

## **FUNDING OPTIONS AND RECOMMENDATIONS**

### **Identification of Funding Needs**

Effective implementation of recommended interrelated water management activities will require financial commitment. The Task Force identified the following categories of interrelated water management activities as needing funding.

1. Data Analysis Needs
  - Data Gathering/Organization
  - Modeling/Analysis Efforts
  - Local Specialized Studies
2. Planning and Implementation
3. Tools in Overappropriated Basins
  - Alternative Supplies
  - Incentives
  - Compensation
  - Water Transfer Mechanisms

### **Identification of Potential Funding Options**

Although the list was quickly narrowed, a task force subcommittee on funding identified a diverse list of “*brainstorming*” funding options early in its deliberations. Those options were directed specifically at data and analysis funding needs and not at other funding needs. The subcommittee discussed the appropriate mix of state versus local funding for various activities as well as the potential for federal and other grant related funding. Potential sources of funding identified on the “brainstorming” list included:

1. No New Funding – Do only what can be done with existing resources
2. One-time State Appropriation
3. Annual State Appropriations to Program
4. Dedicated State Tax Source
  - a) Cigarettes
  - b) Lottery
  - c) Collection of Water Fees (various fee structures possible)
    - *Use Tax*
    - *Consumptive Use Tax*
    - *Irrigated Acreage Tax*
    - *Basin Wide Assessments per Irrigated Acre*
    - *Transfer Fees*
    - *Per Capita Tax*
    - *Severance Tax Based Upon Distance Water Moved*
      - d) Dedicated Sales Tax Source
      - e) Other Potential New Tax Sources, “Sin” taxes etc.

5. Establish and Fund State Competitive Grant Program
6. Raise and/or Earmark Appropriations for University research
7. Use Existing State Programs (Environmental Trust?, Other?)
8. Open Up Requirements on Use of Resources Development Fund and/or Soil and Water Conservation Fund.
9. Raise NRD Tax Lids
10. Raise Other Local Tax Lids
11. Fund or Dedicate a State Staff Member to Grant Writing for Federal and Private Programs *(potential money sources mentioned have included Equip, Farm Bill, High Plains Aquifer Program, and Conservation Security Program)*
12. Provide Separate Funding Sources for the Republican (Settlement Monies) and the Middle and Upper Platte River (COHYST) Versus Other Areas of the State.
13. Combined Funding Package – Environmental Trust / State Appropriation / NRD
14. Levy a Use Fee in Basins Where There is No More Unappropriated Water
15. A Fee on Wells with Different Fees on Different Classes of Wells
16. A Use Fee with One Rate for Wells Pumping Over 100 gallons per minute and Another Rate for Those Pumping Less
17. Use Leftover Money from Republican lawsuit for Interrelated Water Management Studies statewide

### Subcommittee Deliberations on Funding Package

The Funding Subcommittee considered a number of issues during its deliberations, including:

- 1) What is the appropriate level of funding for each need and what is the appropriate level of state versus local funding?
- 2) Which funding options should have higher versus lower preference?
- 3) Should interrelated water management activities be funded from a source that also funds other types of water management activities?

*What is the appropriate level of funding for each need and what is the appropriate mix of state versus local funding?*

The Funding Subcommittee considered the cost of previous data collection and research/analysis (such as the Platte River Cooperative Hydrology Study), as well as data needs in remaining areas. This was extrapolated to develop a very general level of funding need in each data/research/analysis category. When added, this resulted in a figure of approximately \$15 to 19 million. A time frame of 10 years was later used, resulting in a need which may be as high as \$1.9 million annually. As a general guide the subcommittee envisioned the level of funding need (if the higher \$19 million figure were used) as being split approximately as follows:

Data Gathering/Organization (statewide)	\$ 2 million	10% from local sources
Modeling/Analysis Efforts (Such as CoHyst)	\$10 million	33% from local sources
Local Detailed Studies	\$ 7 million	51% from local sources
TOTAL	\$19 million	37% from local sources

It was recognized that a significant portion of the \$19 million could come from outside grant sources. The subcommittee did not consider planning and implementation costs or costs for tools in overappropriated basins until very late in its deliberations. Planning and implementation costs were later included as part of the \$19 million funding need in a recommendation package. Rationales for including this category without separate funding include: 1) \$19 million represented a high end need figure for data and analysis and savings may be expected, and 2) portions of planning and implementation cost may be borne through existing budgets, including some existing separate funds from legal settlements related to the Republican and North Platte Rivers. The funding subcommittee only used an "educated guess" cost figure as the amount for tools in overappropriated basins.

*Which funding sources should receive higher versus lower preference?*

The funding subcommittee identified six priority state funding options. Funding subcommittee members expressed a strong preference for finding a dedicated funding source. The subcommittee's relatively higher preference funding options included: dedicated sales tax, per capita tax, and income tax. Relatively lower preference options included a per gallon water tax, a per irrigated acre tax, and annual appropriations.

*Should interrelated water management activities be funded from a source that also funds other water management activities?*

The funding subcommittee favored coupling interrelated water management activities with other water management activities that could benefit from a stable dedicated funding source. This eventually led to a recommendation that a water resources trust fund be established. In addition to interrelated water management the Water Resources Trust Fund could be used to support groundwater management activities in general, the Nebraska Resources Development Fund, the Nebraska Soil and Water Conservation Fund, and the Small Watersheds Flood Control Fund.

### Recommended Funding Package

*The task force recommends funding interrelated water management activities through creation of a Water Resources Trust Fund receiving .05 of 1¢ of dedicated sales tax, through exemption of NRD groundwater management activities from the 2 ½ % budget lid and through certain other measures.* The task force believes that water is so essential to agriculture, the environment, industry, human health and well being, and the overall economic viability of the state that leaving it to the fluctuation and uncertainty of the annual appropriations process seems unwise. The specifics of the recommended package are as follows:

- (1) Create a **Water Resource Trust Fund** and dedicate .05 of 1 cent of sales tax (approximately \$11.1 million annually) towards the fund. The Fund would support a spectrum of interrelated water management activities, water funds and other water management activities. About \$6.3 million of current appropriations to the Nebraska Resources Development Fund, the Nebraska Soil and Water Conservation Fund and the Small Watersheds Flood Control Fund would be replaced by this new source.

- (2) **The Water Resource Trust Fund would be distributed** as follows:
- (a) **Dedicate up to 60% of annual receipts** to Nebraska Resources Development Fund, Soil and Water Conservation Fund, and Small Watershed Fund. (60% of \$11.1 million would be approximately \$6.7 million).
  - (b) **Dedicate at least 40% of annual receipts** (40% of 11.1 million would be approximately \$4.4 million) to (i) fund research/data needs and planning and implementation of interrelated management plans to manage ground and surface water; and (ii) funds tools to resolve inequities between ground and surface water users in over appropriated basins.
  - (c) The balance of funds remaining in 2a and 2b at the end of a year would be carried over in the Water Resources Trust Fund to be used on items 2a and 2b in future years or to be distributed for groundwater management activities, water quality activities, or carried over again.
  - (d) The Natural Resources Commission with input from the Director of the Dept. of Natural Resources will establish rules for the distribution of funds according to guidelines above.
  - (e) After 10 years the percentages dedicated to 2a and 2b will be at the discretion of the Natural Resources Commission.
- (3) In addition to current local matching requirements for funds under 2a, NRDs must provide matching funds for use of funds under (2)(b). The subcommittee recommends NRD matching funds of at least 20% for (2)(b)(i).
- (4) **Exempt NRD groundwater management activities would from the statutory 2 ½ % budget lid placed on NRD budgets (currently 13-501 et seq. and 77-3446).** The 4 ½ cent property tax levy lid would remain. The budget lid exemption is needed to allow NRDs to raise the necessary funds for matching contributions.
- (5) It is expected the Environmental Trust Fund will continue to prioritize and continue to direct funding towards water management activities. The Environmental Trust Fund has prioritized funding of water activities in its grant program and this year roughly \$1 million in grants were awarded to funding of projects and activities related to water issues.
- (6) The Water Resources Trust Fund could also receive income from other dedicated sources, federal sources or private grant funds or contributions.

**Annual Budget Detail of New Funding Package<sup>(1)</sup>**

	<b>State Contributions to Nebraska <u>Water Trust Fund</u></b>	<b>Local Match Local <u>Expenditures</u></b>	<b><u>Total</u></b>
<b>1. Existing DNR Funds</b>			
Resources Development Fund(2)	3,600,000	1,106,940	
Small Watersheds(3)	24,000		
Soil & Water Cons. Fund(4)	2,700,000	2,050,000	
Interrelated Water Mgmt. Fund	----		
<b>2. Interrelated Research/Data/ Planning/Implementation</b>	1,193,000	707,000	
Data Gathering/Organizing COHYST Type Studies Local Specialized Studies Planning and Implementation			
<b>3. Tools in Over Appropriated Basins</b>	3,500,000	350,000	
Alternative Supplies Incentives Compensation Water Transfer Mechanisms			
<b>4. Discretionary/Other GW Mgmt. Funding<sup>(5)</sup></b>	83,000	(5)	
<b>TOTAL<sup>(6)</sup></b>	<b>11,100,000</b>	<b>4,213,940</b>	

(1) It would be required that at least 38-40% of the fund be dedicated to activities 2 and 3. Decisions on funding distribution would be made by the Natural Resources Commission with the input of the Director of Natural Resources. Existing DNR fund amounts are based upon FY 03 appropriations.

(2) Nebraska Resources Development Fund figures are based upon appropriations in FY 03 and local match provided in FY03. FY 03 was a year with significantly higher appropriations to the NRDF than the years immediately preceding it. There was also some lag between receipt of funds and the point at which they are spent on a project. Therefore, while appropriations to the Fund in FY 03 were at \$3.6 million, expenditures from the Fund were actually only about \$2 million.

(3) The Small Watersheds Flood Control Fund is currently minimally funded, although need/demand levels could change in the future due to project rehabilitation needs or other factors.

- (4) The Nebraska Soil and Water Conservation Fund amounts have been adjusted downward to account for a temporary influx of separate funding being used for installation of well meters in the Republican Basin. Local match for Nebraska Soil and Water Conservation Fund expenditures is a rough estimate based upon approximate landowner FY03 cost share plus a small amount added for local NRD administrative match. Local match for Republican Basin meters has also been removed from that amount. The value of Federal contributions through Natural Resources Conservation Service technical assistance are not counted, but would likely have added about 20% to the local match had they been included in that category.
- (5) This category contains a small amount of funding that could be used for groundwater management activities rather than interrelated water management activities per se. However, in early years it is anticipated that uses will be for interrelated management activities. No attempt was made to identify individual NRD expenditures already occurring in this category, but they are substantial. The budget amounts in the "*Discretionary/Other GW Mgmt. Funding*" category should be viewed as only a small portion of the total funding already going into these activities. Groundwater Management Activities are defined as activities involving planning and implementation of the Groundwater Management and Protection Act as included in 46-656.05 through 46-656.67.
- (6) In addition to the funds noted above, it is anticipated that funds redirected from settled lawsuits will be used to help pay Natural Resources District interrelated management costs in the Republican and Platte basins.