

Report of Water Policy Task Force

needed and eliminate the difference between the over-appropriated level of development and the fully appropriated level of development and achieve the long-term goals of the plan and, if necessary, adopt a second increment. The process shall continue until the NRDs and DNR determine the basin has reached a fully appropriated status.

VII. Funding Recommendations

Following are two alternative options developed by the Task Force for funding the proposed recommendations. Both alternatives call for a dedicated source of funding.

Alternative I

Early in the Task Force deliberations, it became abundantly clear to Task Force members that effective implementation of these recommendations will require a commitment on the part of the state and the NRDs to provide an adequate, stable source of funding. This funding will be particularly important in over-appropriated areas where inequities between surface water and groundwater users must be addressed. With the passage of LB 108, the Legislature did create the Interrelated Water Management fund to address interrelated water management issues. However, for a variety of reasons, it was never funded. Individual NRDs that have implemented a groundwater management area are already spending substantial sums, as much as 65% of their entire NRD budget. At least two of the five NRDs that presently do not have a groundwater management area are contemplating establishing one in the near future. Many NRDs are concerned they will not have the funds to implement a management area because they are already close to the limit of their maximum available tax levy funding. Finding funds for an additional Integrated Surface/Groundwater Management Plan would further increase their burden and concern.

The Task Force identified the following categories of interrelated water management activities as needing funding.

1. Research and Data Analysis Needs
 - Data Gathering/Organization
 - Modeling/Analysis Efforts
 - Local Specialized Studies
2. Development and Implementation of Integrated Management Plans
 - NRD staff
 - DNR staff

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3. Tools in Integrated Management Plans
 - Alternative Supplies
 - Incentives/Cost-Share to Reduce Water Usage
 - Water Transfer Mechanisms
4. Other Groundwater Management Activities

Estimates of the annual funding needs for each category are found in the table on page ¹⁵~~12~~ entitled "Annual Budget Detail of New Funding Package." The Task Force estimates that the Research/Data, and the Development and Implementation of Integrated Management Plans categories will cost approximately \$1.9 million annually. The estimate was based on the cost of existing studies and models like the Cooperative Hydrology Study (COHYST) or the models under development in the Republican River basin and on estimates of the costs to catalog existing data and information, place the existing data in a usable form and identify and fill the data gaps. Of the total amount, the NRDs estimate their portion of the research and data collection will cost just over \$700,000. It is important to note these estimates do not include money for additional staffing at DNR or the affected NRDs to implement integrated management plans. DNR estimates additional staff of 3 positions will be needed to carry out the Task Force recommendations. The affected NRDs will also need additional positions. CAT 142

It is estimated that the Tools in the ^{3.5 State 0.7 NRD} Integrated Management Plans category will need a total funding of approximately \$4.2 million annually. This money will be used to fund the implementation of programs within the integrated management plans to provide water to offset or mitigate inequities between water users or reduce water usage in over-appropriated basins. Specific uses of this funding could be to provide alternative supplies, buy-out water rights, provide incentives to reduce water usage, fund cost-share programs to adopt management practices or technologies that reduce water use, or fund water leasing or other water transfer mechanisms.

The Other Groundwater Management Activities category contains a small amount of funding that could be used for groundwater management activities rather than interrelated water management activities per se. Groundwater Management Activities are defined as activities involving planning and implementation of the Groundwater Management and Protection Act as presently codified in 46-656.01 through 46-656.67.

The Task Force Funding Subcommittee considered a wide range of possible funding sources including continuing to rely on appropriations from the Legislature, federal funds and grants from the Nebraska Environmental Trust Fund. The preferred funding mechanism of the Subcommittee was to implement some kind of dedicated revenue source. Ideas considered

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included a per capita tax, an increased and/or dedicated sales tax, or a dedicated increase in income taxes. Also considered was establishing fees or taxes on both agricultural and nonagricultural water use. After much discussion the Task Force decided to recommend that funding for the needs identified above come from the appropriate mix of state and local funding.

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 the funding of the state portion to the fluctuation and uncertainty of the annual appropriations process is unwise. Therefore, the Task Force recommends funding the state portion through the creation of a Water Resources Trust Fund with a dedicated source of funding. The Task Force also recommends the NRDS must provide a 20% local match to receive funds from the Water Resources Trust Fund. The Task Force recommends .05 of 1¢ of state sales tax collected be dedicated to the Water Resources Trust Fund. The Task Force further recommends the exemption of NRD groundwater management activities from the 2 ½ percent budget lid. The NRDs also should be able to supplement the funds they can use through the 4½ cent property tax levy with an additional levy imposed only in Groundwater Management Areas. Finally, the Task Force recommends the state and NRDs utilize other possible funding sources like the Environmental Trust Fund and federal government to the fullest extent possible. The specifics of the recommended package are as follows:

(A) State Funding

- (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 Funding amount will support the implementation of Integrated Surface/Groundwater Management Plans as well as a wider spectrum of interrelated water management activities, water funds and other water management activities, including **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 will be replaced by this new source.**
- (2) The **Water Resource Trust Fund will be distributed** as follows:
 - (a) **Dedicate at least 40% of annual receipts** (40% of 11.1 million will be approximately \$4.4 million) to funding the interrelated water management needs identified above.
 - (b) **Dedicate up to 60% of annual receipts** to existing programs like the Nebraska Resources Development Fund, Soil and Water Conservation Fund, and Small Watershed Fund. (60% of \$11.1 million will be approximately \$6.7 million).

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- (c) The balance of funds remaining at the end of a year will be carried over in the Water Resources Trust Fund to be used for the above purposes in future years or to be distributed for groundwater management activities and water quality activities.
 - (d) The Natural Resources Commission with input from the Director of DNR will establish rules for the distribution of funds according to guidelines above.
 - (e) After 10 years, the percentages of annual receipts to the fund dedicated above will be at the discretion of the Natural Resources Commission.
- (3) The Water Resources Trust Fund could also receive income from other dedicated sources, federal source or private grant funds or contributions.

(B) Local Funding

- (1) To use the Water Resources Trust Fund, NRDs must provide matching funds of at least 20% to implement tools in integrated management plans. In addition, NRDs will be subject to matching funds requirements already required in existing DNR programs.
- (2) Exempt NRD groundwater management activities from the statutory 2½% budget lid placed on NRD budgets. The budget lid exemption is needed to allow NRDs to budget the necessary funds for matching contributions.
- (3) Authorize the NRDs to supplement the 4½ cent property tax levy authority with an additional levy authority of 1.8 cents imposed in groundwater management areas.

(C) Other

- (1) The Water Policy Task Force expects the Environmental Trust Fund to continue to prioritize and direct funding towards water management activities. The Environmental Trust Fund has prioritized funding of water activities in its grant program. Last grant year, roughly \$1 million in grants were awarded to funding of projects and activities related to water issues.

Annual Budget Detail of New Funding Package⁽¹⁾

	State Contributions to Nebraska Water Trust Fund	Local Match Local Expenditures	Total
1. Existing DNR Funds			
Resources Development Fund(2)	3,600,000	1,106,940	

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	Small Watersheds(3)	24,000	
	Soil & Water Cons. Fund(4)	2,700,000	2,050,000
	Interrelated Water Mgmt. Fund	---	
2.	Interrelated Research/Data/ Planning/Implementation	1,193,000	707,000
	Data Gathering/Organizing		
	COHYST Type Studies		
	Local Specialized Studies		
	Planning and Implementation		
3.	Tools in Over-Appropriated Basins	3,500,000	700,000
	Alternative Supplies		
	Incentives/Payments		
	Compensation		
	Water Transfer Mechanisms		
4.	Discretionary/Other GW Mgmt. Funding⁽⁵⁾	83,000	(5)
		<u> </u>	
	TOTAL	11,100,000	4,563,940

\$ 4.776M

- (1) 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 will likely add about 20% to the local match if they are included in that category.
- (5) 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.

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Alternative II

Early in the Task Force deliberations, it became abundantly clear to Task Force members that effective implementation of these recommendations will require a commitment on the part of the state and the NRDs to provide an adequate, stable source of funding. This funding will be particularly important in over-appropriated areas where inequities between groundwater and surface water users must be addressed. With the passage of LB 108 in 1996, the Legislature created the Interrelated Water Management fund to address interrelated water management issues. However, for a variety of reasons, it was never funded. Individual NRDs which have implemented a groundwater management area are already spending substantial sums, as much as ___% of their entire NRD budget. At least two of the five NRDs that presently do not have a groundwater management area are contemplating establishing one in the near future. Many NRDs are concerned they will not have sufficient funds to properly implement a management area because they are already close to the limit of their maximum available tax levy funding. Finding funds for an additional Integrated Surface/Groundwater Management Plan would further increase their burden and concern.

The Task Force identified the following categories of interrelated water management activities as needing funding.

4. Research and Data Analysis Needs
 - Data Gathering/Organization
 - Modeling/Analysis Efforts
 - Local Specialized Studies
5. Development and Implementation of Integrated Management Plans
 - NRD staff
 - DNR staff
6. Tools in Integrated Management Plans
 - Alternative Supplies
 - Incentives/Cost-Share to Reduce Water Usage
 - Water Transfer Mechanisms
4. Other Groundwater Management Activities

Estimates of the annual funding needs for each category are found in the table on page – entitled “Annual Budget Detail of New Funding Package.” The Task Force estimates that the Research/Data, and the Development and Implementation of Integrated Management Plans categories will cost approximately \$1.9 million annually. The estimate was based on the cost of existing studies and models like the Cooperative Hydrology Study (COHYST) or the models under development in the Republican River basin and on estimates of the costs to catalog existing data and information, place the existing data in a usable form and identify and fill the data gaps. Of the total amount, the NRDs estimate their portion of the research and data

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collection will cost just over \$700,000. It is important to note these estimates do not include money for additional staffing at DNR or the affected NRDs to implement integrated management plans. DNR estimates additional staff of 3 positions will be needed to carry out the Task Force recommendations. The affected NRDs will also need additional positions.

It is estimated that the Tools in Integrated Management Plans category will need total funding of approximately \$4.2 million annually. This money will be used to fund the implementation of programs within the integrated management plans to provide water to offset or mitigate inequities between water users or reduce water usage in over appropriated basins. Specific uses this funding could include the development of projects to provide alternative supplies, fund buy-outs of water rights, provide incentives to reduce water usage, fund cost-share programs to adopt management practices or technologies that reduce water use, or fund water leasing or other water transfer mechanisms.

The Other Groundwater Management Activities category contains a small amount of funding that could be used for groundwater management activities rather than interrelated water management activities per se. Groundwater Management Activities are defined as activities involving planning and implementation of the Groundwater Management and Protection Act as presently codified in sections 46-656.01 through 46-656.67.

The Task Force Funding Subcommittee considered a wide range of possible funding sources including continuing to rely on appropriations from the Legislature, federal funds and grants from the Nebraska Environmental Trust Fund. The preferred funding mechanism of the Subcommittee was to implement some kind of dedicated revenue source. Ideas considered included a per capita tax, an increased and/or dedicated sales tax, or a dedicated increase in income taxes. Also considered was establishing fees or taxes on both agricultural and nonagricultural water use. After much discussion the Task Force decided to recommend that funding for the needs identified above come from the appropriate mix of state funds and local funds.

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 the funding of the state portion to the fluctuation and uncertainty of the annual appropriations process is unwise. Therefore, the Task Force recommends funding the state portion through the creation of a Water Resources Trust Fund with a dedicated source of funding. The Task Force also recommends NRDs provide a 20% local match to receive funds from the Water Resources Trust Fund. The Task Force recommends a minimal percentage of the state sales tax collected be dedicated to the Water Resources Trust Fund. The Task Force further recommends the exemption of NRD groundwater management activities from the 2 1/2 percent budget lid and providing NRDs with additional levy authority to implement groundwater management activities. Finally, the Task Force recommends the state and NRDs utilize other possible funding sources like the Environmental Trust Fund and federal government to the fullest extent possible and that the Legislature consider funding other natural resource programs administered by the Dept. of Natural Resource Programs through the Water Resource Trust Fund.

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The specifics of the recommended package are as follows:

(A) State Funding

- (3) Create a **Water Resource Trust Fund** and dedicate a minimal percentage of state sales tax collected to the fund. The amount dedicated would amount to $1/50^{\text{th}}$ of one cent of each sales tax dollar collected generating approximately \$4.7 million.
- (4) The fund would support the state's contribution towards research, data gathering, model development, and implementation of Integrated Surface/Groundwater Management Plans as well as tools utilized in the plans including alternative supplies, cost-share programs, buy-outs of water rights, water leases and other water management activities.
- (5) The fund will be administered by the Dept. of Natural Resources. The Natural Resources Commission with input from the Director of DNR will establish rules for the distribution of funds.
- (6) The balance of funds remaining at the end of a year will be carried over in the Water Resources Trust Fund to be used for the above purposes in future years or to be distributed for groundwater management activities and water quality activities.
- (7) The Water Resources Trust Fund could also receive income from other dedicated sources, federal source or private grant funds or contributions.

(B) Local Funding

- (1) NRDs must provide matching funds of at least 20% for use of funds in the Water Resources Trust Fund to implement integrated management plans and implement tools utilized within plans.
- (2) Exempt NRD groundwater management activities from the statutory $2\frac{1}{2}\%$ budget lid placed on NRD budgets. The budget lid exemption is needed to allow NRDs to budget the necessary funds for matching contributions.
- (3) Authorize the NRDs to supplement the $4\frac{1}{2}$ cent property tax levy authority with an additional levy authority of 1.8 cents imposed in groundwater management areas.

(C) Other

- (1) The Water Policy Task Force expects the Environmental Trust Fund to continue to prioritize and direct funding towards water management activities. The Environmental Trust Fund has prioritized funding of water activities in its grant program. Last grant year, roughly \$1 million in grants were awarded to funding of projects and activities related to water issues.

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(2) The Task Force also recommends the Legislature consider funding current DNR programs through the Water Resources Trust Fund as well. Presently these programs are funded through general fund appropriations and amounted to roughly \$6.3 million in FY03. If current programs are included:

- (a) Dedicated funding needed would total \$11.1 million, or 1/20 of one cent of sales tax collected;
- (b) At least 40% of annual receipts to the fund should be dedicated to funding interrelated water management activities identified above and up to 60% of the annual receipts be dedicated to fund existing programs like the Nebraska Resources Development Fund, Soil and Water Conservation Fund, and Small Watershed Fund.
- (c) After 10 years, the percentages of annual receipts to the funds dedicated above should be at the discretion of the Natural Resources Commission.
- (d) Local matching fund requirement for existing DNR programs should continue.

Annual Budget Detail of New Funding Package

	State Contributions to Nebraska <u>Water Trust Fund</u>	Local Match Local <u>Expenditures</u>
1. Interrelated Research/Data/ Planning/Implementation Data Gathering/Organizing COHYST Type Studies Local Specialized Studies Planning and Implementation	1,193,000	707,000
2. Tools in Integrated Management Plans Alternative Supplies Incentives/Payments Water Transfer Mechanisms	3,500,000	700,000
3. Discretionary/Other GW Mgmt. Funding⁽¹⁾	83,000	(1)
TOTAL	4,776,000	1,407,000⁽¹⁾

(1) 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.

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COMMENTS

Comments by the Water Policy Task Force

Funding for the Legislation Developed by the Water Policy Task Force

This comment documents the consensus of the members of the Water Policy Task Force regarding funding to implement the provisions of the legislation. The legislation proposed herein is designed in part to provide a process to address conflicts between surface water users and groundwater users and prevent those conflicts from occurring in the future. This process uses a number of mechanisms that are included in the legislation but are dependent upon adequate and dedicated funding to achieve the above goals. Without this commitment, the Water Policy Task Force recommendations would not accomplish the legislature's goal to address inequities between surface water users and groundwater users and consensus and support for the legislation could not have been achieved. Therefore, a dedicated funding component should be viewed as an essential and integral part of the Water Policy Task Force recommended legislation as proposed.

Water Policy Task Force Members

Comments by Individual Task Force Members

The comments contained herein are those of the Task Force Member(s) identified and do not represent the views or signify agreement by the Task Force or any of its other members to the comments made.