Recording can be directly accessed here: <https://www.youtube.com/watch?v=oPVYj8G7Vtg>

- Chair Farnham highlighted that the Emergency Board usually meets twice a year but may also call special sessions as needed in response to economic conditions.

3. Review Clean Water Fund Operating Statement Recording Time Stamp 11:27

Nick Kramer, Department of Finance and Management Budget Analyst

Nick Kramer provided an overview of the Clean Water Fund Operating Statement, including actuals for State Fiscal Year 2024 and updated revenue forecasts for State Fiscal Years 2025, 2026 and 2027.

- Nick flagged that the reversion line-item on the Operating Statement is due to the audit Request for Proposals that never received a bid. He also highlighted that this year's property transfer tax clean water surcharge revenue projections were determined through a slightly different methodology in response to changes to the tax structure through Act 181 of 2024. The new methodology will be included as a consent agenda item for the Board in an upcoming meeting to approve.
- The Board briefly discussed fund interest and whether interest income projections should be included in the Budget estimate for State Fiscal Year 2026.

4. Review draft SFY 2026 Clean Water Budget recommendation

Emily Bird, DEC CWIP Manager and Gianna Petito Recording Time Stamp 38:06

Gianna Petito presented an overview of the draft SFY 2026 Clean Water Budget and the drafting approach. Emily Bird shared an outline of the SFY 2026 Clean Water Policy Document and summarized updates to this year's proposed budget compared to last year, including proposed strategy for the One-Time Funds.

5. Discuss and adopt draft SFY 2026 Clean Water Budget to post for public comment Recording Time Stamp 59:00

Full Board

Chair Farnham opened the floor for Board discussion but acknowledged more time might be needed.

- The Board asked several questions related to the proposed financing program in support of Tier 2 and Tier 3 regulatory compliance in the forestry and stormwater sectors. The Board requested more time for discussion on this concept.
- Chair Farnham asked for a motion to request that the Department of Finance and Management make a recommendation on how to calculate and include interest income projections on the Operating Statement and to highlight interest income when the draft budget is posted for public comment.
 - Joe Flynn, Agency of Transportation Secretary, moved to make the request. Anson Tebbetts, Secretary of the Agency of Agriculture, Food and Markets seconded the motion. The motion passed with no opposition.

- Chair Farnham pointed to other items that he would like addressed at a future meeting in addition to the financing program concept: developing guiding principles on cost share and inflation adjustment of budget targets. Chair Farnham proposed extending the November 8th meeting by one hour to allow time for these discussion items.
- Chair Farnham acknowledged the outstanding Board questions and asked whether the Board was comfortable releasing the current draft Budget for public comment knowing the November 8th public hearing would allow for more discussion.
 - Bob Flint, public member of the Board, moved to post the draft SFY 2026 Clean Water Budget as presented for public comment. Chad Tyler, public member of the Board seconded the motion. The motion passed with no opposition.

6. Public comment

Recording Time Stamp 1:19:45

Douglas Farnham

- Ernest Englehardt, Lake Carmi Camper’s Association – Ernie thanked the Board for their work and expressed that he is cautiously optimistic about the alum treatment in Lake Carmi.
- Peter Benevento, Lake Carmi Camper’s Association – Peter reiterated Ernie’s thoughts and thanked the Board. He expressed that Lake Carmi had a difficult summer but that there is a light at the end of the tunnel thanks to the alum treatment.
- Jared Carpenter, Lake Champlain Committee – Jared thanked the Board for maintaining level funding for enhancement grants. He raised concern with not including more money for the Clean Water SRF this year. He said he was intrigued by the proposed financing program in support of Tier 2 and Tier 3 regulatory compliance acknowledging he has heard there is concern about regulatory compliance costs.
 - Eric Blatt, DEC – Eric clarified with the Clean Water SRF balance at zero is feasible without foregoing any federal dollars, given excess match dollars from the SFY 2025 appropriation.
- Kathy Urffer, Connecticut River Conservancy– Kathy asked to see a geographic breakdown of the Budget to be transparent about where the money is being spent. Emily Bird shared that the new plain language budget table has a geographic column that may answer Kathy’s question.

7. Preview SFY 2026 budget public comment communications plan

The CWIP team will email the Board information under this agenda item and revisit it at a future Board meeting due to a shortage of time.

8. Wrap-up, summarize next steps

Recording Time Stamp 1:27:43

Douglas Farnham

Chair Farnham shared plans for the November 8th Public Hearing including adding an additional hour for further Board discussion.

9. Adjourn

Meeting adjourned at 10:30 am.

Recording Time Stamp 1:28:59

DRAFT

From: [Giffin, Jim](#)
To: [Bird, Emily](#)
Cc: bobf@springfielddevelopment.org; [Farnham, Douglas](#); [Flint, Bob](#); jeannevoorhees@comcast.net; chad@tylerplace.com; [Tyler, Chad](#)
Subject: Next Board Meeting
Date: Monday, October 14, 2024 9:02:11 AM

I want to acknowledge the great work done by all the people involved creating the CWF budget and supporting documents. It is difficult enough create a budget for your own department let alone a budget that crosses multiple Departments and Agencies. Plus making all the financial and narrative documentation hang together. Few would understand the complexity of the task. I do, and please send my compliments to all who had a part in its creation.

Other items I would like to add for the next Board meeting.

Is someone going to respond to Mr. Waterhouse's comments?

Does the EPA's order on regulating Confined Animal Feeding Operations affect the CWF budget between ANR/AoAFM? Change what projects get prioritized?

Proposed Loan Program Questions

I could not find information on a proposed new loan program in the material provided to the Board for the 10/11/24 meeting so not sure what you are proposing to do with the \$2.3M mentioned in the meeting. Where in line items on the operating statement (page 26 of 52) does this appear?

Oliver Pierson mentioned that Maine has a loan program.

Looking at the Maine Clean Water web site I found the Clean Water State Revolving Fund (CWSRF) that seems similar to Vermont Clean Water State Revolving Fund.

<https://www.maine.gov/dep/water/grants/SRF/cwsrf/index.html>

And a loan forgiveness program

<https://www.maine.gov/dep/water/grants/SRF/2024/2024%20CWSRF%20Project%20Funding%20Requests%20Announcement.pdf>

I did not find other loan programs.

Some things to think about if proposing administering a loan program versus a loan forgiveness program.

What would be the goal of the loan program?

What would loans be for? Size? (Upper and lower) Terms?

Who would administer?

- Evaluation creditworthiness of the applicants
- Collecting/depositing funds/paying funds
- Titrating
- Reporting interest
- Repossessions
- Software
- Loan paperwork

What would they charge?

If propose depositing funds with a bank to guarantee the loan. Who's money is it on deposit? The State's or the Banks?

If someone knows that State is guaranteeing the loan isn't there an incentive not to pay it back?

If doing loan forgiveness – why bother with the administrative cost of the loan if the person knows they do not have to pay it back.

Most often people/organizations do not take out loans because they cannot afford the principal. The interest rate is not the primary determining factor. A \$10,000 loan over 5 years at 10% is \$212/ month. @ 6% it is \$193. If a someone does not have access to capital, it is usually the ability to make the principal payment not the interest rate.

If lower the borrower's payment by buying down the interest rate, a much simpler solution would be give the person a grant and let them secure a smaller loan amount without the State having to get into the complexities of a loan program. Both would result in the same monthly loan payment for the borrower.

Have you talked to any bank on what you propose?

Is there statutory authority for what you are proposing?

Jim Giffin

Pilot Financing Program for Stormwater and Forestry Regulatory Compliance – Concept Question and Answer

What would be the goal(s) of the financing program?

Primarily, to advance the state's clean water progress by supporting diverse stakeholders (municipalities, private landowners, and loggers) in complying with clean water regulations in the stormwater and forestry sectors. These regulations include the [Stormwater General Permit 3-9050](#) (i.e. the Three-Acre permit) and the [Acceptable Management Practices \(AMPs\) for Water Quality on Logging Jobs](#) in Vermont. The financing program will effectively lower the cost of borrowing for these regulated entities so they can more readily access capital to design, permit, and install required stormwater controls, and/or purchase required low-impact logging equipment.

The financing program is intended to be self-sustaining and alleviate long-term demand on the Clean Water Budget for regulatory clean water work. This allows more funds in the Budget to be available to invest in and incentivize non-regulatory or voluntarily-driven clean water projects.

Granting and loan forgiveness are not currently under consideration given the limited dollars to seed this financing program pilot. With demonstrated success, however, and any additional spending authority the program may receive, there is potential to expand beyond financing and merge with opportunities for complementary granting, loan forgiveness and/or subsidy given the needs and repayment capacities of the target audiences.

Who would this financing program serve?

The three-acre stormwater requirements currently apply to almost 800 sites and several thousand landowners including municipalities, community organizations and non-profits, for profit businesses, residential homeowners, and common interest communities. When the three-acre requirements are extended state-wide the number of affected landowners will likewise increase. These owners are very diverse in familiarity and comfort with borrowing capital to finance large scale structural investments for their properties and may similarly be diverse in what current loan rates are available to them to implement these regulatory projects. Many may find the cost-saving opportunity beneficial in helping meet compliance costs.

Loggers do not need to secure individual permits for a discharge of "any waste, substance or material into the waters of the state" that inadvertently results from their logging operations *as long as* they have followed responsible management practices to protect water quality. These practices are called the AMPs and are considered a regulatory requirement. The Vermont logging industry and roughly 18 Master Logger Certified companies will benefit

from this financing structure saving dollars in tight cash flow years to support clean water compliance. This low impact logging equipment will allow loggers to maintain operations despite weather challenges (warm winters and wet summers) created by climate change and further ensure compliance with applicable regulations. For loggers, the interest rate is a very significant factor for a small business borrowing/reinvesting in the modernization of their equipment to adapt to climate change. While decision making will be different business to business, interest rates are among the very top factors in where or how to invest.

Financing program eligibility will be targeted around these regulated audiences and tied directly to offsetting the costs of regulatory compliance.

What are the financing program mechanics?

Currently the Agency of Natural Resources (ANR) is focused on exploring a “Linked Deposit” structure as the way to pilot the financing program. Under the basic linked deposit concept, the State purchases a Certificate of Deposit with one or more participating banks. The State and banks negotiate the interest rate for that deposit, and banks may charge a higher rate to borrowers than the CD interest rate. The delta provides incentive to the bank to operate the program, while the State and bank agree on maximum rates to charge for eligible borrowers and activities. At maturity, the State can elect to withdraw the CD or roll it forward to continue the program.

A linked deposit structure to support three-acre regulatory compliance has been under discussion at the Department of Environmental Conservation (DEC) since roughly 2018, using the Clean Water State Revolving Loan Funds. This was set aside when the state received significant American Rescue Plan Act (ARPA) investments in support of three-acre stormwater regulatory compliance.

It was more recently explored as a potential approach through the Department of Forest Parks and Recreation (FPR) to support logging industry needs modeled after [an existing linked deposit program in Maine](#). This was found to be limited by the available funding and significantly increasing demands on the Clean Water State Revolving Loan Fund (CWSRF) due to the Bipartisan Infrastructure Law.

Now that ARPA dollars have been fully encumbered, and given the unexpected sizable one-time funds in the SFY 2026 Clean Water Budget, ANR is returning to this concept and considering a more expansive and inclusive design to address multiple clean water regulatory compliance cost needs in the stormwater and forestry sectors. Descriptions of both of these prior proposed “Linked Deposit” models are included at the end of this supporting material. Please note both considered investing from the CWSRF as the seed funding whereas the current State Fiscal Year 2026 draft Budget proposes using One-Time Clean Water Funds instead. These additional documents are provided solely for demonstrative purposes and may not reflect ultimate financing program structure.

Can you provide more details on how this financing program would work?

There may be several ways to structure a financing mechanism in support of the goals articulated above. There are still many unknowns that need to be explored in program design including estimating loan demand across the sectors and target audiences.

In trying to remain flexible in how dollars can be used and administered via a pilot, the Policy Document that accompanies the State Fiscal Year 2026 draft Clean Water Budget is written broadly enough to allow for a range of financing structures should one approach prove more or less palatable by the lending institutions, target audiences, or internal agency partners. Pending spending authority approval, the administering programs will need to engage with all of these and other stakeholders to fully vet design before launch. Examples of outstanding questions include:

- a. How this financing program would serve in complement to the Clean Water State Revolving Loan Fund
- b. Affordability considerations across a diversity of target loan recipients.
- c. Inter-departmental coordination and review of projects across sectors
- d. Risk management and program eligibility
- e. Terms and conditions with lending partners

Where do the funds live in the draft Budget across Tiers 2 and 3 and in the narrative in the Policy Document?

Clean Water Budget Statutory Priority Tier 2 (Items of Equal Priority)			
2.1 Outreach and Implementation of Forestry Acceptable Management Practices for Maintaining Water Quality			
2.11	ANR-FPR	Forestry Water Quality Practices and Portable Skidder Bridges	150,000
2.12	ANR-FPR	Implement BMPs at State Forests, Parks, and Recreational Access Roads	750,000
2.2 Municipal Stormwater Implementation			
2.21	VTrans	Municipal Roads Grants-in-Aid (MRGP)	3,000,000
2.22	VTrans	Municipal Better Roads (MRGP)	1,750,000
2.24	ANR-DEC (CWIP)	Municipal Three-Acre General Permit and MS4 ¹	-
2.3	VHCR	Water Quality Farm Improvement and Retirement Projects	800,000
2.4	ANR-DEC (CWIP)	Innovative or Alternative Technologies or Practices to Improve Water Quality	1,400,000
Tier 2 SUBTOTAL			7,850,000
Tier 2 % of Total			18%
Clean Water Budget Statutory Priority Tier 3			
3.1	ANR-DEC (WID)	Developed Lands Implementation Grants ²	1,500,000
Tier 3 SUBTOTAL			1,500,000
Tier 3 % of Total			3%

Highlighted above are the two lines in the draft Budget that include seed funding to support the proposed financing concept. Note that line 2.4 includes roughly \$200,000 to support a Lake Carmi alum treatment leaving \$1,200,000 to support the proposed financing mechanism. Note that line 3.1 includes roughly \$200,000 in base funds to support programmatic capacity to administer this new program leaving \$1,300,000 to support the proposed financing mechanism. In total this is \$2,500,000 proposed to seed a financing mechanism.

Pages 17-18 of the Draft [State Fiscal Year 2026 Clean Water Budget Policy Document](#) articulate intended use of these funds for a combined financing structure. The financing program is intended to serve clean water projects across both Tier 2 and Tier 3 categories and so funds are dispersed across the two line items to support the Board's role in determining distribution of funds across these priority tiers.

[Do you have the authority to do this?](#)

Broadly, the Clean Water Fund was established as “mechanism for **financing** the improvement of water quality in the State...” and to “assist the State in the implementation of the Clean Water Initiative.” A purpose of the Clean Water Initiative is “to provide ... **financing** necessary to achieve and maintain compliance with the Vermont Water Quality Standards for all State waters.” [10 V.S.A. § 1387](#) Traditionally “financing” in this statute has been interpreted broadly to include all types of agreement structures that move money including grants, contracts, and loans. Regardless, there is no known prohibition on using Clean Water Fund dollars in a financing structure or program.

The Power of Partnership Financing Strategies for Compliance with Vermont's **3 Acre Stormwater Permit**

The health of Lake Champlain and Lake Memphramagog is at stake, but saving these waters won't come cheap. How will the new stormwater permit impact Vermonters?

Impervious Area **3+ Acres**

800

Affected Properties

Project design and construction costs up to \$70,000 per acre for private property owners

Discover the solution with Vermont's Clean Water State Revolving Fund Program

CREATIVE SOLUTIONS FOR A COMPLEX PROBLEM

Who will be impacted?



Property owners with more than 3 acres of impervious surfaces, such as parking lots and roofs, that were either never permitted or permitted before 2002. These include:



Residential

Planned Urban Developments
Multi-Family Housing
Mobile Home Parks



Businesses

Retail Stores
Shopping Malls
Movie Theaters
Golf Courses
Resorts
Industrial Parks



Community Services

Schools
Hospitals
Churches
Campuses

The CWSRF program can make loans directly to municipalities and privately owned wastewater or stormwater systems across Vermont. For the implementation of the Stormwater General Permit 3-9050, DEC's CWSRF program seeks to offer this affordable financing to property owners in the private sector that include individual homeowners, business owners, nonprofit organizations, and private institutions like schools, churches, and hospitals.

To do this, we need a bank to be our lending partner!

Participating banks
will receive \$500 for every loan
made to support implementation of
the Stormwater General Permit!

SUPPORTING

THE VERMONT DEPARTMENT OF ENVIRONMENTAL CONSERVATION

VERMONT

At Vermont's Department of Environmental Conservation (DEC), our mission is to protect the health and integrity of our state's natural resources now and for generations to come. We understand that undertaking the types of projects required to meet environmental permit requirements can be intimidating and expensive.

Since its inception, Vermont's CWSRF program has made over \$200 million in loans for clean water projects across the state. Our program is well-capitalized with ample capacity to provide assistance to Vermonters for green infrastructure and stormwater projects that will help them meet compliance with the Stormwater General Permit.

DEC's CWSRF program can only make loans directly to municipalities and privately owned stormwater facilities. But with the help of some innovative financing mechanisms, DEC can get this much-needed assistance into the hands of private individuals and businesses. All we need is the right partner!

Vermont DEC has the financial tools to help all Vermonters faced with this challenge, but we need your help!

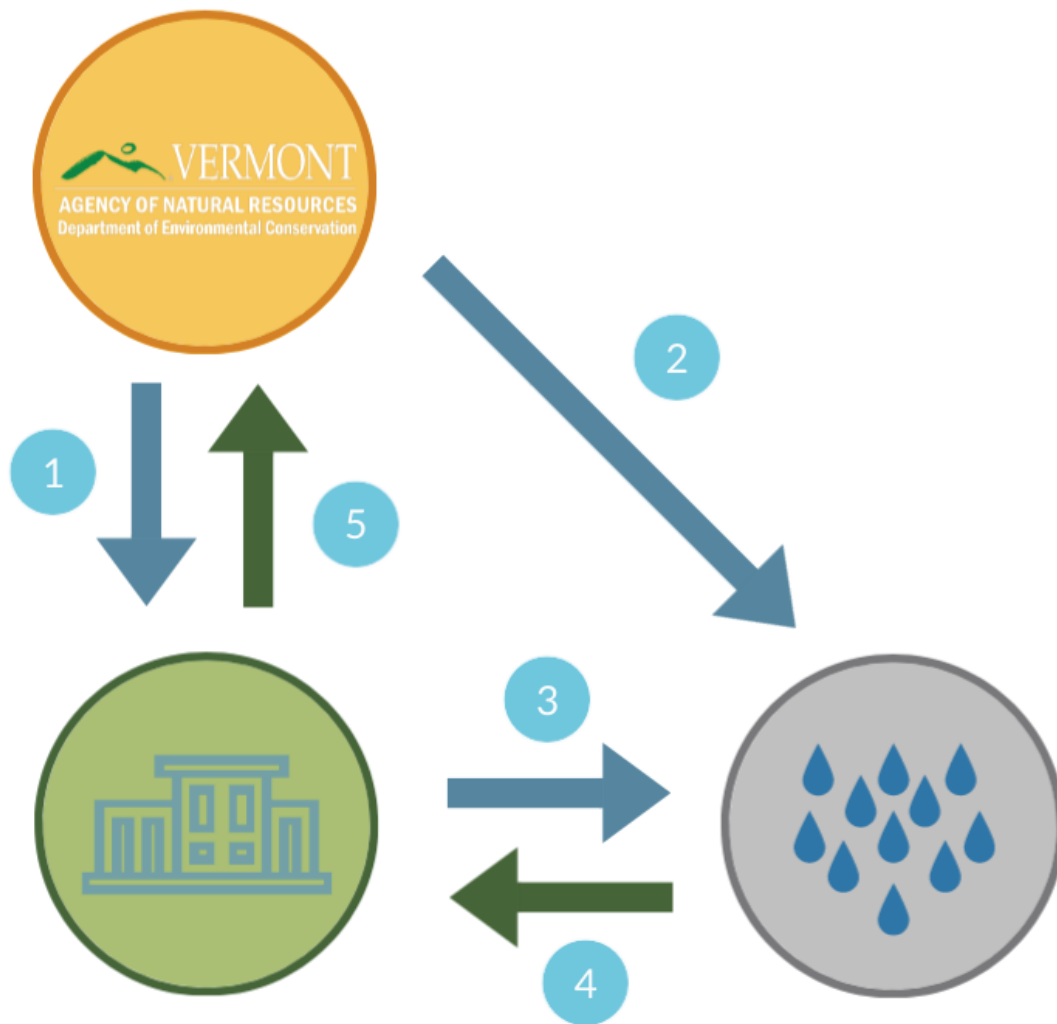
DEC's CWSRF program is ready to invest \$1 million with a participating bank for stormwater loans to finance:

- ✓ **Planning and Design**
- ✓ **Permitting Costs**
- ✓ **Feasibility Studies**
- ✓ **ALL AT BELOW MARKET INTEREST RATES!**

How Will the Financing Work?

The proposed financing structure uses a partnership between DEC and local banks known as a "Linked Deposit". This structure is widely used by State Revolving Fund programs across the United States and is mutually beneficial to the banks and DEC alike.

Linked Deposit Loans



- 1 DEC invests State Revolving Fund dollars with the lender, accepting a reduced interest rate (for instance, 0.7% on a 1% CD)
- 2 DEC contacts all landowners affected by the 3-acre permit requirement and directs them to participating lenders
- 3 The lender uses SRF funds to make loans to landowners for stormwater projects. The lender will work with DEC to establish loan terms, which may be based on an affordability analysis
- 4 Landowners repay the loan to the lender
- 5 The lender returns SRF funds to DEC on a 1-2 year schedule

The Details



Investment

DEC has committed \$1 million for the initial deposit



Partners

DEC is seeking agreements with 5-10 bank locations around the state



Publicity

DEC will market the Linked Deposit loans (and the banks offering them) directly to 800 landowners

How Will Your Bank Benefit?

DEC has developed a list of \approx 800 landowners subject to the 3-acre permit and will direct them to participating banks

Attract New Customers

1-2 Year Deposit Float

DEC will allow the banks to manage the use of deposited funds for 1-2 years before repayment and benefit from interest earned on associated lending activities

DEC will pay a fee for the bank to conduct loan processing activities such as application intake, underwriting, and disbursement & repayment processing

Fee for Loan Processing

Interest Earnings

DEC will accept a 1-3 basis point reduction from the rate offered on the interest-bearing account

How Will Your Customers Benefit?



Below-Market Loans and Grants

Affordable financing for improvements required by 3-9050 Stormwater General Permit

Some will qualify for 0% interest and principal forgiveness



Ease of Access

Landowners can apply for funds at their local bank rather than the state agency

Roles and Responsibilities

Bank/Lender

- Negotiate lower interest rate on the DEC investment
- Earn interest on DEC's investment of CWSRF funds
- Reach out to potential borrowers about availability of funding
- Perform credit reviews, set lending terms, and track loans using typical banking protocols



Vermont DEC

- Uses proceeds from the CWSRF to purchase an investment from a participating Commercial Lender
- DEC receives returns on the investment
- DEC may increase the investment amount (if needed)
- DEC will eventually cash out the investment

Property Owners

- Submit application to Commercial Lending Partner
- Obtain permits or project approvals, if necessary
- Repay loan to Commercial Lending Partner
- To the property owners, DEC is invisible
- The process mirrors their typical banking experience

CREDIT REVIEW AND LOAN REPAYMENT

WHAT DOES THIS PROCESS LOOK LIKE?

As the Commercial Lending Partner, you are in control of the application and underwriting process for the loans. Lenders will typically use the approach that their customers are familiar with for the application, which can include the collection of:

- Property address and description
- Present value of property
- Employment history
- Income and earnings
- Existing debt (real estate, auto loans, credit cards, etc.)
- Monthly expense obligations (utilities, taxes, insurance)
- Outstanding judgments

The underwriting process will be your standard process and methodology. Just like a conventional loan, you may include the cost of loan processing, underwriting and other fees into your interest rate, taking into account the lower cost of capital offered by the CWSRF program and earnings on idle investments. If a borrower does not satisfy your underwriting criteria, consult with the DEC. DEC may offer a guarantee on the loan if it is determined to be in the best interest of the program.

WHAT IS THE DEC GUARANTY?

DEC will work with lenders who have borrowers in need of loan modification or applicants that do not satisfy underwriting criteria. DEC will maintain a loan loss reserve to compensate the lender for any credit losses.

SECURING THE LOAN

Stormwater loans to property owners may be secured or unsecured. This may depend on the lender's policies. Common methods for securing CWSRF financing through this mechanism have included:

PLEGDED COLLATERAL

The loan agreement may include language granting the lender a security interest in the property of the applicant

MORTGAGE LIEN ON PROPERTY

The loan may be secured by a Due-on-Transfer Mortgage stipulating full repayment of loan when the rehabilitated property is sold or transferred.

LIEN ASSIGNMENT

The financing agreement may include a lien that could assign delinquent loans to DEC, which will work with state agencies to resolve the delinquency.

TO: Padraic Monks, CWSRF Program Lead, DEC

FROM: Oliver Pierson, Director, Forests Division, FPR

CC: Danny Fitzko, Commissioner, FPR
Keith Thompson, Private Lands Program Manager, FPR
Dave Wilcox, Watershed Forestry Lead, FPR
Jason Batchelder, Commissioner, DEC
Heather Pembroke, Deputy Commissioner, DEC
Neil Kamman, Director, Water Investment Division, DEC
Tom Brown, Water Investment Division, DEC
Ethan Swift, Water Investment Division, DEC

DATE: February 14, 2024

SUBJECT: Information on Potential Use of CWSRF Funds to Finance Low Impact Logging Equipment

I. Background:

Given the frequent climate-driven business interruptions suffered by logging contractors in Vermont over the last eighteen months, combined with other market challenges that have led numerous forest products businesses to close their doors, Vermont Department of Forests, Parks, and Recreation is exploring opportunities to provide financial support to actors in the forest products industry. Logging contractors have shared that the cost of complying with Vermont's Acceptable Management Practices for Maintaining Water Quality on Logging Jobs is significant, and one particularly challenging aspect of this compliance is access to financing for low-impact logging equipment, such as forwarders, cut to length harvesters, and delimiters. The cost for this equipment ranges from \$200,000 to \$850,000, and logging contractors typically must borrow from commercial banks at a high interest rate (8% to 10%) to finance this equipment.

One approach to supporting logging contractors with financing for low-impact logging equipment is to establish a program similar to the "Maine Forestry Direct Link Loan Program" in which Clean Water State Revolving Funds (CWSRF) are used to finance water-quality friendly logging equipment through a [Linked Loan Facility](#). This program works through banks to provide reduced-interest rate financing for equipment that will enable loggers to implement forestry BMPs and thereby protect and improve water quality in and around logging operations. The link between the use of the equipment and enhanced water quality is provided by limiting participation in the loan program to loggers that have been appropriately trained to use the equipment in a manner that ensures AMP compliance; program eligibility is limited to those certified through one or more programs, such as the "Master Logger Certification". Given the aforementioned high cost of equipment to potentially be covered

under this program, FPR is interested in exploring whether \$2M - \$4M of CWSRF funds could be set aside for a program like that in Maine.

To explore this possibility, FPR and DEC staff met in early December, and while there was some general agreement that such a program could potentially be feasible in Vermont, subject to availability of CWSRF funds, several questions were identified that needed answers to make a more informed decision about the actual viability of such an approach in Vermont. The purpose of this memo is to provide DEC CWSRF staff with answers to these questions as well as some recommendations on next steps.

II. **Answers to Questions Raised during the 12/1/2023 Meeting between DEC and FPR**

a. How many potential borrowers could there be in VT over a defined period for this program?

While it is difficult to provide a concrete answer to this question in the absence of an existing program with defined operational parameters, we can provide an educated guess. Furthermore, the unprecedented weather and unpredictable market conditions in the forest products sector of late make speculating on how many companies would invest in newer equipment right now difficult. Having said that, interest rates are still relatively high (federal funds rate is 5.5% and prime is 8.5%) and much higher than they have been since early 2011, creating a demand for low-interest financing. To get an answer to this question, we spoke with Tigercat and Rottne salesmen recently and mentioned this concept and asked for feedback. Both equipment companies said that they are seeing a significant transition to “Cut to Length” (CTL) equipment in their customer base and offered that they thought 10 Vermont-based companies might purchase CTL machines in the next two years. Furthermore, industry groups such as the Professional Logging Contractors of the Northeast (PLC-NE) have helped create demand for the program in Maine and will perform a similar function in Vermont. In general, logging contractors in Maine have had a positive experience with the Linked Loan Facility there, and there are typically 15-20 borrowers in the pool at once. In Maine, arbitrary geographical limits (i.e. no taking equipment across state lines) have been a huge detriment to the growth of the program, and if this limitation changed, PLC-NE believes that 30-40 borrowers would be in the pool.

In general, we believe that if the program is structured correctly and there is a financial benefit, we believe there will be sufficient demand for this program in Vermont. We believe that there are an adequate number of companies that meet the criteria and accountability metrics, who can save upwards of \$50K or more in interest payments over the life of a loan.

b. What is the likely dollar amount of the purchases they might make?

As mentioned above, we believe that a range of \$200,000-\$850,000 per piece of equipment for purchase price is likely, taking into consideration used equipment on the low end and new equipment on the high end. This doesn't mean that this is the amount that would be financed because of trade in or cash down on the sale. We suggest that the CWSRF loan fund be set at around \$3 million to start to allow for 10 pieces or more of equipment to be financed, at an average loan principal amount of \$325,000 per piece. In Maine, the total amount available is about \$6 million per year, but since it is revolving, the total pool is always being drawn down and replenished with payments and payoffs.

c. If there is a low number of borrowers, might they still have a significant impact on water quality protection through this potential program?



We believe that if the program funded, initially, 10 pieces of equipment that were used regularly throughout the logging season(s) on jobs, and the use of this low-impact equipment reduced or eliminated discharge to waters downstream from logging jobs in a manner that allowed AMPs to be met and/or exceeded, then the water quality impacts could be considerable. This equipment may also allow logging contractors to operate more efficiently (a reason why the CTL equipment is growing in popularity), thereby reducing the amount of time on site and movement of vehicles, and it may also allow for an extended period of operations without the climate-driven limitations that loggers without this equipment face, which is one of the root causes for considering this type of financial support in the first place.

d. Are they aware of certain conditions that the loan would bring, such as you can't sell the equipment during its useful life without repaying the subsidized interest?

This requirement does not apply in Maine's program, so FPR will need to explain this requirement to interested borrowers and based on some preliminary conversations, it does not appear to be a barrier to their participation. It will be important to establish clear criteria to define the term "useful life," including specific criteria for equipment that is used, traded in, or originally financed with other means. It is worth noting that one participating lender in Maine, Farm Credit East, provides dividends to their members who finance equipment, but they don't make customers repay dividends if they sell equipment.

e. Is there a bank or multiple banks potentially interested in providing this service, such as VEDA or Maine banks in the program that also have branches in VT?

We held discussions with several banks that are active in Vermont and are either part of the Maine Linked Loan Facility or are already providing lending in the agriculture or forestry sectors. Every bank we spoke to was interested in being part of the program, including those mentioned below. FPR could have follow up conversations with these banks as needed and determine which bank(s) would provide the most favorable terms, ease of access, familiarity to potential borrowers, and accessibility, and then use this information to select one or more banks to partner with and continue to liaise with the banks as needed to get the program off the ground.

- VEDA, Vermont's statewide economic development finance lender, indicated that they would be very interested to partner with ANR on this facility, and they indicated that they already partner with the State to administer other loan programs.
- Farm Credit East (previously Yankee Farm Credit) indicated that they would like to partner with ANR for this program and they already have familiarity for forestry lending as they are the largest agriculture and forestry lender in the Northeast.
- Key Bank and TD Bank, depository lenders that are part of Maine's linked loan facility, also expressed interest in participating in a potential future program in Vermont.

f. Any potential for a direct loan to entities as opposed to a linked deposit loan facility?

Given the interest from the banks mentioned above and the advantages of a linked deposit loan facility in terms of dealing with "federal cross-cutters" and experience with loan administration, we are not seriously considering an approach for this program using direct loans from ANR to borrowers in the logging industry.



- g. Who will administer the program and monitor adherence to Vermont's Acceptable Management Practices (AMPs) for logging, to ensure there is a water quality benefit? What are the staffing demands for that work?

The Forests Division has licensed foresters in each of our five districts responsible for oversight of Acceptable Management Practices, plus three additional staff (Dave Wilcox, Rick Dyer, and a third individual who has just been hired). Collectively, these staff members would administer the program on behalf of FPR and monitor adherence to any relevant program requirements as well as to the AMPs. If ten companies received loans, the work to monitor their use of the equipment, compliance with AMPs, and compliance with any other program requirements, could be absorbed into the ongoing responsibilities of these staff members. Dave Wilcox, the Watershed Forestry Lead, would be ultimately responsible for administering this program on behalf of FPR and would work closely with DEC Water Investment Division Staff as needed. Existing contracting staff in our business office could assist with agreements required under this financing facility, if necessary, although we understand that to be part of DEC's role.

- h. How many certified loggers are there in VT (Master Loggers) and is that a sufficient number to justify standing up a program?

There are currently 14 Master Logger Certified companies in VT, and three more are going through the certification process now, which would certainly suffice to take advantage of the program in the first year to two years. Once the program exists and parameters and benefits are well established, this number will increase quite quickly. Considering what it costs for a new piece of equipment, the purchasing power of 17 or more companies is more than enough demand to chew up the supply of funding.

On this topic, as this would be a new program, we will need to perform some due diligence on potential borrowers to establish their credibility in the logging sector, their fiduciary responsibility, and their ability to meet program requirements. Master Loggers are used to this type of assessment as it is similar to program requirements, and it shouldn't be too difficult for them to provide this information upon request.

III. Next Steps

FPR hopes that with this information, DEC can determine whether or not this proposed use of CWSRF is viable from a technical eligibility perspective and if funds are availability for this purpose. Some of the issues that we discussed in December are presented below.

- a. **Financial:** While there may be some level of funding today for such a loan facility under Vermont's CWSRF, there is the potential for some large projects to be submitted (i.e. wastewater treatment plant reconstruction), reductions in funding, and/or earmarks on funding that could collectively make allocating funding for this concept difficult or impossible. Typically, demand for CWSRF funds exceeds the available amounts as well. However, if new funds aren't sufficient for this program, maybe the repayment stream on larger existing projects could allow CWSRF to finance this idea.



- b. **Timing:** The CWSRF Priority List Applications begin to come into DEC in January and the Intended Use Plan comes out by June 30. Unclear if we could meet the timing for the June 2023 IUP or not.
- c. **Staff Capacity:** There are serious capacity demands on DEC / WID / CWSRF staff currently that will make standing up this program challenging for the foreseeable future.
- d. **Eligibility:** This proposed program will need to be aligned with what is in the 2021-2025 Vermont Nonpoint Source Management Program Plan for “Forest Management.” Given the objectives and activities in the current plan, this seems feasible, but some discussion with EPA may be needed.

FPR hopes that with the information contained in this memo, DEC can share what level of a linked deposit loan facility the CWSRF could potentially support under current conditions, hopefully by the end of February 2024.



Vermont Clean Water Board Meeting Agenda

Date/Time: Tuesday, December 3, 2024, 2:00 – 3:30 PM

Virtual Option to Attend: [Microsoft Teams Meeting](#)

Physical Location to Attend In-Person: Agency of Natural Resources, One National Life Drive, Montpelier, VT 05620-3510 in the Catamount Room (Davis Building, 2nd Floor, Room D215).

Meeting details, materials, and recordings available at: <https://dec.vermont.gov/water-investment/cwi/board/meetings>

- 1. Welcome** **2:00–2:05**
Douglas Farnham, Agency of Administration Chief Recovery Officer and Clean Water Board Chair
 - a. Welcome and review agenda
 - b. Review consent agenda (action item)
 - i. October 11, 2024 meeting minutes
 - ii. November 8, 2024 meeting minutes
 - iii. September 2024 Clean Water Fund Operating Statement
- 2. Review summary of public comment on draft State Fiscal Year (SFY) 2026 Clean Water Budget** **2:05–2:35**
Gianna Petito and Colleen Miller, Dept. of Environmental Conservation Clean Water Initiative Program
 - a. Review SFY 2026 Clean Water Budget public comment process
 - b. Overview of public comment received and responsiveness summary
- 3. Public comment** **2:35–3:00**
Led by Emily Bird, Dept. of Environmental Conservation Clean Water Initiative Program
 - a. Sign-up to comment by completing the **online RSVP form** by Monday, December 2, 2024 at 12:00 pm
- 4. Board discussion on draft SFY 2026 Clean Water Budget** **3:00–3:15**
Full Board led by Chair Farnham
 - a. **Discussion items placeholder**
- 5. Adoption of the SFY 2026 Clean Water Budget for recommendation to Governor Scott** **3:15–3:20**
Full Board led by Chair Farnham
 - a. Draft motion: To approve adoption of SFY 2026 Clean Water Budget recommendation as proposed in supporting material #X.

6. Legislative proposal to repeal sunset on Property Transfer Tax Clean Water Surcharge revenue stream **3:20-3:25**

Full Board led by Chair Farnham

- a. Draft motion: To support recommendation to General Assembly to repeal sunset on the Property Transfer Tax Clean Water Surcharge revenue stream to the Clean Water Fund.

7. Wrap-up, summarize next steps **3:25-3:30**

Douglas Farnham and Emily Bird

- a. Status of *Vermont Clean Water Initiative 2024 Performance Report*
- b. February 2025 Clean Water Board meeting to review SFY 2026 Governor's recommended budget and updated Clean Water Fund Operating Statement and address other Board business

8. Adjourn **3:30**

Supporting Materials:

1. October 11, 2024 Clean Water Board draft meeting minutes (page X)
2. Clean Water Fund Operating Statement (September 30, 2024) (page X)
3. Memorandum: SFY 2026 Clean Water Budget public comment and responsiveness summary (pages X-X) and attachments as follows:
 - a. November 8, 2024 SFY 2026 Clean Water Budget public hearing draft minutes (pages X-X) and public comment transcript (pages X-X)
 - b. Copy of the original online questionnaire for reference (pages X-X)
 - c. Compiled public comment online questionnaire results (pages X-X)
 - d. Compiled public comment letters submitted via email (pages X-X)
4. Final SFY 2026 Clean Water Budget recommendation (page X)
5. Draft February 2025 Clean Water Board meeting agenda