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## HOUSE BILL NO. 2777

## AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Joint Conference Committee  
on February 26, 2005)

(Patron Prior to Substitute—Delegate Louderback)

A BILL to amend and reenact §§ 10.1-2117, 10.1-2128, 10.1-2129, 10.1-2131, and 10.1-2132 of the Code of Virginia, relating to capitalizing the Water Quality Improvement Fund.

Be it enacted by the General Assembly of Virginia:

1. That §§ 10.1-2117, 10.1-2128, 10.1-2129, 10.1-2131, and 10.1-2132 of the Code of Virginia are amended and reenacted as follows:

§ 10.1-2117. Definitions.

As used in this chapter, unless the context requires a different meaning:

"Chesapeake Bay Agreement" means the Chesapeake Bay Agreement of 2000 and any amendments thereto.

"Fund" means the Virginia Water Quality Improvement Fund established by Article 4 (§ 10.1-2128 et seq.) of this chapter.

"Individual" means any corporation, foundation, association or partnership or one or more natural persons.

"Institutions of higher education" means any educational institution meeting the requirements of § 60.2-220.

"Local government" means any county, city, town, municipal corporation, authority, district, commission or political subdivision of the Commonwealth.

"Nonpoint source pollution" means pollution of state waters washed from the land surface in a diffuse manner and not resulting from a discernible, defined or discrete conveyance.

"Point source pollution" means pollution of state waters resulting from any discernible, defined or discrete conveyances.

"Publicly owned treatment works" means a publicly owned sewage collection system consisting of pipelines or conduits, pumping stations and force mains, and all other construction, devices, and appliances appurtenant thereto, or any equipment, plant, treatment works, structure, machinery, apparatus, interest in land, or any combination of these, not including an onsite sewage disposal system, that is used, operated, acquired, or constructed for the storage, collection, treatment, neutralization, stabilization, reduction, recycling, reclamation, separation, or disposal of wastewater, or for the final disposal of residues resulting from the treatment of sewage, including but not limited to: treatment or disposal plants; outfall sewers, interceptor sewers, and collector sewers; pumping and ventilating stations, facilities, and works; and other real or personal property and appurtenances incident to their development, use, or operation.

"Reasonable sewer costs" means the amount expended per household for sewer service in relation to the median household income of the service area as determined by guidelines developed and approved by the State Water Control Board for use with the Virginia Water Facilities Revolving Fund established pursuant to Chapter 22 (§ 62.1-224 et seq.) of Title 62.1.

"Significant discharger" means (i) a publicly owned treatment works discharging to the Chesapeake Bay watershed with a design capacity of 0.5 million gallons per day or greater, (ii) a publicly owned treatment works discharging to the Chesapeake Bay watershed east of the fall line with a design capacity of 0.1 million gallons per day or greater, (iii) a planned or newly expanding publicly owned treatment works discharging to the Chesapeake Bay watershed, which is expected to be in operation by 2010 with a permitted design of 0.5 million gallons per day or greater, or (iv) a planned or newly expanding publicly owned treatment works discharging to the Chesapeake Bay watershed east of the fall line with a design capacity of 0.1 million gallons per day or greater, which is expected to be in operation by 2010.

"State-of-the-art nutrient removal technology" means technology that will achieve at least a 3 mg/L total nitrogen concentration or at least a 0.3 mg/L total phosphorus concentration in effluent discharges.

"State waters" means all waters on the surface or under the ground, wholly or partially within or bordering the Commonwealth or within its jurisdictions.

"Tributary strategy plans" means plans that are developed by the Secretary of Natural Resources pursuant to the provisions of the Chesapeake Bay Agreement for the tidal tributaries of the Chesapeake Bay and the tidal creeks and embayments of the western side of the Eastern Shore of Virginia. This term shall include any amendments to the tributary strategy plans initially developed by the Secretary of Natural Resources pursuant to the Chesapeake Bay Agreement.

"Water Quality Improvement Grants" means grants available from the Fund for projects of local

60 governments, institutions of higher education, and individuals (i) to achieve nutrient reduction goals in  
61 tributary *strategy* plans developed pursuant to §§ 2.2-218 through 2.2-220 or (ii) to achieve other water  
62 quality restoration, protection or enhancement benefits.

63 § 10.1-2128. Virginia Water Quality Improvement Fund established; purposes.

64 A. There is hereby established in the state treasury a special permanent, nonreverting fund, to be  
65 known as the "Virginia Water Quality Improvement Fund." The Fund shall be established on the books  
66 of the Comptroller. The Fund shall consist of sums appropriated to it by the General Assembly which  
67 shall include, unless otherwise provided in the general appropriation act, ~~ten~~ 10 percent of the annual  
68 general fund revenue collections that are in excess of the official estimates in the general appropriation  
69 act and ~~ten~~ 10 percent of any unreserved general fund balance at the close of each fiscal year whose  
70 reappropriation is not required in the general appropriation act. The Fund shall also consist of such other  
71 sums as may be made available to it from any other source, public or private, and shall include any  
72 penalties or damages collected under this article, federal grants solicited and received for the specific  
73 purposes of the Fund, and all interest and income from investment of the Fund. Any sums remaining in  
74 the Fund, including interest thereon, at the end of each fiscal year shall not revert to the general fund  
75 but shall remain in the Fund. All moneys designated for the Fund shall be paid into the state treasury  
76 and credited to the Fund. Moneys in the Fund shall be used solely for Water Quality Improvement  
77 Grants. Expenditures and disbursements from the Fund shall be made by the State Treasurer on warrants  
78 issued by the Comptroller upon the written request of the Director of the Department of Environmental  
79 Quality or the Director of the Department of Conservation and Recreation as provided in this chapter.

80 B. The purpose of the Fund is to provide Water Quality Improvement Grants to local governments,  
81 soil and water conservation districts, institutions of higher education and individuals for point and  
82 nonpoint source pollution prevention, reduction and control programs and efforts undertaken in  
83 accordance with the provisions of this chapter. The Fund shall not be used for agency operating  
84 expenses or for purposes of replacing or otherwise reducing any general, nongeneral, or special funds  
85 allocated or appropriated to any state agency; however, nothing in this section shall be construed to  
86 prevent the award of a Water Quality Improvement Grant to a local government in connection with  
87 point or nonpoint pollution prevention, reduction and control programs or efforts undertaken on land  
88 owned by the Commonwealth and leased to the local government. *In keeping with the purpose for which*  
89 *the Fund is created, it shall be the policy of the General Assembly to provide annually its share of*  
90 *financial support to qualifying applicants for grants in order to fulfill the Commonwealth's*  
91 *responsibilities under Article XI of the Constitution of Virginia.*

92 C. *For the fiscal year beginning July 1, 2005, \$50 million shall be appropriated from the general*  
93 *fund and deposited into the Fund. This appropriation and any amounts appropriated to the Fund in*  
94 *subsequent years in addition to any amounts deposited to the Fund pursuant to the provisions of*  
95 *subsection A of § 10.1-2128 shall be used solely to finance the costs of design and installation of*  
96 *biological nutrient removal facilities or other nutrient removal technology at publicly owned treatment*  
97 *works designated as significant dischargers for compliance with the effluent limitations for total nitrogen*  
98 *and total phosphorus as required by the tributary strategy plans or applicable regulatory requirements.*

99 *At such time as grant agreements specified in § 10.1-2130 have been signed by every significant*  
100 *discharger and available funds are sufficient to implement the provisions of such grant agreements, the*  
101 *House Committee on Agriculture, Chesapeake and Natural Resources, the House Committee on*  
102 *Appropriations, the Senate Committee on Agriculture, Conservation and Natural Resources, and the*  
103 *Senate Finance Committee shall review the financial assistance provided under this section and*  
104 *determine (i) whether such deposits should continue to be made, (ii) the size of the deposit to be made,*  
105 *(iii) the programs and activities that should be financed by such deposits in the future, and (iv) whether*  
106 *the provisions of this section should be extended.*

107 § 10.1-2129. Agency coordination; conditions of grants.

108 A. ~~Except as may otherwise be specified in the general appropriation act~~ *If, in any fiscal year*  
109 *beginning on or after July 1, 2005, there are appropriations to the Fund in addition to those made*  
110 *pursuant to subsection A of § 10.1-2128, the Secretary of Natural Resources, in consultation with the*  
111 *State Forester and the Directors of the Departments of Environmental Quality and Conservation and*  
112 *Recreation and of the Chesapeake Bay Local Assistance Department, and with the advice and guidance*  
113 *of the Board of Conservation and Recreation, the Virginia Soil and Water Conservation Board, the State*  
114 *Water Control Board, and the Chesapeake Bay Local Assistance Board, shall annually, following a*  
115 *public comment period of at least thirty days' duration and a public hearing, allocate distribute those*  
116 *moneys in the Fund between point and nonpoint source pollution, both of which shall receive allocation*  
117 *each year provided from the 10 percent of the annual general fund revenue collections that are in excess*  
118 *of the official estimates in the general appropriation act, and the 10 percent of any unreserved general*  
119 *fund balance at the close of each fiscal year whose reappropriation is not required in the general*  
120 *appropriation act, as follows:*

121 1. *Seventy percent of the moneys shall be distributed to the Department of Conservation and*

Recreation and shall be administered by it for the sole purpose of implementing projects or best management practices that reduce nitrogen and phosphorus nonpoint source pollution, with a priority given to agricultural best management practices. In no single year shall more than 60 percent of the moneys be used for projects or practices exclusively within the Chesapeake Bay watershed; and

2. Thirty percent of the moneys shall be distributed to the Department of Environmental Quality, which shall use such moneys for making grants for the sole purpose of designing and installing state-of-the-art nutrient removal technologies for publicly owned treatment works designated as significant dischargers. The moneys shall also be available for grants when the design and installation of state-of-the-art nutrient removal technology utilizes the Public-Private Education Facilities and Infrastructure Act (§ 56-575.1 et seq.).

3. Except as otherwise provided in the Appropriation Act, in any fiscal year when moneys are not appropriated to the Fund in addition to those specified in subsection A of § 10.1-2128, or when moneys appropriated to the Fund in addition to those specified in subsection A of § 10.1-2128 are less than 40 percent of those specified in subsection A of § 10.1-2128, the Secretary of Natural Resources, in consultation with the Secretary of Agriculture and Forestry, the State Forester, the Commissioner of Agriculture and Consumer Services, and the Directors of the Departments of Environmental Quality and Conservation and Recreation, and with the advice and guidance of the Board of Conservation and Recreation, the Virginia Soil and Water Conservation Board, the State Water Control Board, and the Chesapeake Bay Local Assistance Board, and following a public comment period of at least 30 days and a public hearing, shall allocate those moneys deposited in the Fund between point and nonpoint sources, both of which shall receive moneys in each such year.

B1. Except as may otherwise be specified in the general appropriation act, the Secretary of Natural Resources, in consultation with the Secretary of Agriculture and Forestry, the State Forester, the Commissioner of Agriculture and Consumer Services, and the Directors of the Departments of Environmental Quality and Conservation and Recreation and of the Chesapeake Bay Local Assistance Department, and with the advice and guidance of the Board of Conservation and Recreation, the Virginia Soil and Water Conservation Board, the State Water Control Board, and the Chesapeake Bay Local Assistance Board, shall develop written guidelines that (i) specify eligibility requirements; (ii) govern the application for and the distribution and conditions of Water Quality Improvement Grants; and (iii) list criteria for prioritizing funding requests.

2. In developing the guidelines the Secretary shall evaluate and consider, in addition to such other factors as may be appropriate to most effectively restore, protect and improve the quality of state waters: (i) specific practices and programs proposed in any tributary strategy plan required by §§ 2.2-218 through 2.2-220, and the associated effectiveness and cost per pound of nutrients removed; (ii) water quality impairment or degradation caused by different types of nutrients released in different locations from different sources; and (iii) environmental benchmarks and indicators for achieving improved water quality. The process for development of guidelines pursuant to this subsection shall, at a minimum, include (i) (a) use of an advisory committee composed of interested parties; (ii) (b) a sixty 60-day public comment period on draft guidelines; (iii) (c) written responses to all comments received; and (iv) (d) notice of the availability of draft guidelines and final guidelines to all who request such notice.

3. In addition to those the Secretary deems advisable to most effectively restore, protect and improve the quality of state waters, the criteria for prioritizing funding requests shall include: (i) the pounds of total nitrogen and the pounds of total phosphorus reduced by the project; (ii) whether the location of the water quality restoration, protection or improvement project or program is within a watershed or subwatershed with documented water nutrient loading problems or adopted nutrient reduction goals; (ii)(iii) documented water quality impairment; (iii) the achievement of greater water quality improvements than that required by state or federal law; and (iv) the availability of other funding mechanisms. In the event of Notwithstanding the provisions of subsection E of § 10.1-2131, the Director of the Department of Environmental Quality may approve a local government point source grant application request for greater than fifty percent funding for any single project that exceeds the authorized grant amount outlined in subsection E of § 10.1-2131. Whenever a local government applies for a grant that exceeds the authorized grant amount outlined in this chapter or when there is no stated limitation on the amount of the grant for which an application is made, the Directors and the Secretary shall consider the comparative revenue capacity, revenue efforts and fiscal stress as reported by the Commission on Local Government. The development or implementation of cooperative programs developed pursuant to subsection B of § 10.1-2127 shall be given a high priority in the distribution of Virginia Water Quality Improvement Grants from the moneys allocated to nonpoint source pollution.

§ 10.1-2131. Point source pollution funding; conditions for approval.

A. The Department of Environmental Quality shall be the lead state agency for determining the appropriateness of any grant related to point source pollution to be made from the Fund to restore, protect or improve state water quality.

183 B. The Director of the Department of Environmental Quality shall, subject to available funds and in  
184 coordination with the Director of the Department of Conservation and Recreation, direct the State  
185 Treasurer to make Water Quality Improvement Grants in accordance with the guidelines established  
186 pursuant to § 10.1-2129. The Director of the Department of Environmental Quality shall ~~manage the~~  
187 ~~allocation of grants from the Fund to ensure the full funding of executed grant agreements enter into~~  
188 ~~grant agreements with all facilities designated as significant dischargers that apply for grants; however,~~  
189 ~~all such grant agreements shall contain provisions that payments thereunder are subject to the~~  
190 ~~availability of funds.~~

191 C. Notwithstanding the priority provisions of § 10.1-2129, the Director of the Department of  
192 Environmental Quality shall not authorize the distribution of grants from the Fund for purposes other  
193 than financing ~~at least fifty percent~~ of the cost of design and installation of biological nutrient removal  
194 facilities or other nutrient removal technology at publicly owned treatment works until such time as all  
195 tributary *strategy* plans ~~required by §§ 2.2-218 through 2.2-220~~ are developed and implemented unless  
196 he finds that there exists in the Fund sufficient funds for substantial and continuing progress in  
197 implementation of the tributary *strategy* plans. In addition to the provisions of § 10.1-2130, all grant  
198 agreements related to nutrients shall include: (i) numerical concentrations on nutrient discharges to state  
199 waters designed to achieve the nutrient reduction goals of the applicable tributary *strategy* plan; (ii)  
200 enforceable provisions related to the maintenance of the numerical concentrations that will allow for  
201 exceedences of no more than ~~ten~~ 10 percent and for exceedences caused by extraordinary conditions;  
202 and (iii) recognition of the authority of the Commonwealth to make the Virginia Water Facilities  
203 Revolving Fund (§ 62.1-224 et seq.) available to local governments to fund their share of the cost of  
204 designing and installing biological nutrient removal facilities or other nutrient removal technology based  
205 on financial need and subject to availability of revolving loan funds, priority ranking and revolving loan  
206 distribution criteria. ~~At least fifty percent of the~~ The cost of the design and installation of biological  
207 nutrient removal facilities or other nutrient removal technology at publicly owned treatment works  
208 meeting the nutrient reduction goal in an applicable tributary *strategy* plan and incurred prior to the  
209 execution of a grant agreement is eligible for reimbursement from the Fund provided the grant is made  
210 pursuant to an executed agreement consistent with the provisions of this chapter.

211 Subsequent to the implementation of the tributary *strategy* plans, the Director may authorize  
212 disbursements from the Fund for any water quality restoration, protection and improvements related to  
213 point source pollution that are clearly demonstrated as likely to achieve measurable and specific water  
214 quality improvements, including, but not limited to, cost effective technologies to reduce nutrient loads.  
215 Notwithstanding the previous provisions of this subsection, the Director may, at any time, authorize  
216 grants, including grants to institutions of higher education, for technical assistance related to nutrient  
217 reduction.

218 D. The grant percentage provided for financing the costs of the design and installation of biological  
219 nutrient removal facilities and other nutrient removal technology at publicly owned treatment works  
220 shall be based upon the financial need of the community as determined by comparing the annual sewer  
221 charges expended within the service area to the reasonable sewer cost established for the community.

222 E. Grants shall be awarded in the following manner:

223 1. In communities for which the ratio of annual sewer charges to reasonable sewer cost is less than  
224 0.30, the Director of the Department of Environmental Quality shall authorize grants in the amount of  
225 35 percent of the costs of the design and installation of biological nutrient removal facilities or other  
226 nutrient removal technology;

227 2. In communities for which the ratio of annual sewer charges to reasonable sewer cost is equal to  
228 or greater than 0.30 and less than 0.50, the Director shall authorize grants in the amount of 45 percent  
229 of the costs of the design and installation of biological nutrient removal facilities or other nutrient  
230 removal technology;

231 3. In communities for which the ratio of annual sewer charges to reasonable sewer cost is equal to  
232 or greater than 0.50 and less than 0.80, the Director shall authorize grants in the amount of 60 percent  
233 of the costs of design and installation of biological nutrient removal facilities or other nutrient removal  
234 technology; and

235 4. In communities for which the ratio of annual sewer charges to reasonable sewer cost is equal to  
236 or greater than 0.80, the Director shall authorize grants in the amount of 75 percent of the costs of the  
237 design and installation of biological nutrient removal facilities or other nutrient removal technology.

238 § 10.1-2132. Nonpoint source pollution funding; conditions for approval.

239 A. The Department of Conservation and Recreation shall be the lead state agency for determining the  
240 appropriateness of any grant related to nonpoint source pollution to be made from the Fund to restore,  
241 protect and improve the quality of state waters.

242 B. The Director of the Department of Conservation and Recreation shall, subject to available funds  
243 and in coordination with the Director of the Department of Environmental Quality, direct the State  
244 Treasurer to make Water Quality Improvement Grants in accordance with the guidelines established

pursuant to § 10.1-2129. The Director shall manage the allocation of grants from the Fund to ensure the full funding of executed grant agreements.

C. Grant funding may be made available to local governments, soil and water conservation districts, institutions of higher education and individuals who propose specific initiatives that are clearly demonstrated as likely to achieve reductions in nonpoint source pollution, including, but not limited to, excess nutrients and suspended solids, to improve the quality of state waters. Such projects may include, but are in no way limited to, the acquisition of conservation easements related to the protection of water quality and stream buffers; conservation planning and design assistance to develop nutrient management plans for agricultural operations; instructional education directly associated with the implementation or maintenance of a specific nonpoint source pollution reduction initiative; implementation of cost-effective nutrient reduction practices; and reimbursement to local governments for tax credits and other kinds of authorized local tax relief that provides incentives for water quality improvement. The Director shall give ~~initial~~ priority consideration to the distribution of grants from the Fund for the purposes of implementing the tributary *strategy* plans required by §§ 2.2-218 through 2.2-220. Until such time as the tributary plans are developed and implemented, the Director shall distribute fifty percent of the nonpoint grant funding to their implementation and fifty percent to areas of the Commonwealth not to be covered by the tributary plans, unless otherwise provided in the general appropriation act, *with a priority given to agricultural practices. In no single year shall more than 60 percent of the moneys be used for projects or practices exclusively within the Chesapeake Bay watershed.*

**2. That the Chairmen of the House Committee on Appropriations, the House Committee on Agriculture, Chesapeake and Natural Resources, the House Committee on Finance, the Senate Committee on Agriculture, Conservation and Natural Resources and the Senate Committee on Finance, in consultation with the Secretary of Natural Resources and the Secretary of Agriculture and Forestry shall by November 30, 2005, develop recommendations for a permanent source of funding that will sufficiently and predictably generate the necessary revenue to fund the tributary strategy plans to remove the Chesapeake Bay and its tidal tributaries from the Clean Water Act section 303(d) list of impaired waters and to remove those waters located outside the Chesapeake Bay watershed from the impaired waters list.**