

**REPORT OF THE SECRETARY OF NATURAL AND HISTORIC
RESOURCES**

**PRELIMINARY REPORT OF CHAPTER 725
ACTS OF ASSEMBLY
WATER QUALITY IMPROVEMENT FUND
WORKGROUP**

**TO THE GOVERNOR, THE CHAIRMAN OF THE HOUSE
APPROPRIATIONS COMMITTEE, THE CHAIRMAN OF THE
SENATE FINANCE AND APPROPRIATIONS COMMITTEE,
THE CHAIRMAN OF THE HOUSE COMMITTEE ON
AGRICULTURE, CHESAPEAKE, AND NATURAL
RESOURCES, THE CHAIRMAN OF THE SENATE
COMMITTEE ON AGRICULTURE, CONSERVATION AND
NATURAL RESOURCES, AND THE CHAIRMAN OF THE
STATE WATER COMMISSION**



**COMMONWEALTH OF VIRGINIA
RICHMOND
JANUARY 2026**

January 15, 2026

The Honorable Glenn Youngkin
Governor of Virginia
1111 East Broad Street
Richmond, Virginia 23219

The Honorable Luke E. Torian, Chair
House Appropriations Committee
4222 Fortuna Plaza, Suite 659
Dumfries, Virginia 22025

The Honorable L. Louise Lucas, Chair
Senate Finance and Appropriations Committee
Post Office Box 700
Portsmouth, Virginia 23705

The Honorable Alfonso H. Lopez, Chair
House Committee on Agriculture, Chesapeake and Natural Resources
Post Office Box 40366
Arlington, Virginia 22204

The Honorable David W. Marsden, Chair
Senate Committee on Agriculture, Conservation and Natural Resources
Post Office Box 10889
Burke, Virginia 22009

The Honorable Scott A. Surovell, Chair
State Water Commission
Post Office Box 289
Mount Vernon, Virginia 22121

Dear Governor Youngkin, Chairman Torian, Chairwoman Lucas, Chairman Lopez, Chairman Marsden, and Chairman Surovell:

Chapter 725 of the 2025 Acts of Assembly directs the Secretary of Natural and Historic Resources to convene a workgroup to study the requirements for and historical implementation of the Water Quality Improvement Fund (WQIF) pursuant to § [10.1-2128](#), *Code of Virginia*. The workgroup is directed to review and make recommendations on the Water Quality Improvement Fund including the organizational structure in the *Code of Virginia* and budget, disposition of funding, feasibility of the incorporation of the Stormwater Local Assistance Fund, grant approval

guidelines including cost-effectiveness and co-benefits of practices funded, grant agreement terms, annual reporting requirements, potential improvements to the current funding needs assessments, and outdated or unnecessary requirements.

The 2025 Acts of Assembly requires the working group to submit a final report to the Chairs of the House Appropriations and Senate Finance and Appropriations Committees, the Chairs of the House Agriculture, Chesapeake, and Natural Resources and the Senate Agriculture, Conservation, and Natural Resources Committees, and the Chair of the State Water Commission no later than November 1, 2026.

This preliminary report represents a comprehensive document to better understand the breadth and scope of WQIF, the magnitude of the water quality challenges facing the Commonwealth, and the steps taken to address them, how much funding these efforts have cost, and what accountability measures have been applied. Given the depth and extent of review by the workgroup, I am pleased to present this preliminary report on behalf of the workgroup to serve as a framework for future work in 2026.

If you have any questions regarding this report or require any additional information, please do not hesitate to contact my office.

Respectfully submitted,

A handwritten signature in black ink, reading "Stefanie K. Taillon". The signature is written in a cursive, flowing style.

Stefanie K. Taillon
Secretary of Natural and Historic Resources

Table of Contents

Preface.....	5
Executive Summary	8
History of the Water Quality Improvement Fund.....	9
History and Purpose	9
Chesapeake Bay Commitments.....	9
Organizational & Funding Structure	11
Milestones and Successes of the WQIF	12
WQIF Funding Overview	13
Point Source Pollution Reduction.....	15
Cooperative Point Source Pollution Reduction Program.....	15
Needs Assessment Process	15
Point Source Pollution Reduction Grant Execution	19
Nutrient Offset Fund	21
Stormwater Local Assistance Fund.....	21
Nonpoint Source Pollution Reduction	23
Virginia Natural Resources Commitment Fund and Agricultural Best Management Practices Cost-Share Program	23
Virginia Natural Resources Commitment Fund	23
Virginia Agricultural Best Management Practices Cost-Share Program	23
VACS Program Needs Assessment.....	25
Conservation Reserve Enhancement Program	26
Additional Earmarks for Outside Programs	27
Annual Reporting Requirements.....	28
Department of Environmental Quality	28
Department of Conservation and Recreation	29
Misalignments between the <i>Code of Virginia</i> and the Acts of Assembly	30
Key Takeaways	31
Next Steps for the Workgroup	33
Appendix A: Department of Planning and Budget WQIF Overall Funding – GF and NGF.....	35
Appendix B: DEQ – Annual WQIF Needs Survey Process	38
Appendix C: DEQ – Point Source Application Process Flow Chart.....	39

Appendix D: 2022 Virginia Clean Watershed Needs Survey Results	40
Appendix E: DCR – 2025 Agricultural Best Management Practices Needs Assessment Summary	41
Appendix F: Historical Cost Data for Ag BMPs Completed as of 2024	42
Appendix G: <i>Code of Virginia</i> and the Budget Provisions	43
Appendix H: Other Legislative Reports Consulted	57

Preface

This preliminary report has been prepared in accordance with the requirements established in Item 358 E. Chapter 725 of the 2025 Acts of Assembly. The budget language states:

E.1. The Secretary of Natural and Historic Resources shall convene a workgroup to study the requirements for and historical implementation of the Water Quality Improvement Fund pursuant to § [10.1-2128](#), Code of Virginia.

2. The workgroup shall review and make recommendations on the Water Quality Improvement Fund including the organizational structure in the Code of Virginia and budget, disposition of funding, feasibility of the incorporation of the Stormwater Local Assistance Fund, grant approval guidelines including cost-effectiveness and co-benefits of practices funded, grant agreement terms, annual reporting requirements, potential improvements to the current funding needs assessments, and outdated or unnecessary requirements.

3. The recommendations on the organizational structure in the Code of Virginia and budget shall include streamlining the funding and sub-fund structure, updating terminology and structure to enhance transparency, ensuring consistency with the Commonwealth's commitments to and mandates for water quality, and coordinating Code and budget language. Recommendations shall be made for items appropriate to include in the Code of Virginia and items appropriate to include in the budget.

4. The review of the allocation of funding shall include mandatory deposits between sectors, discretionary deposits between sectors, the reserve fund and how to best leverage its usage to meet nutrient reduction goals, the use of interest including for administrative costs, and the Natural Resources Commitment Fund including technical assistance funding, the allotment of funding between the Chesapeake Bay and Southern Rivers watersheds, and the redistribution of unobligated funds between watersheds.

5. The workgroup shall include, but not be limited to, representatives from the Department of Conservation and Recreation, the Department of Environmental Quality, the Virginia Association of Soil and Water Conservation Districts, the Virginia Farm Bureau Federation, Virginia Cattlemen's Association, the Virginia Association of Municipal Wastewater Agencies, the Virginia Municipal Stormwater Association, the Chesapeake Bay Commission, the Chesapeake Bay Foundation, the James River Association, the Virginia Association of Counties, the Virginia Municipal League, and staff of the House Appropriations and Senate Appropriations and Finance Committees.

6. The workgroup's findings and recommendations shall be reported to the Chairs of the House Appropriations and Senate Finance and Appropriations Committees, the Chairs of the House Agriculture, Chesapeake, and Natural Resources and the Senate Agriculture, Conservation, and Natural Resources Committees, and the Chair of the State Water Commission no later than November 1, 2026.

The points of contact representing the named stakeholders of the Water Quality Improvement Fund (WQIF) Workgroup included:

The Honorable Stefanie K. Taillon, Secretary of Natural and Historic Resources
Ms. Sarah Spota, Senior Advisor to the Secretary of Natural and Historic Resources
Mr. Matthew Wells, Department of Conservation and Recreation
Mr. Alvie Edwards, Department of Environmental Quality
Mr. David Reynolds, House Appropriations Committee
Ms. Kendra Shifflett, Senate Finance and Appropriations Committee
Mr. Chris Pomeroy, Virginia Association of Municipal Wastewater Agencies
Mr. Chris Pomeroy, Virginia Municipal Stormwater Association
Dr. Kendall Tyree, Virginia Association of Soil and Water Conservation Districts
Ms. Martha Moore, Virginia Farm Bureau Federation
Mr. Jay Ford, Chesapeake Bay Foundation
Ms. Adrienne Kotula, Chesapeake Bay Commission
Mr. Mitchell Smiley, Virginia Municipal League
Mr. James Hutzler, Virginia Association of Counties
Mr. Bill Street, James River Association
Mr. Brandon Reeves, Virginia Cattlemen Association

The Water Quality Improvement Fund (WQIF) Workgroup met on August 5, 2025, and October 15, 2025, to discuss the structure and proposed modifications to the WQIF program as described in the Executive Summary below.

Executive Summary

The Water Quality Improvement Fund (WQIF) Workgroup met twice in 2025. The main goal of these two meetings was to establish a baseline understanding of how WQIF is funded, implemented, and managed by the Department of Environmental Quality (DEQ) and the Department of Conservation and Recreation (DCR). By ensuring that each stakeholder has a deeper understanding of how WQIF operates for point and nonpoint source reduction projects, the workgroup aims to craft recommendations in 2026 that will allow WQIF to operate more effectively and prioritize cost-efficiency.

The workgroup accomplished the following tasks as charged by the budget language:

- Review the organizational structure in the *Code of Virginia* and budget
- Review the disposition of funding
- Review grant approval guidelines, including cost-effectiveness and co-benefits of practices funded
- Review grant agreement terms
- Review annual reporting requirements
- Review potential improvements to the current funding needs assessment
- Review outdated or unnecessary requirements
- Review the feasibility of the incorporation of the Stormwater Local Assistance Fund
- Review the coordination of *Code of Virginia* and budget language

This preliminary report is comprised of summaries from the workgroup's discussions, presentation materials from DEQ and DCR, an analysis of the general fund support of WQIF from the Department of Planning and Budget, a potential framework of how to address challenges with the program, key takeaways, and recommendations of potential topics for the workgroup to further explore in 2026.

History of the Water Quality Improvement Fund

History and Purpose

The Virginia Water Quality Improvement Act of 1997 was enacted by the Virginia General Assembly in response to the need to finance the nutrient reduction strategies being developed for the Chesapeake Bay and its tributaries.

The Act directs DEQ and DCR to assist local governments, soil and water conservation districts, and individuals in reducing point source and nonpoint source nutrient loads throughout the Commonwealth with technical and financial assistance made available through grants provided from WQIF.

Under DEQ's purview, WQIF currently provides grant funding for the design and installation of nutrient reduction technology and wastewater conveyance infrastructure at publicly owned wastewater treatment plants.

One of the most impactful initiatives funded by WQIF is the Virginia Agricultural Best Management Practices Cost-Share Program (VACS), which is administered by DCR in partnership with the Commonwealth's 47 soil and water conservation districts. The VACS program helps farmers and ranchers implement conservation practices, including livestock stream exclusion fencing, planting cover crops, nutrient management plans, and vegetated buffers that reduce runoff. By reducing runoff, these best management practices, or BMPs, reduce nitrogen, phosphorus, and sediment from reaching waterways, rivers, streams, and the Chesapeake Bay. For most farms, the cost-share funding from VACS can cover up to 100% of project costs and ensure that soil and water conservation is achievable.

Chesapeake Bay Commitments

Much of Virginia's water quality investments are driven by the Chesapeake Bay Total Maximum Daily Load (TMDL), the 2014 Chesapeake Bay Watershed Agreement, and Virginia's Watershed Implementation Plan Phase III (WIP III).

In 2010, the U.S. Environmental Protection Agency established the Chesapeake Bay TMDL to calculate the amount of nitrogen, phosphorus, and sediment the waterbody could receive and still meet its water quality standards. Commonly known as a "pollution diet," the TMDL set Bay watershed limits of 185.9 million pounds of nitrogen, 12.5 million pounds of phosphorus, and 6.45 billion pounds of sediment per year. This equates to a 25 percent reduction in nitrogen, a 24 percent reduction in phosphorus, and a 20 percent reduction in sediment from the base year of 2009.

WIPs are roadmaps for how Chesapeake Bay states and the District of Columbia, in partnership with federal and local governments, will attain the Bay TMDL. Over the past several decades, coordinated efforts by local government agencies, state and federal programs, farmers,

landowners, conservation groups, consultants, and many others, have resulted in significant improvements to Virginia's water quality. Utilizing 2024 reporting data, the Chesapeake Bay Watershed Model shows that Virginia has achieved 84% of its 2009-2025 reduction goal for nitrogen, 91% of its reduction goal for phosphorus, and 100% of its reduction goal for sediment. The Commonwealth's successes are the result of the collective effort of the public and private sector.

Virginia's WIP III was completed in August 2019 and details best management practices (BMPs), along with programmatic actions, necessary to achieve state basin planning targets for nitrogen and phosphorus. As an accountability measure to keep the Commonwealth on track for attaining its WIP targets, § 62.1-44.119:1 of the *Code of Virginia* establishes a mechanism for requiring mandatory stream exclusion and nutrient management plan BMPs:

- A. The provisions of this chapter shall not become effective unless, on or after July 1, 2028, the Secretary of Agriculture and Forestry and the Secretary of Natural and Historic Resources jointly determine that the Commonwealth's commitments in the Chesapeake Bay Total Maximum Daily Load Phase III Watershed Implementation Plan have not been satisfied by a combination of (i) agricultural best management conservation practices, including the coverage of a sufficient portion of Chesapeake Bay cropland by nutrient management plans or the installation of a sufficient number of livestock stream exclusion practices, and (ii) other point or nonpoint source pollution reduction commitments.*

The Chesapeake Bay Program (CBP) is a regional partnership that works across state lines to protect and restore the Chesapeake Bay watershed. The partners include the U.S. Environmental Protection Agency, the Chesapeake Bay Commission, the District of Columbia, and all six watershed states. The CBP is guided by the goals and outcomes of the Chesapeake Bay Watershed Agreement. Signed on June 16, 2014, this voluntary agreement commits the partners to protect and restore the Bay, its tributaries, and the surrounding lands.

Many of the goals and outcomes in the 2014 Agreement established a deadline of 2025, necessitating revisions as the date was passed. On December 2, 2025, an amended Agreement was approved by the CBP. Most directly related to WQIF, under the Clean Water Goal, the Reducing Excess Nitrogen, Phosphorus and Sediment Outcome was created:

Implement and maintain practices and controls to reduce nitrogen, phosphorus and sediment. These reductions are necessary to achieve the applicable water quality standards, as described in the Bay TMDL. Those water quality standards support living resources and protect human health, as required by the Clean Water Act.

- Through 2030, signatories will continue to accelerate completion of all interim water quality planning targets through implementation of Chesapeake Bay Watershed Implementation Plans, two-year milestone commitments and other innovative strategies to achieve and maintain reduced levels of nitrogen, phosphorus and sediment.*
- By December 31, 2030, revise the planning targets approved by the Principals' Staff Committee for nitrogen, phosphorus and sediment, incorporating the latest watershed modeling, monitoring data and research findings, and develop new or amended Watershed Implementation Plans to meet the updated targets by 2040.*

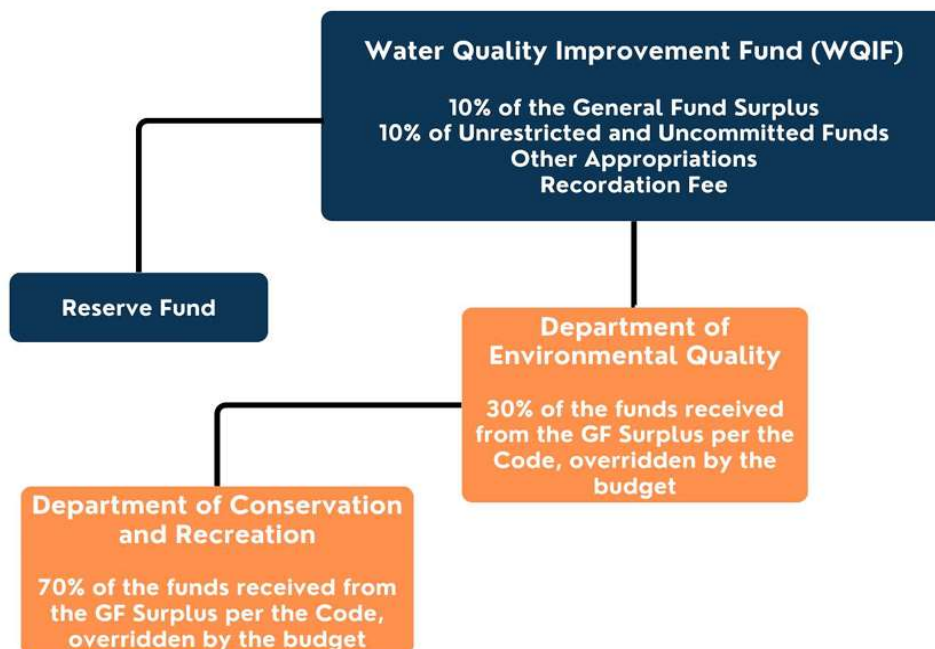
- *Demonstrate net reductions in nitrogen, phosphorus and sediment through multiple lines of evidence, including modeling and monitoring data.*

Organizational & Funding Structure

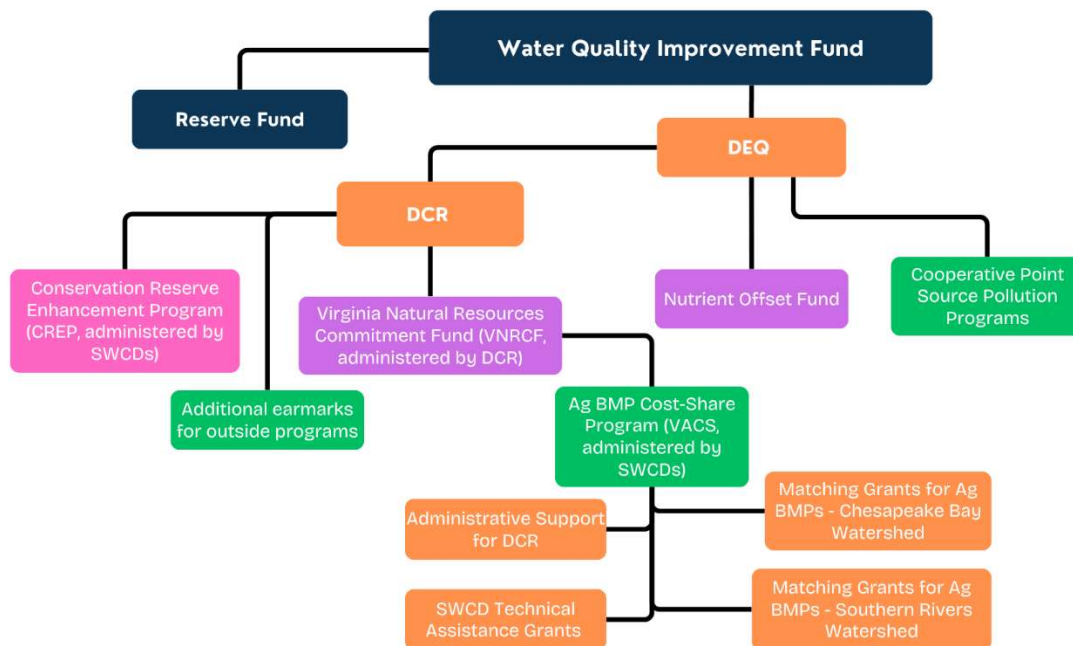
Consistent with the provisions of § 10.1-2128(A), *Code of Virginia*, WQIF is supported by 10% of any annual general fund revenue surplus and 10% of any unrestricted and uncommitted general fund balances at the close of each fiscal year whose reappropriation is not required in the general appropriation act, as well as other discretionary appropriations from the General Assembly. In addition, § 3-6.01 of the Appropriation Act establishes a Recordation Tax Fee of \$20 on every deed for which the state recordation tax is collected pursuant to §§ 58.1-801 (A) and 58.1-803, *Code of Virginia*, and every certificate of satisfaction admitted under § 55.1-345, *Code of Virginia*. Fifty percent of the revenue generated from the Recordation Tax Fee is deposited to the Virginia Natural Resources Commitment Fund and disbursed for the agricultural best management practices cost share program. The Fund is then split among the WQIF Reserve Fund and multiple different programs and initiatives focused on improving water quality in the Commonwealth.

Most of the funds in WQIF are then split between programs addressing cooperative point source pollution through DEQ and cooperative nonpoint source pollution through DCR, as overseen by the Soil and Water Conservation Board.

WQIF Division of Funds



WQIF Organizational Structure



Milestones and Successes of the WQIF

Since the enactment of the Water Quality Improvement Act of 1997, the Commonwealth of Virginia has accomplished many successes across point source and nonpoint source reductions.

From 1998 to 2024, DEQ signed 104 grant agreements with over seventy separate localities and/or sanitation authorities. These agreements obligated \$1.04 billion in funding, resulting in ninety-two complete and operational point source reduction projects. DEQ's construction project grants range from 35% to 95% cost-share for the design and installation of nutrient reduction technology and wastewater conveyance infrastructure at Chesapeake Bay watershed point source discharges. For calendar year 2023, facilities registered under the Chesapeake Bay Watershed Nutrient Discharge General Permit reported discharged loads that, in the aggregate, were significantly below the total Waste Load Allocations currently in effect.

The Youngkin Administration, working with the Virginia General Assembly, fully funded the agricultural needs assessment implemented by DCR for the first time ever in 2022 and subsequently fully funded it through FY26. This commitment to funding and support allowed Virginia to reach historic levels of reductions in the agricultural sector in 2023 and 2024. Since 2017, nitrogen loads from agricultural sectors have been reduced by more than 3 million pounds. More than 62% of those reductions have been achieved in the last three years. Since 2017, phosphorus loads from agricultural sources have been reduced by more than 246 thousand pounds. Nearly 54% of those reductions have been achieved in the last three years. To date, the Commonwealth has achieved 84% of its Chesapeake Bay nitrogen reduction goal, 91% of its phosphorus reduction goal, and 100% of its sediment reduction goal.

WQIF Funding Overview

Since the creation of WQIF in 1998, the Commonwealth of Virginia has allocated roughly \$3.56 billion in general fund dollars to support point and nonpoint source reduction projects.

Per the *Code of Virginia* § 10.1-2129(A), point source reduction projects administered by DEQ receive 30% of the funding of the program, while nonpoint source reduction projects that are funded through DCR and allocated by the Soil and Water Conservation Districts receive 70% of the funding. In past Acts of the Assembly, the budget language has overridden the *Code of Virginia* language, resulting in a different allocation of funds than described in the *Code*. In Fiscal Year (FY) 25, DEQ was appropriated roughly 47.9% of the total allocations to WQIF to support point source reduction projects.

The Department of Planning and Budget provided data which showed that roughly \$3.56 billion in general funds have supported WQIF since its inception. Of those funds, \$1.82 billion have been obligated to fund point source pollution reduction projects through DEQ, and \$1.61 billion have been obligated to fund nonpoint source pollution reduction projects through DCR, including \$632 million that have been used to fund the Virginia Agricultural Cost-Share Program projects through the Virginia Natural Resources Commitment Fund (VNRCF), and \$119.4 million that have been earned through interest on the WQIF and its VNRCF subfund.

WQIF Appropriation Chart

Water Quality Improvement Fund (WQIF) History		
FY	GF Appropriation	NGF Appropriation
1998	\$15,000,000	\$0
1999	\$53,850,000	\$0
2000	\$44,521,000	\$962,812
2001	\$21,300,000	\$3,700,000
2002	\$0	\$0
2003	\$0	\$2,179,000
2004	\$0	\$0
2005	\$22,670,000	\$0
2006	\$153,962,000	\$0
2007	\$218,213,700	\$0
2008	\$20,000,000	\$0
2009	\$1,589,000	\$270,000,000
2010	\$15,200,000	\$4,800,000
2011	\$36,443,000	\$8,509,725
2012	\$0	\$8,866,566
2013	\$109,548,442	\$11,171,408
2014	\$0	\$109,234,870
2015	\$31,480,000	\$8,164,128
2016	\$10,696,471	\$16,801,020
2017	\$61,708,800	\$68,090,241
2018	\$0	\$16,593,056
2019	\$30,999,830	\$7,608,536
2020	\$76,341,230	\$59,839,953
2021	\$48,899,228	\$15,148,931
2022	\$122,433,531	\$161,530,297
2023	\$315,596,531	\$6,583,831
2024	\$517,071,399	\$77,021,715
2025	\$184,346,559	\$269,504,629
2026	\$0	\$200,000,000
TOTAL	\$2,111,870,721	\$1,326,310,719

TOTAL ALL:	\$3,438,181,440
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Total Interest earned in WQIF and all subfunds	\$119,471,094
TOTAL All W/Interest	\$3,557,652,534

Point Source Pollution Reduction

The Water Quality Improvement Act directs DEQ to assist local governments and individuals in the control of point source pollution, including the reduction of point source nutrient loads to the Chesapeake Bay, with technical and financial assistance made available through grants provided from WQIF.

Cooperative Point Source Pollution Reduction Program

DEQ administers the state's cooperative point source pollution reduction program. Per the *Code of Virginia* § 10.1-2129(A.2), point source pollution reduction programs should receive 30% of WQIF. The budget language has historically overridden this split, resulting in DEQ receiving more than 30% of the funding. In FY25, the agency was allocated \$217.4 million in appropriations or 47.9% of the total allocations to WQIF. To better manage these reduction programs, DEQ conducts an annual needs assessment process to determine expected financial need for not only the upcoming fiscal year but also the anticipated need over the next 5 years as self-reported by interested localities and utility authorities.

Needs Assessment Process

The purpose of the WQIF annual needs assessment is to determine an estimate of the amount of WQIF grant funding expected to be requested by local governments and utility authorities for projects that are related to point source pollution and are eligible for grant funding. The predominant aim of the survey is to determine what projects need to be identified for the upcoming fiscal year as well as potential WQIF funding needs for these projects, but also to provide a 5-year generalized look-ahead for potential WQIF projects on the horizon. To determine the estimated need, DEQ is required by the *Code of Virginia* § 10.1-2134.1 to consult with stakeholders, including representatives of the Virginia Association of Municipal Wastewater Agencies (VAMWA), local governments, and conservation organizations. The agency collects this information through an annual survey, inviting all localities and stakeholders to participate. DEQ is required to submit to the Governor and the Virginia General Assembly pursuant to the provisions of the *Code of Virginia* § 2.2-1504, the estimated amount of WQIF grant funding that is reported or expected to be needed.

The annual needs assessment process is conducted by the agency's Clean Water Finance Assistance Program (CWFAP) staff, and the chart below shows the process starting in the winter of a given calendar year with results available in the winter of the next calendar year. Below is a generalized timeline of the needs assessment process:

	Timing	Description
Draft Review	Winter	DEQ reviews draft survey questions for accuracy and consistency while avoiding major changes that could skew the data. DEQ coordinates with stakeholders in review of the proposed survey questions.
Survey Launch	Spring	Survey opens in March using platforms like Microsoft Forms or SurveyMonkey. The survey is posted on DEQ's CWFAP webpage, promoted via DEQ newsletter and social media, as well as promoted during conferences (like the Environment Virginia Symposium) and shared by VAMWA.
Survey Period Ends	Late-Spring	Survey period ends.
Data Evaluation	Early Summer	DEQ staff begin evaluating and analyzing data. This process is quite lengthy and takes at least 60 days to complete. After survey responses are collected, DEQ puts data into a spreadsheet to manually determine the best estimate of WQIF-eligible costs based on survey responses.
Results Published	Winter	DEQ includes the data in the Chesapeake Bay and Waters Clean-Up Plan.

2025 Survey Results

In 2025, DEQ received 22 responses to the needs assessment survey. This was a 200% increase from 2024. The workgroup had much discussion on whether the small number of responses should be interpreted as a lack of need for project funding, the inability of the locality to use the program due to a lack of locality dollars needed to make up the difference between total project cost and grant funding, or localities/utility authorities ignoring the survey request in the past. It was discussed that future iterations of the survey may consider the inclusion of a clarification question specifically asking an applicant to formally acknowledge that it received the survey request and chose not to respond for a given reason.

Limitations of the Needs Assessment Process

Lengthy discussions of the workgroup highlighted the limitations and constraints of the Department's needs assessment process. Such limitations include:

- The needs assessment survey is not conducive to collecting responses from potential applicants; therefore, DEQ receives a limited number of responses from those entities, which can skew results and interpretations.
- The needs assessment survey is not specific enough to collect the needed information for DEQ to identify localities that are facing a significant resource gap in establishing a WQIF-eligible project.

- DEQ no longer has a Wastewater Engineering Department as it did at the inception of WQIF. Therefore, limited staff expertise in wastewater treatment design as well as technical compliance with the Virginia Sewage Collection and Treatment Regulations (9VAC-25-790) results in a longer application evaluation process.
- DEQ's lack of WQIF-dedicated personnel to conduct analysis which results in a longer data evaluation process.

Needs Assessment Funding Implications

As previously mentioned, \$1.82 billion has been allocated to support point source pollution reduction projects. In the past five fiscal years, the fund has received \$1.66 billion (including interest and reserve) and has expended \$1.04 billion.

The Virginia Water Quality Improvement Act of 1997 states that “*The Director [of the Department of Environmental Quality] shall enter into grant agreements with all facilities designated as significant dischargers or eligible nonsignificant dischargers that apply for grants; however, all such grant agreements shall contain provisions that payments thereunder are subject to the availability of funds.*” This language requires the Director of DEQ to enter into agreements with all eligible applicants, regardless of available funds, which may result in over-allocating funds for point source reduction projects. If the fund is over-obligated, DEQ may, in practice, issue an “I owe you,” or an informal acknowledgment of the repayment of funds owed that will be fulfilled once sufficient additional funds are made available.

Current Financial State

DEQ estimates that \$3.5 billion may be required from state and local funds for the next five fiscal years to meet Virginia's water quality goals. Of that amount, it is expected that approximately \$1.14 billion could be needed from WQIF. Currently, there is approximately \$620 million that is unobligated in WQIF. The findings from the needs assessment, coupled with the language compelling the Director of DEQ to enter into agreements with all eligible projects, could result in the fund being over-obligated and unable to disburse funds.

Fund Balance based on Cash Flow Projects for Point Source Reduction Programs

	FY26	F27
Available Funding	421,723,893	(66,689,175)
GA Directed Funding	200,000,000	-
Grantee Supplied Forecasts	(44,876,082)	(129,897,539)
Grants Under Evaluation	(643,536,986)	(150,300,537)
Net Balance	(66,689,175)	(346,887,251)

The most recent budget bill language authorizes DEQ to utilize bond proceeds of up to \$400 million to support point source reduction programs. The Virginia Public Building Authority

provides financing for state projects, facilities, and obligations. The Authority may only undertake projects approved by the General Assembly. The Authority was created by the General Assembly for the purpose of financing, refinancing, constructing, improving, furnishing, maintaining, acquiring, and operating public buildings for the use of the Commonwealth; and financing or refinancing capital projects that benefit the Commonwealth and any of its agencies, instrumentalities, and political subdivisions.

The Virginia Public Building Authority borrows on a cash flow basis for all authorized state projects. This new funding mechanism requires DEQ to continually consult with the Virginia Department of Treasury (TRS) and its Bond counsel, as well as the Authority, to ensure the availability of eligible funds to disperse. This is due to Federal Treasury Regulation §1.150-2, which states that an issuer (i.e. locality, utility authority, etc.) cannot be reimbursed with tax-exempt bond proceeds for prior project expenditures unless they strictly follow IRS reimbursement regulations. At this time, DEQ and TRS have only identified one utility authority to which this applies: the Hampton Roads Sanitation District (HRSD). However, HRSD currently accounts for 76% of all WQIF projects (both those currently executed and those planned for execution under grant agreements). Use of nontaxable bond proceeds for reimbursement is possible, however, they generally must meet the following requirements:

1. *Declaration of Official Intent.* The issuer must declare in writing its intent to reimburse itself with bond proceeds within 60 days of paying the original expenditure. This declaration must describe the project and the expected source of reimbursement (i.e., tax-exempt bonds).
2. *Reimbursement Period.* For most issuers, reimbursement must occur within 18 months of the latter of the date the expenditure was made or the date the project was placed in service. In all cases, reimbursement must occur no later than 3 years after the expenditure date.
3. *Nature of the Expenditure.* Only capital expenditures (not operating costs) are eligible. Some preliminary costs (like planning or design) may be reimbursed even without a declaration, but only up to a small percentage of the total project cost.

At the time of this report, a solution for funding HRSD projects within the confines of non-taxable bond reimbursement is still being identified. However, there are no additional general fund moneys available in WQIF to further reimburse HRSD for both approved and proposed WQIF-eligible projects. Accordingly, in order to address the immediate need for reimbursement of a current HRSD project, the Governor's introduced budget (HB /SB 30, 2026 General Assembly) recommends \$140,550,000 in General Funds for the HRSD Boat Harbor Treatment Plant project subject to grant agreement #440-S-24-01.

HRSD was created by public referendum and legislation in 1940 as a governmental instrumentality to provide for public health and welfare through effective wastewater treatment. HRSD is separate from local city and county governments and is overseen by an eight-member commission appointed by the Governor of Virginia. Specific funding for HRSD should be further evaluated due to the nature of the authority being a political subdivision, and yet able to self-fund capital improvement projects that are also WQIF-eligible.

Budgetary Forecast

By analyzing this year's needs assessment survey and estimating grant amounts for current applications not represented in the needs assessment, DEQ is estimating a budgetary shortfall of \$512 million for point source reductions projects for fiscal years 2025 through 2029.

2024 WQIF Needs Survey Results

WQIF Grants	2025	2026-2027 Biennium		2028-2029 Biennium		Total Need (2025-2029)
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	
Applicant	\$ 276,016,505	\$ 406,927,971	\$ 265,466,386	\$ 82,052,437	\$ 108,718,688	\$ 1,139,181,987
Totals	\$ 276,016,505	\$ 672,394,357		\$ 190,771,125		\$ 1,139,181,987

As of October 2025, DEQ is managing 11 active grant agreements and evaluating six funding applications. DEQ reports that most of these agreements and applications are with localities that have access to resources to establish WQIF-eligible projects. The workgroup suggested that future iterations of the needs assessment survey collect specific information to allow the agency to identify ways to assist localities that are facing a significant resource gap, establish eligible projects, and benefit from WQIF, recognizing that future outreach and technical assistance to other localities could result in a higher need for WQIF and over-obligate an already stressed funding stream. Another challenge discussed is the absence of dedicated funding from the WQIF program to support staff time for compiling, categorizing, and analyzing supplemental data. Per the *Code of Virginia* § 10.1-2128(B), state agencies are unable to use program funding for administrative positions. However, budget language (Item 359 E.1 & 2) overrides this language and permits DCR to use interest earned on WQIF and VNRCF for administrative support. This lack of WQIF-dedicated personnel prevents DEQ's data collection and project identification from being as detailed as that of DCR.

Point Source Pollution Reduction Grant Execution

As required by the Water Quality Improvement Act, all point source construction grants must be governed by a legally binding, enforceable agreement that includes provisions to govern design and installation of facility upgrades; require long-term operation, maintenance, and monitoring; require periodic reporting; and include stipulated penalties for non-performance. DEQ has developed a standard grant agreement template in partnership with VAMWA and the Attorney General's office.

Eligibility

Before DEQ can begin execution on a cooperative point source pollution reduction grant agreement, it must determine that the potential program is WQIF-eligible. WQIF grant funding is awarded as a percentage of the project based on a ratio of annual sewer charges to reasonable sewer cost, followed by additional percentages based on treatment technologies. This eligibility determination and percentage calculation process is time-intensive and technically complex.

These eligibility determinations are made using The [Virginia Water Quality Improvement Guidelines](#) as required by the *Code of Virginia* § 10.1-2129.B, established by the Secretary of Natural Resources office in 2009 and updated in 2012 as well as DEQ's 2007 Guidance Memo [06-2012 Amendment #1](#), Review Procedures for WQIF Grant Applications and Agreement Negotiations, and Review Procedures for WQIF Grant Applications and Agreement Negotiations. It is acknowledged by the group that the Secretary's guidelines are not well known and should potentially be included in future discussions of the workgroup.

Currently, the budget limits project eligibility to the design and installation of nutrient reduction technology at Chesapeake Bay watershed publicly owned wastewater treatment plants and the design and installation of certain wastewater conveyance infrastructure projects. In determining eligibility, the agency is required to consider total nitrogen and the pounds of total phosphorus reduced by the project; (ii) whether the location is within a watershed or subwatershed with documented water nutrient loading problems or adopted nutrient reduction goals; (iii) documented water quality impairment; and (iv) the availability of other funding mechanisms when considering agreements.

The Director of DEQ is required to sign an agreement with all eligible applicants with one exception. The Director may defer a grant if it is determined that the use of nutrient credits, in accordance with the Chesapeake Bay Watershed Nutrient Credit Exchange Program, would be significantly more cost-effective than the installation of nutrient controls for the facility in question.

Grant Agreement Initial Process

The initial process of implementing the grant agreement requires DEQ staff to meet with applicants on at least 3 separate occasions. This process cycle can take as few as 45 days and as long as 9-12 months depending on the complexity of the project. To develop a draft agreement, DEQ relies on the application, external information (such as water billing records and Census information), a Preliminary Engineering Report (PER), bid information (i.e. schedule of values) from the contractor, and the engineering agreement with scope of work. After the application has been reviewed for completeness, the Department must calculate the percentages of each of the project's unit processes that are eligible for water quality improvement funds. Finally, a budget for the application is drafted. This completes the initial process of the grant agreement.

Grant Agreement Execution Process

The draft grant agreement must include a final discussion with the locality or authority on the WQIF-eligible expenses and the expected performance goals. Once a draft agreement for construction is ready for public review, a review period is posted, and public comments are solicited during a comment period of at least 30 days. Provided there are no comments, then the draft grant agreement is routed to the Director of DEQ for signature. Finally, the signed agreement will be passed on to the applicant for final execution. Some localities or authorities may be able to execute their portion of the agreement immediately, while others may need additional time because the entity needs to complete their own processes for approval (i.e. Council/Board of Supervisors meetings and approvals). The 30-day comment period, plus the

time required for the applicant to execute the agreement, can extend the timeline for this grant agreement process. Once the agreement has been formally executed by all parties, the project is listed on the Department's website as a signed grant agreement.

Discussions during the workgroup between all stakeholders indicated agreement that the 30-day comment period was superfluous and only further extends the timeline to an executed grant agreement. All parties wish to see this requirement in *Code* eliminated. Additionally, discussions with stakeholders indicated full support for eliminating the requirement that only the Director of DEQ be able to sign WQIF agreements with localities. Parties agreed that the signatory authority should be able to be delegated to other executive leadership within DEQ, as with signatures for all other documents within the Clean Water Finance and Assistance Program.

Nutrient Offset Fund

The *Code of Virginia* §10.1-2128.2 established the Nutrient Offset Fund, which is a special nonreverting subfund of WQIF. The *Code* language directs DEQ to use moneys in the subfund to acquire nutrient credits and allocations from point and nonpoint sources, to maintain a registry of credits available in the subfund for each tributary, and to make nutrient credits in the subfund available for sale to owners or operators of new/expanded facilities (§ 62.1-44.19:15) and permitted facilities (§ 62.1-44.19:18).

DEQ has reported that to date, the subfund has not received any monies (funding, payments, or otherwise) nor has it been utilized to purchase or sell credits or allocations.

Stormwater Local Assistance Fund

The Stormwater Local Assistance Fund (SLAF) was created by the *Code of Virginia* § 62.1-44.15:29.1 and is administered by DEQ to provide matching grants to local governments for the planning, design, and implementation of stormwater best management practices (BMPs) that address cost efficiency and commitments related to reducing water quality pollutant loads. Eligible capital project types can include new stormwater BMPs, retrofits of stormwater BMPs, stream restoration, low-impact development projects, buffer restoration, pond retrofits, and wetlands restoration. SLAF can also be used to fund the purchase of permanent, certified nonpoint source nutrient credits.

The annual SLAF needs assessment process estimates the amount of stormwater local assistance matching grants that are expected to be requested by local governments for nutrient credit purchases and projects that are related to planning, designing, and implementing eligible stormwater best management practices.

DEQ maintains separate administration of SLAF and WQIF due to several key differences in purpose, statutory authority, funding sources, and eligible project types. Combining the funds could create confusion or inefficiencies in evaluating and prioritizing such different project

types. SLAF typically provides matching grants to localities (e.g., 50/50 split) while WQIF offers higher cost-share percentages depending on the project and locality's financial need. Merging the funds could complicate budgeting, grant scoring, and fairness in distribution. Both programs have distinct stakeholder groups, reporting requirements, and legislative champions. Merging them could dilute stakeholder influence or reduce accountability. The differences in purpose, legal authority, project scope, and funding mechanisms make it more effective to keep them separate. However, DEQ does coordinate both under the broader Clean Water Financing and Assistance Program, which allows for strategic alignment without full integration.

Nonpoint Source Pollution Reduction

The Department of Conservation and Recreation (DCR) is tasked with administering WQIF programs that impact nonpoint source pollution reduction. The funding is split into three separate categories: the Virginia Natural Resources Commitment Fund (VNRCF), the Conservation Reserve Enhancement Program (CREP), and additional earmarks for outside programs.

VNRCF supports the Virginia Agricultural Cost-Share (VACS) Program, which is administered by the Soil and Water Conservation Districts (SWCDs). The funds from VNRCF provide some administrative support for DCR, technical assistance grants for the staff of SWCDs, and grant funding for agricultural best management practices throughout the Commonwealth.

Virginia Natural Resources Commitment Fund and Agricultural Best Management Practices Cost-Share Program

Virginia Natural Resources Commitment Fund

The Virginia Natural Resources Commitment Fund is a subfund of WQIF and was established in 2008 by the *Code of Virginia* § 10.1-2128.1. Funding to support the VACS Program and the associated technical assistance to SWCDs is placed in VNRCF. Since 2010, \$10 from each real estate recordation sale has also been deposited in VNRCF.

Virginia Agricultural Best Management Practices Cost-Share Program

The Virginia Agricultural Best Management Practices (BMPs) Cost-Share Program is a partnership between SWCDs and DCR. This partnership was established by the *Code of Virginia* §10.1-104.1(B):

The Department shall be assisted in performing its nonpoint source pollution management responsibilities by Virginia's soil and water conservation districts. Assistance by the soil and water conservation districts in the delivery of local programs and services may include (i) the provision of technical assistance to advance adoption of conservation management services, (ii) delivery of educational initiatives targeted at youth and adult groups to further awareness and understanding of water quality issues and solutions, and (iii) promotion of incentives to encourage voluntary actions by landowners and land managers in order to minimize nonpoint source pollution contributions to state waters.

The VACS Program is designed to provide financial incentives to nonpoint source pollution producers. The financial incentives support agricultural best management practices that include, but are not limited to cover crops, nutrient management plans, livestock stream-exclusion systems, animal waste storage, vegetated riparian buffers, and rotational grazing. Farmers can

receive up to \$300,000 per year in state cost-share reimbursement to incentivize the implementation of agricultural best management practices. In FY26, for the fourth consecutive year, the program received the full funding identified in the agricultural needs assessment. The VACS Program has grown to become the largest state-funded agricultural cost-share program in the nation.

Funding from the VACS Program is distributed to SWCDs based on how agriculture affects the water quality. The funding is administered via an annual grant agreement between each SWCD and DCR. Local SWCDs Board of Directors approve cost-share applications with a prioritization given to applications with the greatest likelihood of improving water quality.

Allocation of VACS Program Funding

Although the *Code of Virginia* allocates 70% of funds in WQIF to nonpoint source pollution-reduction projects, budget language has historically overridden the ratio set out in the *Code*. In FY25, nonpoint source pollution reduction projects received \$236.4 million, which constitutes roughly 52.1% of the total allocation to WQIF.

The *Code of Virginia* stipulates that the allotment of funds from the VACS Program is divided so 55% of the allocation funds best management practices within the Chesapeake Bay Watershed, 37% of the allocation funds best management practices outside of the Bay Watershed, and the remaining 8% of the allocation funds technical assistance support for SWCDs. Recently, the state budget has overridden this split of allocation. In FY 26, funds from the VACS Program were allocated as follows: 59.5% to projects within the Chesapeake Bay Watershed, 25.5% to projects outside the Bay Watershed, and 15% to technical assistance.

Technical Assistance for Soil and Water Conservation Districts

Technical assistance for SWCDs is funded in part by WQIF allowing SWCDs staff to market the VACS program, sign up producers, work with producers to design and implement practices, collect and enter data into DCR's Conservation Application Suite database, and spot check practices to ensure they continue to be maintained. From FY22 to FY26, over \$109 million has been allocated to support technical assistance. DCR is currently in the multi-year process of building a replacement version of the Conservation Application Suite to update outdated technologies, reduce the risk of reliance on older and mixed technologies, and provide more robust spatial and reporting functionality while maintaining existing functionality across all database modules. This update in the Conservation Application Suite will allow the agency to provide stronger technical support to SWCDs.

Currently, the state budget utilizes interest from WQIF and VNRCF to fund five administrative positions at DCR that support the VACS Program. These administrative positions provide programmatic oversight, engineering assistance and training for SWCDs and producers, data support services, and administer the financial disbursements for SWCDs.

VACS Program Needs Assessment

DCR is required to determine an annual funding amount for effective Soil and Water Conservation District technical assistance and implementation of agricultural best management practices per the *Code of Virginia* § 10.1-2128.1(B) to achieve Chesapeake Bay nutrient and sediment reduction goals as well as support water quality improvement throughout the Commonwealth.

The needs assessment must be done in consultation with a stakeholder advisory group per the *Code of Virginia* §10.1-2128.1(C) which includes:

- The agricultural community – Virginia Farm Bureau, Virginia Agribusiness Council, Virginia Cattlemen’s Association, and the Virginia Poultry Federation
- The Soil and Water Conservation Districts – Virginia Association of Soil and Water Conservation Districts
- The conservation community – Chesapeake Bay Foundation and James River Association
- Other stakeholders – Chesapeake Bay Commission, House Appropriations Committee staff, and Senate Finance and Appropriations Committee staff

There was also a discussion among members of the workgroup about the importance of including the Department of Planning and Budget in the needs assessment meeting to help ensure continuity of information across Governor Administrations.

This needs assessment consultation usually occurs in the summer after the conclusion of the previous fiscal year on June 30.

Process Overview

Starting in 2022, DCR and key stakeholders have come to support an agreed upon transparent and formulaic spreadsheet template that determines the expected needs to support agricultural best management practices.

The needs assessment formula compares the most recent best management practices implementation progress to Phase 3 Watershed Implementation Plan (WIP 3) planned levels, calculates the remaining implementation levels for each practice, divides the remaining implementation needed across the remaining years in the WIP, and assumes a 3% renewal and/or replacement cost per year for structural practices. The needs assessment calculates implementation cost per year with the assumption that 40% is paid by the state, 35% is paid for by federal dollars, and 25% is paid by participating producers. Finally, the needs assessment also calculates technical assistance based on 15% of the state implementation cost. These factors are summarized and broken down into the expected state cost by year and biennium.

Successes of the VACS Program Needs Assessment Process

Members of the workgroup highlighted the successes of the VACS Program Needs Assessment process. Most importantly, the state budget has resulted in full funding of the needs assessment for the past four fiscal years. Other successes include effective engagement and partnership with stakeholders; a transparent, reliable, and repeatable approach accepted by stakeholders; and creation of a spreadsheet template that is flexible enough to allow for exploring hypothetical situations. Members of the workgroup also applauded the agency for creating a spreadsheet that allows entities flexibility to identify potential improvements in the process. Finally, there was much appreciation that this process allowed all stakeholders to have access to the needs assessment data and results at the same time.

Challenges Associated with the VACS Program Needs Assessment Process

There is recognition that the needs assessment review process is limited in its capabilities. Other challenges include:

- Assumption of needs outside Chesapeake Bay Watershed based on budget language 70/30 split
- Assumption of the state and federal funding split
- Determination of need when federal funding has consistently been significantly below federal funding needs estimates
- Pressures and high needs created by the 2027 Chesapeake Bay Watershed Implementation Process deadline, which allows for only one remaining funding year to close all remaining best management practices gaps
- Assumption of a shift to maintenance levels after 2027
- High dependence on planned best management practices in the Chesapeake Bay Watershed
- Intense workload for agency staff

Conservation Reserve Enhancement Program

The Conservation Reserve Enhancement Program (CREP) is administered by the United States Department of Agriculture (USDA) to eligible landowners and provides cost-share incentives for eligible best management practices for restoration of riparian buffers and wetlands, as well as rental payments for removing environmentally sensitive land from agricultural production and planting grasses or trees that will improve water quality and waterfowl and wildlife habitat.

Since 2001, CREP has received approximately \$15.6 million from WQIF to support the restoration of nearly 37,000 acres of riparian buffer in the Commonwealth. The funding has been split, with \$7.2 million going towards the Chesapeake Bay Watershed and \$8.4 million supporting the Southern Rivers Watershed.

Additional Earmarks for Outside Programs

Occasionally, there are additional earmarks in the state budget for outside programs that are allocated from DCR's portion of WQIF. Past earmarks have supported different state agencies and statewide programs such as:

- Virginia Department of Health – VDH has received \$100,000 to conduct an analysis on statewide septic hot spots and map communities with failing or failed onsite wastewater treatment.
- Department of Forestry – DOF has received \$11.5 million in WQIF support since 2019. The Department's Logger BMP Cost-Share Program, the Virginia Trees for Clean Water Program (VTCW), and the Throwing Shade VA Program are all initiatives that have been funded by WQIF dollars. The agency's Riparian Forests for Landowners Program (RFFL) was funded 50% by WQIF dollars and 50% by USDA dollars from 2023 to 2025.
- Virginia Soil & Water Conservation Districts
 - Virginia Conservation Assistance Program (VCAP) – The Virginia Conservation Assistance Program received \$4 million in the FY 24-26 biennium. It is an urban cost-share program that provides financial incentives and technical education assistance to property owners installing eligible Best Management Practices (BMPs) in Virginia's participating SWCDs.
 - Small Herd Initiative – \$7 million was earmarked in FY2023 to support farmers with 20-49 head of cattle in their efforts to keep livestock out of water streams.

The earmarked programs mentioned above are just an example of many of the outside programs that receive one-off funding from WQIF. These examples are meant to show the breadth of how funding is used to support different initiatives, but this is not a comprehensive or exhaustive list of earmarks for outside programs.

Annual Reporting Requirements

Discussions of the workgroup demonstrated that there is a mismatch of information collected and reported by both agencies that can make it difficult to understand the full scope of the Commonwealth's investment in nutrient reduction. Both agencies identified potential changes that would make their reporting requirements more efficient and more comprehensive for stakeholders and the Virginia General Assembly to understand.

Department of Environmental Quality

From discussions at the workgroup meetings, it was noted that DEQ must comply with reporting requirements for both state and federal stormwater treatment programs.

When DEQ submits its annual *Chesapeake Bay and Waters Clean-Up Plan* to the Virginia General Assembly, the agency typically includes reporting data from the survey results of the annual WQIF needs assessment. Because this report is not finalized until late fall and is not submitted to the Virginia General Assembly until early January of each year, there was discussion as to whether there is a better opportunity to present these needs assessment results at a time that corresponds with budget development and General Assembly preparation in the late summer or fall.

At the federal level, the agency is required to participate in the United States Environmental Protection Agency (EPA)'s comprehensive Clean Watersheds Needs Survey (CWNS) process which determines Virginia's state allotment for programs related to wastewater treatment and stormwater needs. DEQ is required to complete the EPA Clean Watersheds Needs Survey every three years and allocates roughly \$1 million in resources to conduct and comply with the survey. For this process, every publicly owned treatment works (POTW) in the Commonwealth must be surveyed by the agency and provide the agency with its infrastructure needs. Additionally, DEQ staff gather stormwater funding needs as part of this survey. If DEQ does not receive a high response rate from the wastewater treatment plants or localities, then Virginia will not receive enough federal funds for revolving loans. Therefore, DEQ gathers additional data for the EPA that is not included in the WQIF discussion. In 2022, Virginia reported a need of \$45.7 billion for wastewater, decentralized wastewater, stormwater, and nonpoint source improvements.

The workgroup discussed potential ways to better leverage and utilize the information collected in the EPA Clean Watersheds Needs Survey and other mandatory reporting requirements to lessen the reporting burden on DEQ and to better inform point source reduction program funding on the state level.

Department of Conservation and Recreation

DCR shared that several reports on the implementation of agricultural best management practices throughout Virginia and the use of funding provided through WQIF and VNRCF contain overlapping content and are produced with unnecessary frequency. Similarly, the agency is required to develop an agricultural needs assessment, in consultation with stakeholders, that details the anticipated funding needed for the implementation of the VACS Program, including the funding amount needed for technical assistance provided to producers by Virginia's SWCDs. This assessment is also included as part of Virginia's *Chesapeake Bay and Waters Clean-up Plan*.

Section 62.1-44.119:2 of the *Code of Virginia* requires annual progress reports on the progress made towards achieving Virginia's Chesapeake Bay water quality goals. These reports contain much of the same information as the *Clean-up Plan*; the chapter of the *Clean-up Plan* related to the agricultural needs assessment is included verbatim. Additionally, the report required by the 2025 Appropriation Act (Item 359, A.3 and A.4) details the allocations provided to Virginia's SWCDs. These biannual reports would be more suitable and appropriate for inclusion in the annual *Clean-up Plan*, which would provide additional context and detail on the programs, initiatives, and achievements of Virginia's efforts to improve water quality.

By combining these numerous reports into an existing comprehensive annual report, information on programs, achievements, and challenges could more easily be assessed by stakeholders and interested individuals. It would also eliminate unnecessary duplication of effort while still preserving oversight and accountability for the funding provided for agricultural best management practices implementation.

Misalignments between the *Code of Virginia* and the Acts of Assembly

The workgroup began to identify misalignments between the *Code of Virginia* statutory requirements, the state budget language, and current practices. The workgroup's findings have been captured in Appendix I, highlighting the misalignments.

Much of the discussion surrounded around the benefits of the misalignment between the *Code of Virginia* and the budget language. There were generalized conversations around memorializing the needs assessment process for both agencies in the *Code*, while deferring to budget language to determine the split of funding.

Finally, many of the identified misalignments highlight how the *Code* language does not accurately reflect how WQIF is implemented in practice. There are numerous places where *Code* language lists the Director of DCR as having authority to allocate or award WQIF funding, but it is the Virginia Soil and Water Conservation Board that ultimately determines funding allocations. There are other situations where budget language has overridden certain *Code* language that stipulates a certain percentage amount of funds that can be used toward an initiative or a certain number of staff an agency can hire to assist with the administration of WQIF.

Key Takeaways

Takeaway #1: Although the Department of Planning and Budget (DPB) is not formally listed in the workgroup language as a stakeholder and member, it is imperative that DPB is included in all WQIF-related meetings moving forward (workgroup, needs assessment, etc.). The inclusion of DPB in the past workgroup meetings resulted in more informed discussions and provided the workgroup with institutional knowledge surrounding the complexities of WQIF.

Takeaway #2: Many participants of the workgroup stated that these meetings were the first time that point source and nonpoint source stakeholders of WQIF had met together to collaborate and share efficiencies and lessons learned. Joint meetings of the point and nonpoint source stakeholders should continue as the workgroup meets in 2026.

Takeaway #3: There is a common understanding among the workgroup members that it can be beneficial for misalignments to exist between *Code* language and budget language. Some members believe that *Code* language should be used to memorialize the needs assessment process for both agencies while utilizing the flexibility that comes with budget language to ensure that WQIF is being administered properly and efficiently.

Takeaway #4: DEQ maintains separate administration of SLAF and WQIF due to several key differences in purpose, statutory authority, funding sources, and eligible project types. SLAF was created to support stormwater BMPs, particularly for urban nonpoint source runoff and local stormwater infrastructure. Combining the funds could create confusion or inefficiencies in evaluating and prioritizing such different project types.

Takeaway #5: Discussions showed a misalignment between *Code* language and how the VACS Program is truly administered. The *Code* language authorizes the Director of DCR to administer grant funding to VNRCF and the VACS Program, where in practice, the local Soil and Water Conservation District Board of Directors approve cost share applications with a prioritization given to applications.

Takeaway #6: DCR's needs assessment process for the VACS Program has been hailed as successful and transparent by many of the stakeholders. Lessons learned from the development of the VACS Program's needs assessment template could be used to make DEQ's needs assessment process more efficient and comprehensive. Finally, stakeholders for both point and nonpoint source pollution reduction expressed the importance of ensuring that all stakeholders have access to the needs assessment data and results at the same time.

Takeaway #7: Discussions identified numerous misalignments in annual reporting requirements for DEQ and DCR. There is a mismatch of information between what is required to be collected and what is required to be reported to the Virginia General Assembly and the federal government that creates an incomplete picture of the Commonwealth's investment in nutrient reduction. Stakeholders began identifying potential changes that can be made in terms of reporting structure, content, and consolidation of reports. It might be beneficial to include information from DEQ's Clean Watersheds Needs Survey for its EPA grants into its state level reports. Further discussion highlighted that many of DCR's WQIF reporting requirements are duplicative

and either already is or could more efficiently be reported as part of DEQ's annual *Chesapeake Bay and Waters Clean-Up Plan*.

Takeaway #8: The Director of DEQ is required to sign an agreement with all eligible applicants with one exception. The Director may defer a grant if it is determined that the use of nutrient credits in accordance with the Chesapeake Bay Watershed Nutrient Credit Exchange Program would be significantly more cost-effective than the installation of nutrient controls for the facility in question. Accordingly, the Governor's introduced budget (HB /SB 30, 2026 General Assembly) recommends that prior to approving future WQIF eligible projects that exceed unobligated balances held by DEQ, the agency shall report to the Governor and the Chairs of the House Appropriations and Senate Finance and Appropriations Committees funding considerations and details for future WQIF eligible projects.

Takeaway #9: Discussions among the workgroup indicated agreement that the 30-day comment period required by *Code* language should be eliminated as the comment period further extends the timeline to an executed grant agreement.

Takeaway #10: Discussions identified full stakeholder support for the elimination of the requirement for only the Director of DEQ to be able to sign WQIF agreements with localities. Parties agreed that the signatory authority should be able to be delegated to other executive leadership within DEQ as with signatures for all other documents within the Clean Water Finance and Assistance Program.

Next Steps for the Workgroup

In 2025, the workgroup began addressing the items below.

- Review of the organizational structure in the *Code of Virginia* and budget
- Review the disposition of funding
 - *Topic: Additional funding mechanisms (taxable or non-taxable bonds, general fund, etc.) to fulfill WQIF's needs assessment*
 - *Topic: Potential utilization of the Nutrient Offset Fund*
 - *Topic: Funding mechanisms to support DEQ and DCR's administration of WQIF*
- Review grant approval guidelines including cost-effectiveness and co-benefits of practices funded
 - *Topic: Successes and inefficiencies associated with WQIF and earmarked programs*
- Review grant agreement terms
 - *Topic: Code of Virginia language or budget language changes to ensure more efficient implementation of WQIF or better utilization of WQIF*
- Review annual reporting requirements
 - *Topic: Potential changes to consolidate annual reporting requirements*
- Review potential improvements to the current funding needs assessment
 - *Topic: Determination of potential changes needed to the DEQ needs assessment process to better promote transparency, streamline efficiency, deliver services and collect better data*
- Review outdated or unnecessary requirements
 - *Topic: Virginia Water Quality Improvement Guidelines utilization and purpose*
- Coordinate *Code of Virginia* and budget language
 - *Topic: Potential changes to memorialize the needs assessment process and other facets of WQIF in the Code of Virginia*

Before its conclusion in 2026, the workgroup is tasked with accomplishing the following items below:

- Streamline the funding and sub-fund structure
- Update terminology and structure to enhance transparency
- Ensure consistency with the Commonwealth's commitments to and mandates for water quality
 - *Topic: Review of the Revised 2014 Chesapeake Bay Watershed Agreement*
- Review of the allocation of funding for mandatory deposits between sectors
 - *Topic: Determination of threshold at which the Commonwealth prioritizes the 30%/70% allocation split between point source and nonpoint source pollution reduction programs.*
- Review of the discretionary deposits between sectors
- Review of the reserve fund and how to best leverage its usage to meet nutrient goals
- Review of the use of interest including for administrative costs
- Review of the Natural Resources Commitment Fund

- Review of the allotment of funding between the Chesapeake Bay and Southern Rivers watershed
 - *Topic: Determine at what point the Commonwealth prioritize the 60%/40% funding allocation between the Chesapeake Bay and Southern Rivers watershed.*
- Review of the redistribution of unobligated funds between watersheds

Appendix A: Department of Planning and Budget WQIF Overall Funding – GF and NGF

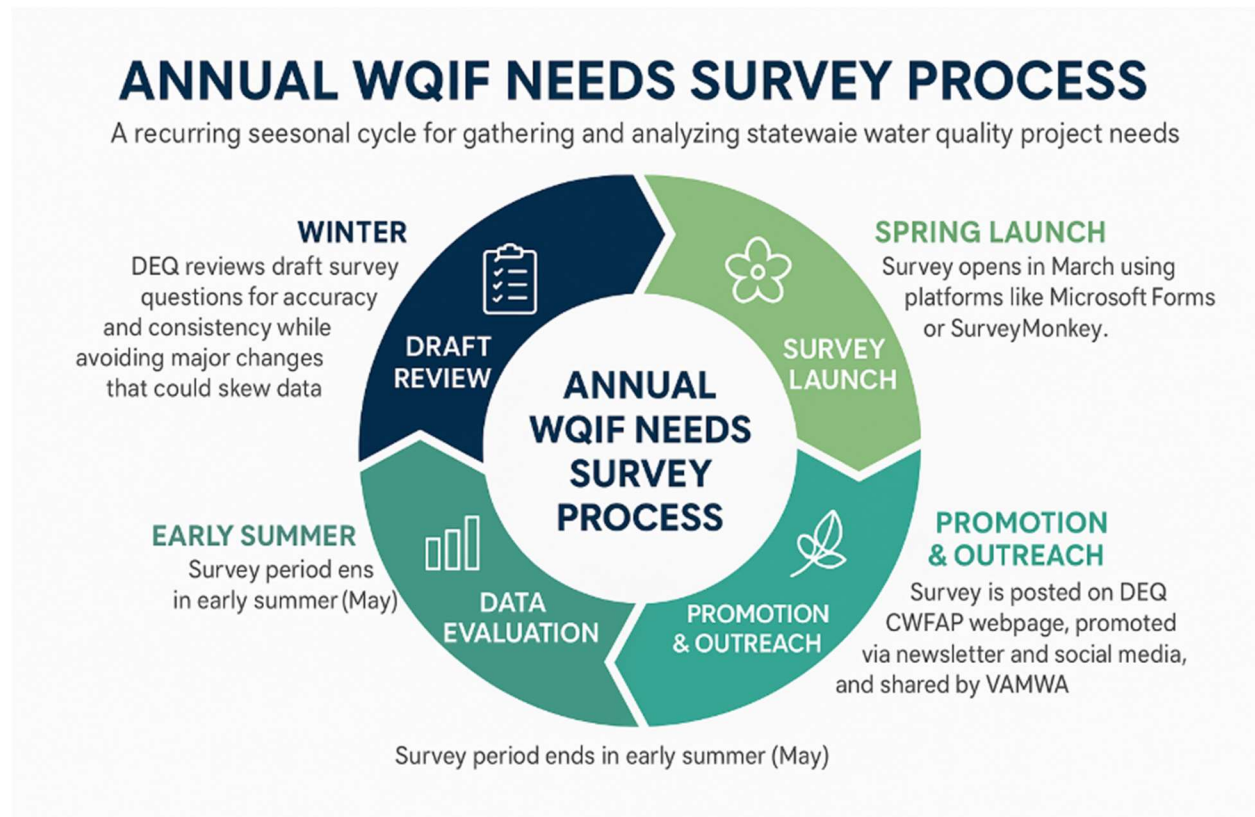
Water Quality Improvement Fund (WQIF) History			
FY	GF Appropriation	NGF Appropriation	Deposit Source
1998	\$15,000,000	\$0	Direct appropriation
1999	\$53,850,000	\$0	Direct appropriation
2000	\$44,521,000	\$962,812	Direct appropriation <i>NGF Source: unknown</i>
2001	\$21,300,000	\$0	Direct appropriation
	\$0	\$3,700,000	Direct appropriation <i>NGF source: Interest on WQIF</i>
2002	\$0	\$0	n/a
2003	0	\$2,179,000	Direct appropriation <i>NGF Source: Interest on WQIF</i>
2004	\$0	\$0	n/a
2005	\$22,670,000	\$0	Direct appropriation
2006	\$97,378,000	\$0	Direct appropriation <i>(see note under comments for DEQ funding detail)</i>
	\$56,584,000	\$0	Mandatory Surplus deposit <i>(from FY 2005 year-end balances)</i>
2007	\$200,000,000	\$0	Direct appropriation
	\$18,213,700	\$0	Mandatory Surplus deposit <i>(from FY 2006 year-end balances)</i>
2008	\$20,000,000	\$0	Direct appropriation
2009	\$0	\$270,000,000	Direct appropriation <i>NGF Source (1) DEQ = \$250.0 million in bonds for WWTP upgrades; (2) DCR = \$20.0 million; \$15.0 million from interest earned on DEQ's WQIF and \$5.0 million from DCR WQIF Reserve balance</i>
	\$1,589,000	\$0	Mandatory Surplus deposit <i>(from FY 2008 year-end balances)</i>
2010	\$15,200,000	\$4,800,000	Direct appropriation <i>NGF Source: \$4.8 million from interest on DCR's WQIF. \$15.2 million GF was originally ARRA</i>
2011	\$0	\$8,509,725	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue (first year collected)</i>
	\$36,443,000	\$0	Mandatory Surplus deposit <i>(from FY 2010 year-end balances)</i>
2012	\$0	\$8,866,566	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>

2013	\$0	\$11,171,408	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
	\$50,299,327	\$0	Mandatory Surplus deposit (from FY 2011 year-end balances; delayed one year)
	\$42,300,000	\$0	Direct appropriation
	\$16,949,115	\$0	Mandatory Surplus deposit (from FY 2012 year-end balances)
2014	\$0	\$101,000,000	VPBA bond authorization for nutrient reduction grants
	\$0	\$8,234,870	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
2015	\$31,480,000	\$0	Mandatory Surplus deposit (from FY 2013 year-end balances)
	\$0	\$8,164,128	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
2016	\$10,696,471	\$8,185,417	Direct appropriation <i>NGF Source: from DCR's WQIF reserve balance</i>
	\$0	\$8,615,603	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
2017	\$61,708,800	0	Mandatory Surplus deposit (FY 2015 balances)
	\$0	\$9,090,241	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
	\$0	\$59,000,000	VPBA bond authorization for nutrient reduction grants
2018	\$0	\$8,274,474	Direct appropriation (from DCR WQIF reserve balances)
	\$0	\$8,318,582	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
2019	\$22,532,299	\$0	Mandatory Surplus deposit (FY 2017 balances)
	\$2,583,531	\$0	Direct appropriation (transfer of motor fuels tax)
	\$5,884,000	\$0	Direct appropriation (supplemental deposit for previously approved SL6s)
	\$0	\$7,608,536	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
2020	\$73,757,699	\$0	Mandatory Surplus deposit (FY 2018 balances)
	\$2,583,531	\$0	Direct appropriation (transfer of motor fuels tax)
	\$0	\$9,839,953	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
	0	\$50,000,000	VPBA bond authorization for nutrient reduction grants
2021	\$46,315,697	\$0	Mandatory Surplus deposit (FY 2019 balances)
	\$2,583,531	\$0	Direct appropriation (transfer of motor fuels tax)
	\$0	\$15,148,931	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>

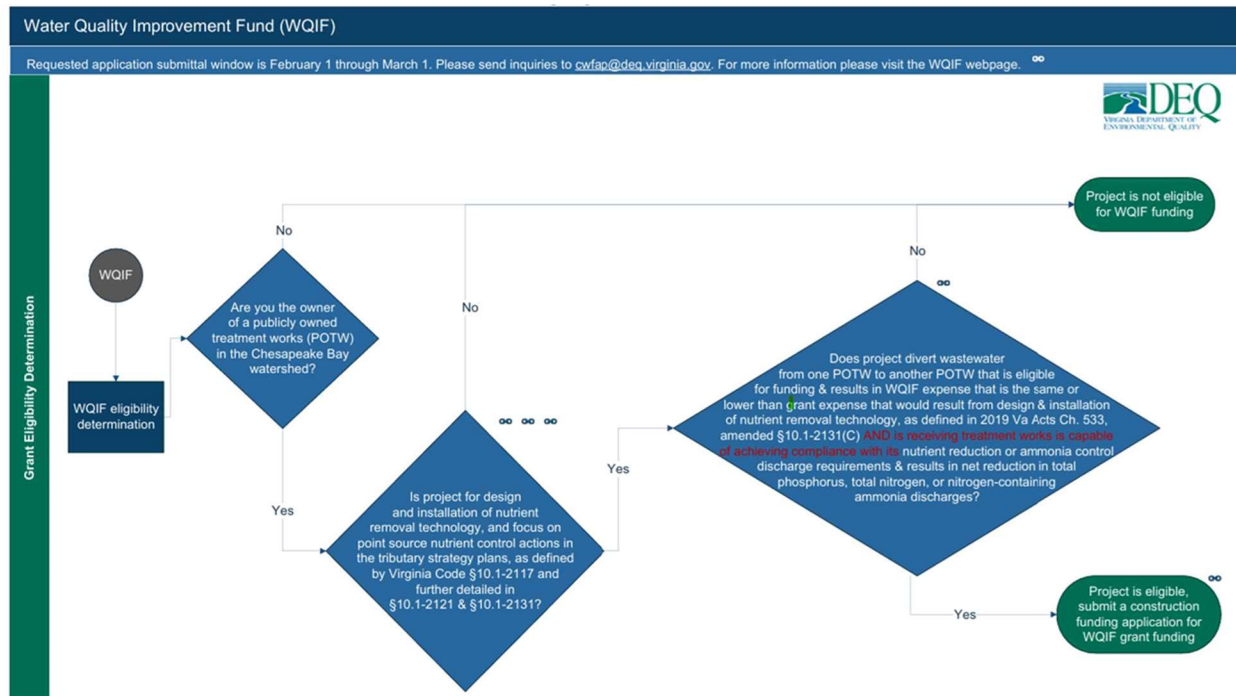
2022	\$50,000,000	\$50,000,000	Direct appropriation (GF and VPBA bonds) for the Enhanced Nutrient Removal Certainty (ENRC) Program
	\$0	\$100,000,000	Distribution to the ENRC Program from the federal State and Local Recovery Fund pursuant to the American Rescue Plan Act of 2021.
	\$30,850,000	\$0	Mandatory Surplus deposit (FY 2020 balances)
	\$39,000,000	\$0	Direct appropriation (supplemental deposit)
	\$2,583,531	\$0	Direct appropriation (transfer of motor fuels tax)
	\$0	\$11,530,297	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
2023	\$313,013,000	\$0	Mandatory Surplus deposit (FY 2021 balances)
	\$2,583,531	\$0	Direct appropriation (transfer of motor fuels tax)
	\$0	\$6,583,831	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
2024	\$131,029,312	\$0	Mandatory Surplus deposit (FY 2022 balances)
	\$2,583,531	\$0	Direct appropriation (transfer of motor fuels tax)
	\$0	\$5,966,683	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
	\$207,458,556	\$0	Mandatory Surplus deposit (FY 2023 balances)
	\$25,000,000	\$0	Mandatory Surplus deposit (FY 2023) for Soil and Water Conservation District dam upgrades
	\$151,000,000	\$0	ENRC - Mandatory Surplus deposit (FY 2022 balances)
	\$0	\$71,055,032	ENRC - ARPA SLRF
2025	\$181,763,028	\$0	Direct appropriation & mandatory surplus deposit (FY 2024); DEQ portion directed to support ENRC
	\$2,583,531	\$0	Direct appropriation (transfer of motor fuels tax)
	\$0	\$63,000,000	Deposit of Monsanto Settlement
	\$0	\$6,504,629	Direct deposit actual revenues (appropriation authorization may differ) <i>NGF Source: recordation tax fee revenue</i>
	\$0	\$200,000,000	VPBA bonds
2026	\$0	\$200,000,000	VPBA bonds
TOTAL	\$2,111,870,721	\$1,326,310,719	

TOTAL GF and NGF:	\$3,438,181,440
Total Interest earned in WQIF and all subfunds	\$119,471,094
TOTAL with Interest	\$3,557,652,534

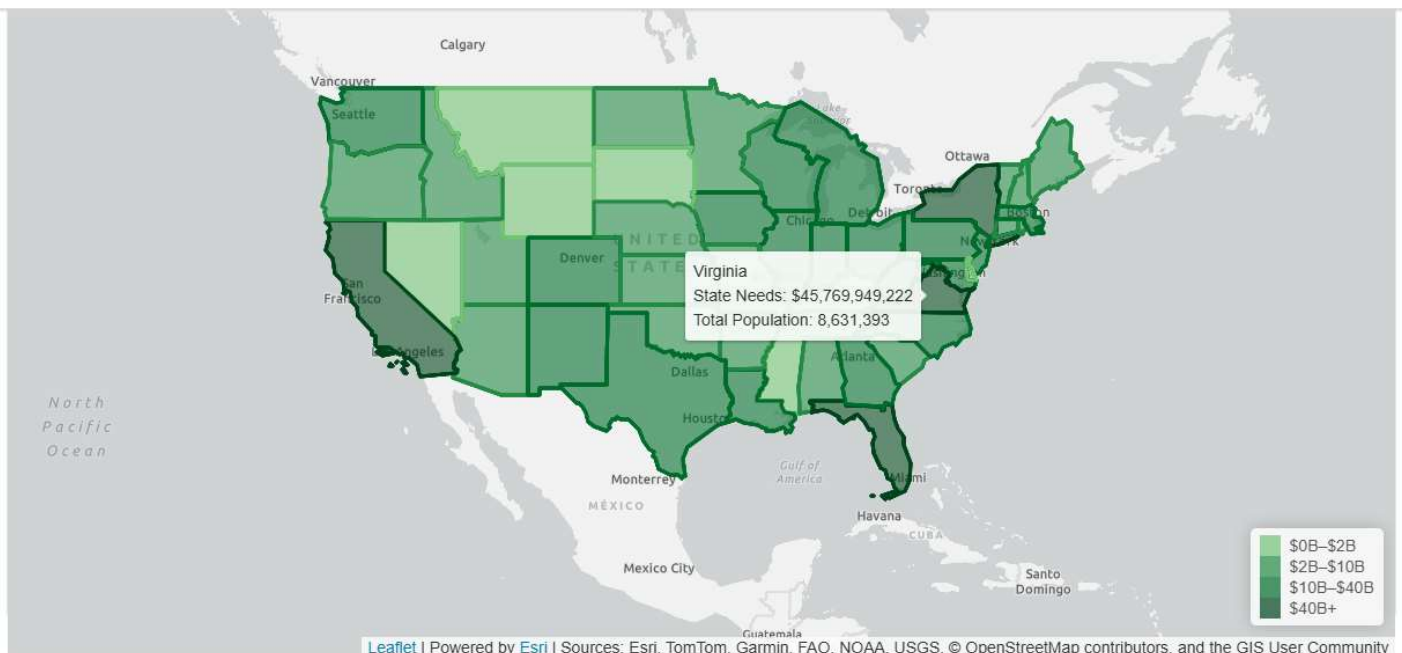
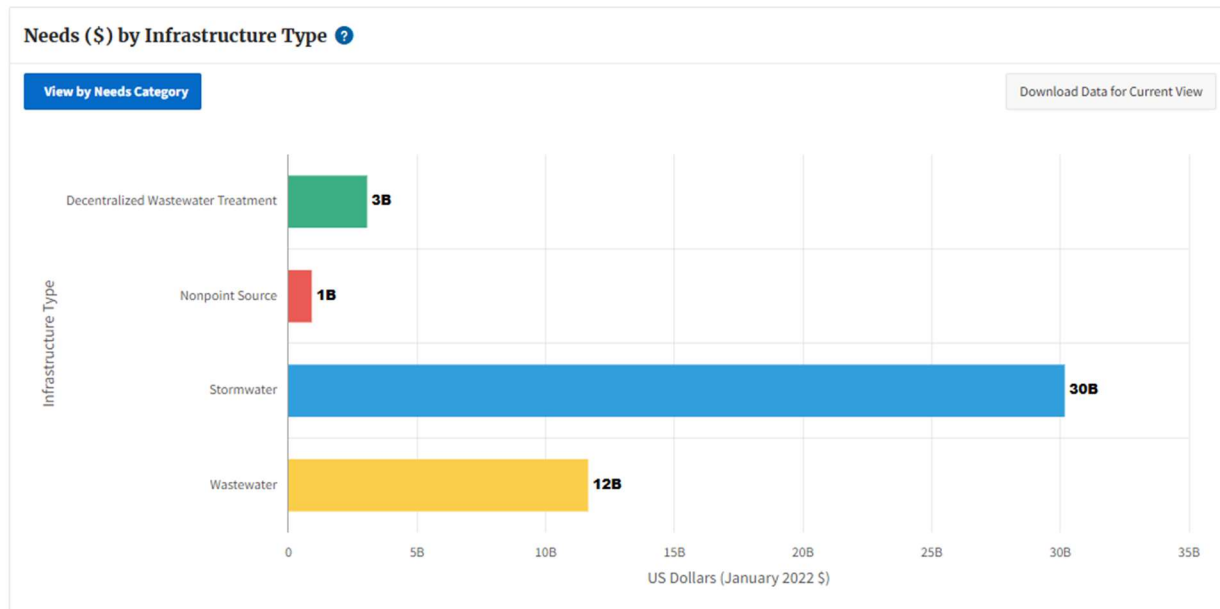
Appendix B: DEQ – Annual WQIF Needs Survey Process



Appendix C: DEQ – Point Source Application Process Flow Chart



Appendix D: 2022 Virginia Clean Watershed Needs Survey Results



41

Appendix F: Historical Cost Data for Ag BMPs Completed as of 2024

Table 2.1: Historical Cost Data for Agricultural BMPs Completed by Fiscal Year

Program Year	Actual BMP Cost	Total Cost-Share Paid	State Cost-Share Paid	Non-State Cost-Share Paid	Other Funding Amount	Farmer Cost Before Tax Credit	Tax Credit Amount Issued
1998	\$6,578,361.37	\$4,085,435.66	\$3,147,431.74	\$938,003.92	\$327,558.37	\$2,165,367.34	\$416,228.26
1999	\$5,914,553.56	\$4,438,993.05	\$4,027,564.92	\$411,428.13	\$213,319.44	\$1,262,241.07	\$350,507.40
2000	\$13,657,918.11	\$8,301,893.63	\$8,241,147.70	\$60,745.93	\$906,150.61	\$4,449,873.87	\$825,490.56
2001	\$15,853,406.58	\$7,850,195.91	\$6,526,498.00	\$1,323,697.91	\$2,572,224.08	\$5,430,986.59	\$806,364.22
2002	\$23,121,612.99	\$8,354,718.65	\$6,574,669.62	\$1,780,049.03	\$6,513,049.74	\$8,253,844.60	\$889,307.04
2003	\$13,737,218.56	\$3,201,082.16	\$2,355,360.91	\$845,721.25	\$4,936,562.95	\$5,599,573.45	\$984,731.44
2004	\$10,016,920.07	\$2,771,069.24	\$2,391,617.08	\$379,452.16	\$3,333,439.92	\$3,912,410.91	\$535,905.53
2005	\$11,220,639.44	\$4,317,587.05	\$3,681,507.66	\$636,079.39	\$2,207,948.41	\$4,695,103.98	\$605,437.00
2006	\$19,310,627.97	\$9,602,303.53	\$8,860,484.42	\$741,819.11	\$2,835,516.06	\$6,872,808.38	\$856,239.37
2007	\$24,497,548.48	\$15,208,729.37	\$14,170,526.24	\$1,038,203.13	\$3,521,520.45	\$5,767,298.66	\$934,154.01
2008	\$24,399,169.67	\$13,892,012.86	\$12,851,741.10	\$1,040,271.76	\$3,138,890.66	\$7,368,266.15	\$1,057,741.83
2009	\$31,350,056.35	\$16,068,967.68	\$15,211,981.85	\$856,985.83	\$5,893,277.13	\$9,387,811.54	\$1,327,632.62
2010	\$36,615,674.26	\$23,173,103.26	\$22,208,726.43	\$964,376.83	\$4,405,407.71	\$9,037,163.29	\$1,423,437.52
2011	\$17,570,281.85	\$10,680,823.29	\$10,232,892.27	\$447,931.02	\$1,846,145.82	\$5,043,312.74	\$964,457.06
2012	\$32,119,243.94	\$21,467,712.08	\$21,261,749.33	\$205,962.75	\$2,817,437.00	\$7,834,094.86	\$1,383,236.37
2013	\$36,900,120.74	\$28,036,487.62	\$27,715,566.78	\$320,920.84	\$4,016,926.86	\$4,846,706.26	\$1,072,168.37
2014	\$39,784,317.49	\$30,757,783.12	\$28,753,600.39	\$2,004,182.73	\$3,975,330.01	\$5,051,204.36	\$971,193.35
2015*	\$78,700,123.77	\$66,487,102.71	\$62,721,444.23	\$3,765,658.48	\$5,498,501.15	\$6,714,519.91	\$1,066,631.75
2016	\$17,067,019.82	\$10,283,390.15	\$9,917,507.89	\$365,882.26	\$1,081,809.23	\$5,701,820.44	\$886,529.47
2017	\$27,530,296.41	\$18,185,451.22	\$17,595,128.26	\$590,322.96	\$2,583,765.91	\$6,761,079.28	\$843,672.48
2018	\$31,927,598.78	\$17,695,161.70	\$14,692,606.17	\$3,002,555.53	\$4,715,870.02	\$9,516,567.06	\$1,778,664.65
2019**	\$29,009,146.99	\$18,994,482.69	\$17,711,914.84	\$1,282,567.85	\$3,643,040.25	\$6,371,624.05	\$1,127,210.13
2020**	\$61,693,979.36	\$50,069,579.54	\$48,552,767.05	\$1,516,812.49	\$3,230,307.18	\$8,394,092.64	\$1,230,937.70
2021**	\$48,580,457.24	\$38,570,949.51	\$37,763,914.74	\$807,034.77	\$1,961,729.44	\$8,047,778.29	\$646,115.51
2022**	\$60,772,628.44	\$50,084,431.17	\$49,218,581.68	\$865,849.49	\$2,186,272.46	\$8,501,924.81	\$633,296.35
2023**	\$84,546,121.75	\$76,512,447.67	\$75,687,696.53	\$824,751.14	\$2,510,749.70	\$5,522,924.38	\$505,135.76
2024**	\$75,888,351.45	\$72,629,052.80	\$72,598,564.55	\$30,488.25	\$775,694.54	\$2,483,604.11	\$181,638.92
State Totals	\$878,363,395.44	\$631,720,947.32	\$604,673,192.38	\$27,047,754.94	\$81,648,445.10	\$164,994,003.02	\$24,304,064.67

*2015 figures will be adjusted each year as SL-6(T) BMPs that were obligated under the 100% SL-6 funding programs are completed. Significant funding from FY 2016-2022 was transferred to FYs 2013, 2014, and 2015 to cover 100% SL-6s.

**FY 2019 - 2024 figures do not include approved BMPs carried forward into FY 2025 that are awaiting completion.

Appendix G: *Code of Virginia* and the Budget Provisions

Virginia Water Quality Improvement Fund

§ 10.1-2127.1. Definitions.

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

"Fund" means the Virginia Water Quality Improvement Fund established by § 10.1-2128. 2019, c. 533.

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

- A. There is hereby established in the state treasury a special permanent, nonreverting fund, to be known as the "Virginia Water Quality Improvement Fund." The Fund shall be established on the books of the Comptroller. The Fund shall consist of sums appropriated to it by the General Assembly which shall include, unless otherwise provided in the general appropriation act, 10 percent of the annual general fund revenue collections that are in excess of the official estimates in the general appropriation act and 10 percent of any unrestricted and uncommitted general fund balance at the close of each fiscal year whose reappropriation is not required in the general appropriation act.¹ The Fund shall also consist of such other sums as may be made available to it from any other source, public or private, and shall include any penalties or damages collected under this article, federal grants solicited and received for the specific purposes of the Fund, and all interest and income from investment of the Fund. Any sums remaining in the Fund, including interest thereon, at the end of each fiscal year shall not revert to the general fund but shall remain in the Fund. All moneys designated for the Fund shall be paid into the state treasury and credited to the Fund. Moneys in the Fund shall be used solely for Water Quality Improvement Grants. Expenditures and disbursements from the Fund shall be made by the State Treasurer on warrants issued by the Comptroller upon the written request of the Director of the Department of Environmental Quality or the Director of the Department of Conservation and Recreation as provided in this chapter.
- B. Except as otherwise provided under this article, the purpose of the Fund is to provide Water Quality Improvement Grants to local governments, soil and water conservation districts, state agencies, institutions of higher education and individuals for point and nonpoint source pollution prevention, reduction and control programs and efforts undertaken in accordance with the provisions of this chapter. The Fund shall not be used for agency operating expenses² or for purposes of replacing or otherwise reducing any general, nongeneral, or special funds allocated or appropriated to any state agency³; however, nothing in this section

¹ The calculation of the "10% general fund revenue collection above estimates" has been superseded in the current budget (Item 470K & L) for ENRCP & I-81. This calculation has previously been overridden by funding for tax rebates as well.

² There is discrepancy as to how DCR can use interest for administration of WQIF, but DEQ cannot.

³ Interest is used to fund two positions for grant management, per Item 359 E.2. Per Chapter 725 of the Acts of the Assembly, the budget now funds five positions. This language has also historically been interpreted to mean that state agencies could not apply for WQIF funding when the budget could have provided funds to address the problem.

shall be construed to prevent the award of a Water Quality Improvement Grant to a local government in connection with point or nonpoint pollution prevention, reduction and control programs or efforts undertaken on land owned by the Commonwealth and leased to the local government. In keeping with the purpose for which the Fund is created, it shall be the policy of the General Assembly to provide annually its share of financial support to qualifying applicants for grants in order to fulfill the Commonwealth's responsibilities under Article XI of the Constitution of Virginia.

- C. For the fiscal year beginning July 1, 2005, \$50 million shall be appropriated from the general fund and deposited into the Fund.⁴ Except as otherwise provided under this article, such appropriation and any amounts appropriated to the Fund in subsequent years in addition to any amounts deposited to the Fund pursuant to the provisions of subsection A shall be used solely to finance the costs of design and installation of nutrient removal technology at publicly owned treatment works designated as significant dischargers or eligible nonsignificant dischargers for compliance with the effluent limitations for total nitrogen and total phosphorus of the Chesapeake Bay TMDL Watershed Implementation Plan or applicable regulatory or permit requirements.⁵ Notwithstanding the provisions of this section, the Governor and General Assembly may, at any time, provide additional funding for nonpoint source pollution reduction activities through the Fund in excess of the deposit required under subsection A.⁶

At such time as grant agreements specified in § [10.1-2130](#) have been signed by every significant discharger and eligible nonsignificant discharger and available funds are sufficient to implement the provisions of such grant agreements, the House Committee on Agriculture, Chesapeake and Natural Resources, the House Committee on Appropriations, the Senate Committee on Agriculture, Conservation and Natural Resources, and the Senate Committee on Finance and Appropriations shall review the financial assistance provided under this section and determine (i) whether such deposits should continue to be made, (ii) the size of the deposit to be made, (iii) the programs and activities that should be financed by such deposits in the future, and (iv) whether the provisions of this section should be extended. 1997, cc. [21](#), [625](#), [626](#); 1999, c. [257](#); 2001, c. [264](#); 2005, cc. [704](#), [707](#), [709](#); 2006, c. [236](#); 2008, cc. [278](#), [500](#), [643](#), [701](#); 2010, c. [684](#); 2015, c. [164](#).

§ 10.1-2128.1. Virginia Natural Resources Commitment Fund established.

- A. There is hereby created in the state treasury a special nonreverting fund to be known as the Virginia Natural Resources Commitment Fund hereafter referred to as "the Subfund," which shall be a subfund of the Virginia Water Quality Improvement Fund and administered by the Department of Conservation and Recreation. The Subfund shall be established on the books of the Comptroller. All amounts appropriated and such other funds as may be made available to the Subfund from any other source, public or private, shall be paid into the state treasury and credited to the Subfund. Interest earned on moneys in the Subfund shall remain in the

⁴ The workgroup identified this as language that can be removed as the budget supersedes the *Code of Virginia*.

⁵ WQIF deposits have been going to the Natural Resources Commitment Fund, the reserve fund, as well as a variety of clean water projects (Item 359 E.1. & P.1).

⁶ \$63 million in settlement funds were deposited into the WQIF this year and sent into the NRCF (Item 359 Q). Nongeneral fund bonds have also been deposited, \$200m in FY25 and \$200m in FY26 (Item C-53.50). The bonds are only applicable for point source related projects only.

Subfund and be credited to it. Any moneys remaining in the Subfund, including interest thereon, at the end of each fiscal year shall not revert to the general fund but shall remain in the Subfund. Moneys in the Subfund shall be used as provided in subsection B solely for the Virginia Agricultural Best Management Practices Cost-Share Program administered by the Department of Conservation and Recreation.

- B. Beginning on July 1, 2008, and continuing in each subsequent fiscal year until July 1, 2018,⁷ out of such amounts as may be appropriated and deposited to the Subfund, distributions shall be made in each fiscal year for the following purposes:
1. Eight⁸ percent of the total amount distributed to the Virginia Agricultural Best Management Practices Cost-Share Program shall be distributed to soil and water conservation districts to provide technical assistance for the implementation of such agricultural best management practices. Each soil and water conservation district in the Commonwealth shall receive a share according to a method employed by the Director of the Department of Conservation and Recreation in consultation with the⁹ Virginia Soil and Water Conservation Board, that accounts for the percentage of the available agricultural best management practices funding that will be received by the district from the Subfund;
 2. Fifty-five percent of the total amount distributed to the Virginia Agricultural Best Management Practices Cost-Share Program shall be used for matching grants for agricultural best management practices on lands in the Commonwealth exclusively or partly within the Chesapeake Bay watershed¹⁰; and
 3. Thirty-seven percent of the total amount distributed to the Virginia Agricultural Best Management Practices Cost-Share Program shall be used for matching grants for agricultural best management practices on lands in the Commonwealth exclusively outside of the Chesapeake Bay watershed.¹¹
- C. The Department of Conservation and Recreation, in consultation with stakeholders, including representatives of the agricultural community, the conservation community, and the Soil and Water Conservation Districts, shall determine an annual funding amount for effective Soil and Water Conservation District technical assistance and implementation of agricultural best management practices pursuant to § [10.1-546.1](#). Pursuant to § [2.2-1504](#), the Department shall provide to the Governor the annual funding amount needed for each year of the ensuing biennial period. The Department shall include the annual funding amount as part of the reporting requirements in § [62.1-44.118](#).

⁷ The workgroup identified this as language that can be removed as the budget supersedes the *Code of Virginia*.

⁸ This is currently calculated at 15%. Item 359 P.2. & Q. The 15% includes the base technical assistance funding (Item 359 A.2) and the technical assistance from recordation revenue (Item 359 D.3). Item P.2 includes less than 10% technical assistance; Item Q is the same.

⁹ The Director of DCR does not have authority to allocate VACS Program funding. This authority is with the Virginia Soil and Water Conservation Board.

¹⁰ Currently 70% for the Bay and 30% for Southern Rivers due to the TMDL deadline. Items 359 P.2 & Q.

¹¹ Currently 70% for the Bay and 30% for Southern Rivers due to the TMDL deadline. Items 359 P.2 & Q.

2008, cc. [643](#), [701](#); 2009, cc. [209](#), [263](#); 2011, c. [245](#).

§ 10.1-2128.2. Nutrient Offset Fund; purposes.

- A. There is hereby created in the state treasury a special nonreverting fund to be known as the Nutrient Offset Fund, referred to in this section as "the Subfund," which shall be a subfund of the Virginia Water Quality Improvement Fund and administered by the Director of the Department of Environmental Quality. The Subfund shall be established on the books of the Comptroller. All amounts appropriated and such other moneys as may be made available to the Subfund from any other source, public or private, shall be paid into the state treasury and credited to the Subfund. Interest earned on moneys in the Subfund shall remain in the Subfund and be credited to it. Any moneys remaining in the Subfund, including interest thereon, at the end of each fiscal year shall not revert to the general fund but shall remain in the Subfund. Moneys in the Subfund shall be used solely for the purposes stated in subsection B. Expenditures and disbursements from the Subfund shall be made by the State Treasurer on warrants issued by the Comptroller upon written request of the Director of the Department of Environmental Quality.
- B. The Director of the Department of Environmental Quality shall use moneys in the Subfund only to acquire nutrient credits or allocations from point or nonpoint sources that achieve equivalent point or nonpoint source reductions in the same tributary beyond those reductions already required by or funded under federal or state law or the Watershed Implementation Plan prepared for the Chesapeake Bay Total Maximum Daily Load pursuant to § [2.2-218](#). The Director of the Department of Environmental Quality may enter into long-term contracts with producers of nutrient credits to purchase such credits using moneys from the Subfund. Credits in the Subfund shall be listed in a registry maintained by the Department of Environmental Quality.
- C. The Department of Environmental Quality shall establish a procedure to govern the distribution of moneys from the Subfund that shall include criteria that address (i) the annualized cost per pound of the reduction, (ii) the reliability of the underlying technology or practice, (iii) the relative durability and permanence of the credits generated, and (iv) other such factors that the Department deems appropriate to ensure that the practices will achieve the necessary reduction in nutrients for the term of credit.
- D. The Director of the Department of Environmental Quality shall make nutrient credits acquired pursuant to subsection B available for sale to owners or operators of new or expanded facilities pursuant to § [62.1-44.19:15](#), and to permitted facilities pursuant to § [62.1-44.19:18](#). The Director shall consider recommendations of the Secretary of Commerce and Trade consistent with the requirements of the State Water Control Law (§ [62.1-44.2](#) et seq.) in the sale of nutrient credits to new or expanding private facilities.
- E. For the purposes of this section, a "nutrient credit" means a nutrient reduction certified by the Department of Environmental Quality as a load allocation, point or nonpoint source nitrogen credit, or point or nonpoint source phosphorus credit under the Chesapeake Bay Watershed Nutrient Credit Exchange Program (§ [62.1-44.19:12](#) et seq.).

2011, c. [524](#); 2017, c. [540](#).

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

- A. If, in any fiscal year beginning on or after July 1, 2005, there are appropriations to the Fund in addition to those made pursuant to subsection A of § [10.1-2128](#), the Secretary of Natural and Historic Resources shall distribute those moneys in the Fund provided from the 10 percent of the annual general fund revenue collections that are in excess of the official estimates in the general appropriation act, and the 10 percent of any unrestricted and uncommitted general fund balance at the close of each fiscal year whose reappropriation is not required in the general appropriation act, as follows:
1. Seventy percent of the moneys¹² 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 moneys¹³ 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 nutrient removal technologies for publicly owned treatment works designated as significant dischargers or eligible nonsignificant dischargers. The moneys shall also be available for grants when the design and installation of 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 and Historic 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, and the State Water Control Board, and following a public comment period of at least 30 days and a public hearing, shall allocate those moneys deposited in the Fund, but excluding any moneys deposited into the Virginia Natural Resources Commitment Fund established pursuant to § [10.1-2128.1](#), between point and nonpoint sources, both of which shall receive moneys in each such year.
- B. 1. Except as may otherwise be specified in the general appropriation act, the Secretary of Natural and Historic Resources, in consultation with the Secretary of Agriculture and Forestry, the State Forester, the Commissioner of Agriculture and Consumer Services, the State Health Commissioner, and the Directors of the Departments of Environmental Quality and Conservation and Recreation, and with the advice and guidance of the Board of

¹² This split is overridden by Item 470, as well as Item 359.

¹³ This split is overridden by Item 470, as well as Item 359.

Conservation and Recreation, the Virginia Soil and Water Conservation Board, and the State Water Control 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; (iii) list criteria for prioritizing funding requests; and (iv) define criteria and financial incentives for water reuse.

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 the Chesapeake Bay TMDL Watershed Implementation Plan, 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 (a) use of an advisory committee composed of interested parties; (b) a 60-day public comment period on draft guidelines; (c) written responses to all comments received; and (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; (iii) documented water quality impairment; and (iv) the availability of other funding mechanisms. 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 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.

1997, cc. [21](#), [625](#), [626](#); 1999, c. [509](#); 2005, cc. [41](#), [704](#), [707](#), [709](#); 2006, c. [236](#); 2008, cc. [643](#), [701](#); 2010, c. [684](#); 2011, c. [189](#); 2012, cc. [785](#), [819](#); 2015, c. [164](#); 2021, Sp. Sess. I, c. [401](#).

§ 10.1-2130. General provisions related to grants from the Fund.

All Water Quality Improvement Grants shall be governed by a legally binding and enforceable grant agreement between the recipient and the granting agency. In addition to provisions providing for payment of the total amount of the grant, the agreement shall, at a minimum, also contain provisions that govern design and installation and require proper long-term operation, monitoring and maintenance of funded projects, including design and performance criteria, as well as contractual or stipulated penalties in an amount sufficient to ensure compliance with the

agreement, which may include repayment with interest, for any breach of the agreement, including failure to properly operate, monitor or maintain. Grant agreements shall be made available for public review and comment for a period of no less than thirty days but no more than sixty days prior to execution. The granting agency shall cause notice of a proposed grant agreement to be given to all applicants for Water Quality Improvement Grants whose applications are then pending and to any person requesting such notice.¹⁴ 1997, cc. [21](#), [625](#), [626](#); 1999, c. [509](#).

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

- A. The Department of Environmental Quality (the Department) 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.
- B. The Director of the Department (the Director) shall, subject to available funds and in coordination with the Director of the Department of Conservation and Recreation, direct the State Treasurer to make Water Quality Improvement Grants in accordance with the guidelines established pursuant to § [10.1-2129](#). The Director shall enter into grant agreements with all facilities designated as significant dischargers or eligible nonsignificant dischargers that apply for grants; however, all such grant agreements shall contain provisions that payments thereunder are subject to the availability of funds.
- C. Notwithstanding the priority provisions of § [10.1-2129](#), the Director shall not authorize the distribution of grants from the Fund for purposes other than financing the cost of design and installation of nutrient removal technology at publicly owned treatment works in the Chesapeake Bay watershed until such time as nutrient reductions of regulations, permits, or the Chesapeake Bay TMDL Watershed Implementation Plan are satisfied, unless he finds that there exists in the Fund sufficient funds for substantial and continuing progress in implementation of the reductions established in accordance with regulations, permits, or the Chesapeake Bay TMDL Watershed Implementation Plan within the Chesapeake Bay watershed.

In addition to the provisions of § [10.1-2130](#), all grant agreements related to nutrients shall include: (i) numerical technology-based effluent concentration limitations on nutrient discharges to state waters based upon the technology installed by the facility; (ii) enforceable provisions related to the maintenance of the numerical concentrations that will allow for exceedances of 0.8 mg/L for total nitrogen or no more than 10 percent, whichever is greater, for exceedances of 0.1 mg/L for total phosphorus or no more than 10%, and for exceedances caused by extraordinary conditions; and (iii) recognition of the authority of the Commonwealth to make the Virginia Water Facilities Revolving Fund (§ [62.1-224](#) et seq.) available to local governments to fund their share of the cost of designing and installing

¹⁴ DEQ has a formal public 30-day comment period for each project. For DCR, the policies and grant agreements are available for public comment. They are presented to the Board in April, and comments are received on those documents. Revisions, if warranted, are provided to the Board at the last spring meeting and potentially adopted.

nutrient removal technology based on financial need and subject to availability of revolving loan funds, priority ranking, and revolving loan distribution criteria.

If, pursuant to § [10.1-1187.6](#), the State Water Control Board approves an alternative compliance method to technology-based concentration limitations in Virginia Pollutant Discharge Elimination System permits, the concentration limitations of the grant agreement shall be suspended subject to the terms of such approval. The cost of the design and installation of nutrient removal technology at publicly owned treatment works meeting the nutrient reductions of regulations, permits, or the Chesapeake Bay TMDL Watershed Implementation Plan and incurred prior to the execution of a grant agreement is eligible for reimbursement from the Fund if the grant is made pursuant to an executed agreement consistent with the provisions of this chapter.

Subsequent to the implementation of any applicable regulations, permits, or the Chesapeake Bay TMDL Watershed Implementation Plan, the Director may authorize disbursements from the Fund for any water quality restoration, protection, and improvements related to point source pollution that are clearly demonstrated as likely to achieve measurable and specific water quality improvements, including cost effective technologies to reduce loads of total phosphorus, total nitrogen, or nitrogen-containing ammonia in order to meet the requirements of regulations associated with the reduction of ammonia that have not yet been adopted and that are more stringent than regulations adopted by the State Water Control Board as of January 1, 2018. Notwithstanding any provision of this subsection, the Director may, at any time, authorize grants, including grants to institutions of higher education, for technical assistance related to nutrient reduction.

Notwithstanding any other provision of this chapter, the Director may at any time authorize grants for the design and installation of wastewater conveyance infrastructure that (a) diverts wastewater from one publicly owned treatment works that is eligible for grant funding under this chapter to another publicly owned treatment works that also is eligible for such funding; (b) diverts wastewater to a receiving treatment works that is capable of achieving compliance with its nutrient reduction or ammonia control discharge requirements and results in a net reduction in total phosphorus, total nitrogen, or nitrogen-containing ammonia discharges; and (c) results in a Water Quality Improvement Grant expense being incurred by the Department that is the same as or lower than the grant expense the Department would incur in funding design and installation of eligible nutrient removal or other applicable treatment technology at such treatment works that would have treated the wastewater in the absence of the diversion project.

- D. The grant percentage provided for financing the costs of the design and installation of nutrient removal technology at publicly owned treatment works shall be based upon the financial need of the community as determined by comparing the annual sewer charges expended within the service area to the reasonable sewer cost established for the community.
- E. Grants shall be awarded in the following manner:
 - 1. In communities for which the ratio of annual sewer charges to reasonable sewer cost is less than 0.30, the Director shall authorize grants in the amount of 35 percent of the costs of the design and installation of nutrient removal technology;

2. In communities for which the ratio of annual sewer charges to reasonable sewer cost is equal to or greater than 0.30 and less than 0.50, the Director shall authorize grants in the amount of 45 percent of the costs of the design and installation of nutrient removal technology;
 3. In communities for which the ratio of annual sewer charges to reasonable sewer cost is equal to or greater than 0.50 and less than 0.80, the Director shall authorize grants in the amount of 60 percent of the costs of design and installation of nutrient removal technology; and
 4. In communities for which the ratio of annual sewer charges to reasonable sewer cost is equal to or greater than 0.80, the Director shall authorize grants in the amount of 75 percent of the costs of the design and installation of nutrient removal technology.
- 1997, cc. [21](#), [625](#), [626](#); 1999, cc. [257](#), [509](#); 2005, cc. [704](#), [707](#), [709](#); 2006, c. [236](#); 2015, c. [164](#); 2018, cc. [609](#), [610](#); 2019, c. [533](#).

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

- A. The Department of Conservation and Recreation shall be the lead state agency for determining the appropriateness of any grant related to nonpoint source pollution to be made from the Fund to restore, protect and improve the quality of state waters.
- B. The Director of the Department of Conservation and Recreation shall, subject to available funds and in coordination with the Director of the Department of Environmental Quality, direct the State 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; the replacement or modification of residential onsite sewage systems to include nitrogen removal capabilities; 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.¹⁵ The *Soil and Water Conservation Board* ~~The Director~~ shall give priority consideration to the distribution of grants¹⁶ from the Fund for the purposes of implementing any applicable regulations, permits, or the Chesapeake Bay TMDL

¹⁵ Most of this section is superseded by budget language. DCR does not determine the appropriateness of much of this; the budget bill earmarks these projects.

¹⁶ DCR has authority over certain WQIF earmarks. But the authority to allocate funds to districts through VNRCF belongs to SWCD and not the DCR Director.

Watershed Implementation Plan, with a priority given to agricultural practices. In no single year shall more than 60 percent of the moneys¹⁷ be used for projects or practices exclusively within the Chesapeake Bay watershed.

- D. The Director of the Department of Conservation and Recreation¹⁸ shall manage the allocation of Water Quality Improvement Grants from the Virginia Natural Resources Commitment Fund established under § [10.1-2128.1](#).

1997, cc. [21](#), [625](#), [626](#); 1999, cc. [257](#), [509](#), [549](#); 2005, cc. [704](#), [707](#), [709](#); 2008, cc. [643](#), [701](#); 2009, c. [695](#); 2015, c. [164](#).

Additional WQIF Budget Requirements

WQIF Reserve (Item 358 B)¹⁹

It is the intent of the General Assembly that a reserve be created within the Virginia Water Quality Improvement Fund to support the purposes delineated within the Virginia Water Quality Improvement Act of 1997 (WQIA 1997) when year-end general fund surpluses are unavailable. Consequently, 15 percent of any amounts appropriated to the Virginia Water Quality Improvement Fund due to annual general fund revenue collections in excess of the official estimates contained in the general appropriation act shall be withheld from appropriation, unless otherwise specified. When annual general fund revenue collections do not exceed the official revenue estimates contained in the general appropriation act, the reserve fund may be used for WQIA 1997 purposes as directed by the General Assembly within the general appropriation act.

Deposit to the Virginia Natural Resources Commitment Fund (Item 359 D)

Out of the appropriation in this Item, \$10,000,000 the first year and \$10,000,000 the second year from the Virginia Natural Resources Commitment Fund, a subfund of the Virginia Water Quality Improvement Fund, is hereby appropriated. The funds shall be dispersed by the department pursuant to § 10.1-2128.1, *Code of Virginia*.

The source of an amount estimated at \$10,000,000 the first year and \$10,000,000 the second year to support the nongeneral fund appropriation to the Virginia Natural Resources Commitment Fund shall be the recordation tax fee established in Part 3 of this act.

Out of this amount, a total of thirteen percent²⁰, or \$1,300,000, whichever is greater, shall be appropriated to Virginia Soil and Water Conservation Districts for technical assistance to farmers implementing agricultural best management practices, and \$8,700,000 for Agricultural Best Management Practices Cost-Share Assistance. Of the amount deposited for Cost-Share Assistance, seventy percent shall be used for matching grants for agricultural best management practices on lands in the Commonwealth exclusively or partly within the Chesapeake Bay

¹⁷ Percentages are currently a 70%/30% split (Item 359 P & Q).

¹⁸ The Soil and Water Conservation District Board, not DCR, manages the allocations from the VRNCF (Item 359, P and Q).

¹⁹ The Reserve Fund only exists in budget language and not in the *Code of Virginia*.

²⁰ This is typically 15 percent.

watershed, and thirty percent shall be used for matching grants for agricultural best management practices on lands in the Commonwealth exclusively outside of the Chesapeake Bay watershed.

Deposit to the WQIF Reserve & Interest Usage for Staff (Item 359 E.1 & 2)

Out of the appropriation in this Item, \$2,583,531 in the first year and \$2,583,531 in the second year from the funds designated in Item 3-1.01.C. of this act are hereby appropriated to the Virginia Water Quality Improvement Fund and designated for deposit to the reserve fund established pursuant to paragraph B of Item 358. It is the intent of the General Assembly that all interest earnings of the Water Quality Improvement Fund shall be spent only upon appropriation by the General Assembly, after the recommendation of the Secretary of Natural and Historic Resources, pursuant to § 10.1-2129, *Code of Virginia*.

Notwithstanding the provisions of §§ 10.1-2128, 10.1-2129 and 10.1-2128.1, *Code of Virginia*, it is the intent of the General Assembly that the department use interest earnings from the Water Quality Improvement Fund and the Virginia Natural Resources Commitment Fund to support five positions ²¹to administer grants from the fund.

Additional Nonpoint Source Uses of WQIF Deposit (Item 359 P.1)

A total of \$19,200,000 the following specified statewide uses:

- \$700,000 for maintenance of the Conservation Application Suite;
- \$2,000,000 for the Commonwealth's match for participation in the Federal Conservation Reserve Enhancement Program (CREP);
- \$1,000,000 for increased verification efforts of agricultural best management practices;
- \$6,000,000 for nonpoint source projects including direct pay initiatives for nutrient management and resource management plans as well as poultry litter transport;
- \$4,000,000 for the Virginia Conservation Assistance Program administered by the Association of Soil and Water Conservation Districts;
- \$500,000 for voluntary agricultural best management practices data collection by the Virginia Cooperative Extension;
- \$4,000,000 to the Department of Forestry for the Virginia Trees for Clean Water program; and
- \$1,000,000 to the Department of Forestry for water quality grants.

Disbursement Percentages for Natural Resources Commitment Fund & Nongeneral Fund Deposit (Item 359 P.2 & Q)

Of the remaining amount in the first year, \$118,876,028 is authorized for transfer to the Virginia Natural Resources Commitment Fund, a sub fund of the Water Quality Improvement Fund. Notwithstanding any other provision of law, the funds transferred to the Virginia Natural

²¹ This typically has been five positions.

Resources Commitment Fund shall be distributed by the Department upon approval of the Virginia Soil and Water Conservation Board in accordance with the board's developed policies, as follows: \$75,979,754 shall be used for matching grants for Agricultural Best Management Practices on lands in the Commonwealth exclusively or partly within the Chesapeake Bay watershed, \$32,562,751 shall be used for matching grants for Agricultural Best Management Practices on lands in the Commonwealth exclusively outside the Chesapeake Bay watershed, and an additional \$10,333,523 in addition to the base funding provided in A.1. shall be appropriated for Technical Assistance for Virginia Soil and Water Conservation Districts.

Notwithstanding § 10.1-2129 A., *Code of Virginia*, included in this Item is \$63,000,000 the first year from nongeneral funds that shall be transferred to the Virginia Natural Resources Commitment Fund, and that shall be distributed by the Department upon approval of the Virginia Soil and Water Conservation Board in accordance with the board's developed policies, as follows: \$40,266,524 shall be used for matching grants for Agricultural Best Management Practices on lands in the Commonwealth exclusively or partly within the Chesapeake Bay watershed, \$17,257,082 shall be used for matching grants for Agricultural Best Management Practices on lands in the Commonwealth exclusively outside the Chesapeake Bay watershed, and an additional \$5,476,394 in addition to the base funding provided in A.1. shall be appropriated for Technical Assistance for Virginia Soil and Water Conservation Districts.

Grant Disbursement Reporting - Enhanced Nutrient Removal Certainty (Item 365 I)

Grantee owners of Enhanced Nutrient Removal Certainty (ENRC) Program and other Water Quality Improvement Fund projects subject to a grant agreement with the Department shall submit a forecast of projected quarterly grant disbursements covering each quarter of the current fiscal year and the next fiscal year thereafter. The Department shall compile the grantee-supplied forecasts of projected quarterly grant disbursements and compare expected disbursements to available appropriations to provide advance notice of any potential shortfall. The Department shall submit each forecast to the Chairs of the House Appropriations Committee and the Senate Finance and Appropriations Committee on a quarterly basis.

FY2024 mandatory deposit for ENRCP & I-81 **prior to** WQIF calculation (Item 470.K)

From such general fund revenues as are collected for fiscal year 2024 in excess of the official fiscal year 2024 revenue estimate included in the final 2022-2024 biennial appropriation act adopted in the 2024 Special Session I, the first \$575,000,000, or portion thereof, that is not required to meet a Constitutionally-mandated deposit to the Revenue Stabilization Fund, and prior to calculating the Revenue Reserve Fund and the Water Quality Improvement Fund Part A deposits, shall be reserved by the Comptroller in the Committed Fund Balance for the following purposes in priority order during the first year:

1. \$175,000,000 shall be reserved for transfer to Item 438 of this Act to support the I-81 Corridor Improvement Program; and
2. \$400,000,000 for matching grants for Water Quality Improvement Fund eligible wastewater projects for Chesapeake Bay nutrient reductions authorized under *Code of Virginia* §§ 10.1-1186.01.F., 10.1-2131.C., and 62.1-44.19:14.G.1. To the extent that

general fund revenues are available to support the costs for these expenses, the Director or the Director's designee, Department of Planning and Budget, shall reduce by an equal amount the bond proceeds for these projects authorized in Item C-53.50 of this act.

FY2025 & 2026 mandatory deposit for I-81 Corridor Improvement Program **prior to** WQIF calculation (Item 470.L)

From such general fund revenues as are collected for fiscal year 2025 in excess of the First Year Official Revenue Estimate contained in this Act that is not required to meet (i) a Constitutionally-mandated deposit to the Revenue Stabilization Fund, (ii) or the Water Quality Improvement Fund, Part A deposit, an amount up to \$175 million less the amount transferred pursuant to subparagraph K.1. of this Item shall be reserved by the Comptroller in the Restricted Fund Balance for transfer to Item 438 of this Act to support the I-81 Corridor Improvement Program.

From such general fund revenues as are collected for fiscal year 2026 in excess of the Official Revenue Estimate contained in the 2025 Appropriation Act that is not required to meet (i) a Constitutionally-mandated deposit to the Revenue Stabilization Fund, (ii) or the Water Quality Improvement Fund, Part A deposit, an amount up to \$175 million less the amounts transferred pursuant to subparagraphs K.1. And L.1. of this Item shall be reserved by the Comptroller in the Restricted Fund Balance for transfer to the Department of Transportation to support the I-81 Corridor Improvement Program.

Nongeneral Fund Bond Proceeds Deposit (Item C-53.50)

Out of this appropriation, \$200,000,000 the first year and \$200,000,000 the second year from nongeneral fund bond proceeds are authorized for transfer to the Department of Environmental Quality to make matching grants for Water Quality Improvement Fund eligible wastewater projects for Chesapeake Bay nutrient reductions authorized under *Code of Virginia* §§ 10.1-1186.01.F., 10.1-2131.C., and 62.1-44.19:14.G.1.

The Virginia Public Building Authority pursuant to § 2.2-2260 et seq., *Code of Virginia*, is hereby authorized to issue bonds in a principal amount not to exceed \$200,000,000 the first year and \$200,000,000 the second year plus amounts needed to fund issuance costs, reserve funds, original issue discount, interest prior to and during the acquisition or construction and for one year after completion thereof, and other financing expenses, in accordance with § 2.2-2263, *Code of Virginia*, to be provided to the Department of Environmental Quality to make matching grants for Water Quality Improvement Fund eligible wastewater projects for Chesapeake Bay nutrient reduction authorized under *Code of Virginia* §§ 10.1-1186.01.F., 10.1-2131.C., and 62.1-44.19:14.G.1.

Debt service on the bonds issued under the authorization in this item shall be provided from appropriations to the Treasury Board.

Commercial Watercraft Fuel Tax WQIF Deposit (Item 3-1.01.C)

In order to fund such projects for improvement of the Chesapeake Bay and its tributaries as provided in § 58.1-2289 D, *Code of Virginia*, there is hereby transferred to the general fund of the state treasury the amounts listed below. From these amounts \$2,583,531 the first year and \$2,583,531 the second year shall be deposited to the Virginia Water Quality Improvement Fund pursuant to § 10.1-2128.1, *Code of Virginia*, and designated for deposit to the reserve fund, for ongoing improvements of the Chesapeake Bay and its tributaries. The Department of Motor Vehicles shall be responsible for effecting the provisions of this paragraph. The amounts listed below shall be transferred on June 30 of each fiscal year.

154 Department of Motor Vehicles	\$10,000,000	\$10,000,000
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Recordation Tax Fee WQIF Deposit (Item 3-6.01)

There is hereby assessed a twenty dollar fee on (i) every deed for which the state recordation tax is collected pursuant to §§ 58.1-801 A and 58.1-803, *Code of Virginia*; and (ii) every certificate of satisfaction admitted under § 55.1-345, *Code of Virginia*. The revenue generated from fifty percent of such fee shall be deposited to the general fund. The revenue generated from the other fifty percent of such fee shall be deposited to the Virginia Natural Resources Commitment Fund, a subfund of the Virginia Water Quality Improvement Fund, as established in § 10.1-2128.1, *Code of Virginia*. The funds deposited to this subfund shall be disbursed for the agricultural best management practices cost share program, pursuant to § 10.1-2128.1, *Code of Virginia*.

Appendix H: Other Legislative Reports Consulted

This report was compiled from research from the following legislative reports.

Annual Report on the Virginia Water Quality Improvement Fund Nonpoint Source Program - <https://rga.lis.virginia.gov/Published/1998/SD21/PDF>
Department of Conservation and Recreation
December 1998

Annual Report on the Virginia Water Quality Improvement Fund Point Source Pollution Control - <https://rga.lis.virginia.gov/Published/2004/RD34/PDF>
Department of Environmental Quality
January 2004

Interim Report: Review and Analysis of Agricultural Water Quality Improvement Programs Delivered by Virginia's Soil and Water Conservation Districts - <https://rga.lis.virginia.gov/Published/2005/HD46/PDF>
Department of Conservation and Recreation
January 2005

Annual Report on the Virginia Water Quality Improvement Fund Point Source Pollution Control - <https://rga.lis.virginia.gov/Published/2005/RD225/PDF>
Department of Environmental Quality
January 2005

Annual Report on the Virginia Water Quality Improvement Fund Point Source Pollution Control - <https://rga.lis.virginia.gov/Published/2006/RD63/PDF>
Department of Environmental Quality
January 2006

Virginia Water Quality Improvement Fund and the Cooperative Nonpoint Source Pollution Program and the Federal Clean Water Act Section 319 Nonpoint Source Pollution Management Program - <https://rga.lis.virginia.gov/Published/2007/RD109/PDF>
Department of Conservation and Recreation
May 2007

Virginia Water Quality Improvement Fund and the Cooperative Nonpoint Source Pollution Program - <https://rga.lis.virginia.gov/Published/2008/RD112/PDF>
Department of Conservation and Recreation
March 2008

Virginia Water Quality Improvement Fund and the Cooperative Nonpoint Source Pollution Program - <https://rga.lis.virginia.gov/Published/2010/RD322/PDF>

Department of Conservation and Recreation

November 2010

An Evaluation of Methods to Stabilize the Fluctuations in Funding for Agricultural Best Management Practices - <https://rga.lis.virginia.gov/Published/2017/RD494/PDF>

Department of Conservation and Recreation

November 2017

Assessment of Water Quality Improvement Fund Reimbursement Models and Amounts to Localities with High Fiscal Stress, Median Household Incomes Below the Commonwealth's Average, and Limited Ratepayer Capacity -

<https://rga.lis.virginia.gov/Published/2020/RD632/PDF>

Department of Environmental Quality

December 2020

Commonwealth of Virginia Wastewater Infrastructure Needs Assessment –

<https://rga.lis.virginia.gov/Published/2023/RD814/PDF>

Department of Environmental Quality

December 2023