

Water Funding Scenarios

Following are examples of the estimated revenue that could be generated by various sources. **The following is provided for discussion purposes and does not represent and endorsement or discount of any funding scenario.**

Water Plan Fund Fees

In 2009, the KWA proposed increasing the fees that are deposited in the SWPF by 50%, which would have increased the revenue by approximately \$4.6 million per year. Introduced into the 2009 legislature, there was not sufficient support for the concept or bill to move it forward.

SWPF Fee	Current Fee	50% Increase
Water Protection Fee	3 cents per 1,000 gallons	4.5 cents per 1,000 gallons
Fertilizer Registration Fee	\$1.40 per ton	\$2.10 per ton
Pesticide Registration Fee	\$100 from each registration fee	\$150 from each registration fee
Sand Royalty Receipts	\$0.15 per ton of sand sold	\$0.225 per ton of sand sold
Clean Drinking Water Fee	3 cents per 1,000 gallons	4.5 cents per 1,000 gallons

Sales Tax

Revenue from various sales taxes are dedicated to water and natural resource programs in such states as Arkansas, Illinois, Iowa, Missouri, and Texas. Given FY2015 projected sales tax collections in Kansas, a 0.01% increase in sales tax raises an estimated \$3.4 million.

Sales Tax Increase	Revenue
0.01%	\$3,400,000
0.10%	\$34,000,000
1%	\$340,000,000

Lottery Revenue

Revenue from lottery proceeds or in-lieu sales tax on lottery tickets is dedicated to water and natural resource programs in such states as Colorado, Minnesota, and Nebraska. Projected FY2015 lottery ticket revenues in Kansas are approximately \$75 million. Hence a 1% stake in those revenues amounts to \$750 thousand.

Lottery tickets sales are approximately \$240 million, so imposing a “sales tax” of 6.5% (Minnesota) would raise \$15.6 million.

Gaming Revenues (Casinos)

Projected FY2015 gaming revenues to the state are approximately \$87 million. Hence a 1% stake in those revenues amounts to \$870 thousand.

Oil and Gas Severance

Revenue from oil and gas severance taxes are dedicated to water and natural resource programs in such states as Colorado, North Dakota, and Oklahoma. Oil and gas severance taxes in Kansas are approximately \$170 million in a “typical” year.

Water Right Fee

In 2013, the Oregon Water Resources Department proposed a fee (SB 217) to be levied on water rights within the State of Oregon. This concept was that all water right holders would be subject to an annual fee of \$100 per water right. The Department also proposed a cap of \$1000 for all but municipal customers who have a rate-base to assist with the costs.

Applying this concept in Kansas, approximately 35,271 water right files would be assessed the \$100 fee for an annual revenue of \$3,194,800. The table below shows the estimated revenue generated by water use type. Of the total revenue potentially raised through a water right management fee in Kansas, about 81% would be attributed to irrigation, 7% to municipal use, 3% each to recreation, stockwatering and industrial use, and 1% to domestic use. All other types of use would contribute less than 1% to the total potential revenue.

Type of Use	Number of Files	Estimated Revenue
Artificial Recharge	12	\$1,200
Contamination Remediation	143	\$13,900
Dewatering	21	\$2,100
Domestic	437	\$43,000
Fire Protection	14	\$1,400
Hydraulic Dredging	47	\$4,700
Industrial	1148	\$106,100
Irrigation	28530	\$2,576,100
Municipal	2215	\$209,300
Recreational	1325	\$107,400
Sediment Storage	182	\$17,200
Stockwatering	1130	\$105,700
Thermal Exchange	64	\$6,400
Water Power	3	\$300

Colorado Oil and Gas Severance Tax

Background

Colorado's severance tax was enacted in 1977. Severance taxes paid by energy and mining companies for Colorado's coal, oil and natural gas resources results in annual revenue that is administered by the Department of Local affairs to provide grants to communities implementing various projects including water and wastewater improvement projects.

As of 2012, 36 states levied some form of severance tax, including 31 states with a tax on extraction of oil and gas. Taxes are imposed differently across states, where some tax a fraction of the market value production, others tax the volume produced, and some states tax a combination of both the value of production and amount produced. Kansas has both a severance tax (8% of gross value of oil and gas, less property tax credit of 3.67%) and oil and gas conservation tax (91 mill/bbl crude oil or petroleum marketed or used each month and 12.9 mills/1,000 cubic feet of gas sold or marketed each month).

Tax Rate

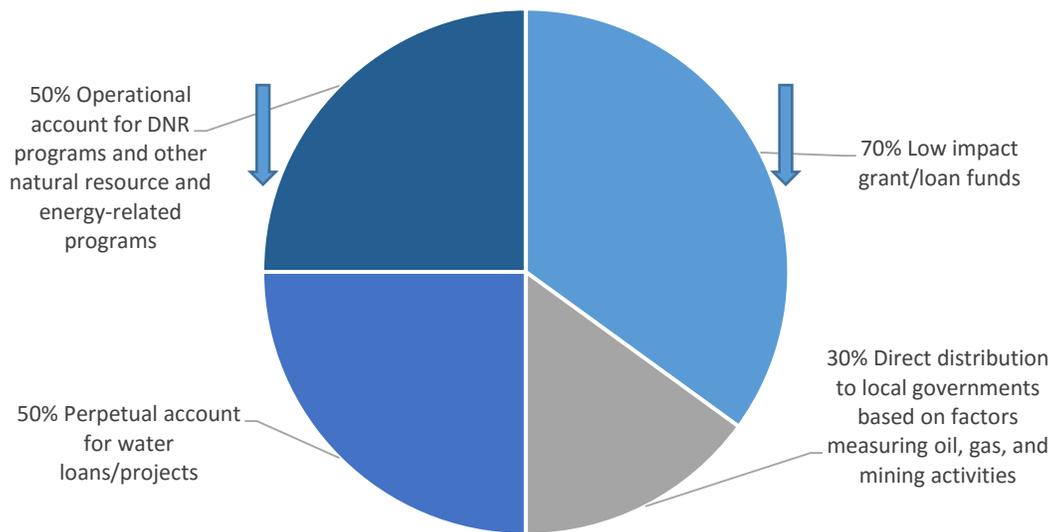
Colorado's severance tax rates vary by mineral type as follows:

Tax Base	Tax Rate
Coal <i>Assessed on the amount produced per quarter in tons</i>	First 300,000 tons are exempt Over 300,000 tons at a rate published monthly by the Colorado Department of Revenue
Metallic Minerals <i>Assessed on gross producer income</i>	First \$19 million are exempt Over \$19 million at 2.25%
Molybdenum <i>Assessed on the amount produced in tons</i>	First 625,000 tons are exempt Over 625,000 tons at 5 cents per ton
Oil and Gas <i>Assessed on gross income</i>	Up to 15 barrels per day (oil) or 90,000 cubic feet per producing day (gas) are exempt Under \$25,000 at 2% \$25,000 to \$99,999 at \$500 plus 3% over \$25,000 \$100,000 to \$299,999 at \$2,750 plus 4% over \$100,000 Over \$300,000 at \$10,750 plus 5% over \$300,000
Oil Shale <i>Assessed on gross proceeds; based on years of operation. Only applicable 180 days after production begins</i>	The greater of the first 15,000 tons per day or the first 10,000 barrels per day are exempt First year at 1% Second year at 2% Third year at 3% Fourth year at 4%

Distribution

Colorado Severance tax revenue is divided evenly between the Department of Natural Resources (DNR) and the Department of Local Affairs (DOLA).

	50%	50%
	Department of Natural Resources	Department of Local Affairs
	Severance Tax Trust Fund	Local Government Severance Tax Fund



DNR's half is deposited into the Severance Tax Trust Fund where it is "held in trust as replacement for depleted natural resources, for the development and conservation of the state's water resources, and for use in funding programs that promote and encourage sound natural resource planning, management, and development related to minerals, energy, geology, and water and for use in funding programs to reduce the burden of increasing home energy costs on low-income households.

The Colorado DOLA distributes revenue derived from energy and mineral extraction statewide. These revenues come from State Severance Tax receipts and Federal Mineral Lease non-bonus payments. Two separate Colorado statutes (C.R.S. § 39-29-110(1)(c) and 34-63-102(5.4)(c)) allocate state proceeds generated from the production of mineral resources in Colorado to local governments. Portions of the distribution are allocated based on formulaic calculations and result in the "Direct Distribution" to Colorado counties, municipalities, and school districts.

Arizona

Water Infrastructure Finance Authority

The Arizona Water Infrastructure Finance Authority (WIFA) is an independent agency of the state of Arizona and is authorized to finance the construction, rehabilitation and/or improvement of drinking water, wastewater, wastewater reclamation, and other water quality facilities/projects. Generally, WIFA offers borrowers below market interest rates on loans.

As a "bond bank," WIFA is able to issue water quality bonds on behalf of communities for basic water infrastructure. WIFA is able to provide lower interest rates than typical lending institutions and no closing costs. WIFA's principal tools for providing low interest financial assistance include the Clean Water Revolving Fund for publicly held wastewater treatment projects and the Drinking Water Revolving Fund for both publicly and privately held drinking water systems.

WIFA also manages a Planning and Design Technical Assistance Program. This program offers planning and design funding to eligible wastewater and drinking water systems. The purpose of the program is to help prepare water and wastewater facilities for future infrastructure project construction.

In 2015, 30 WIFA-funded projects were completed for Arizona's communities (19 drinking water projects and 11 wastewater projects totaling more than \$56 million).

Arizona Water Banking Authority

The Arizona Water Banking Authority (AWBA) was established in 1996 to increase utilization of the state's Colorado River entitlement and develop long-term storage credits for the state. AWBA stores or "banks" unused Colorado River water to be used in times of shortage to firm (or secure) water supplies for Arizona.

The majority of money used by the AWBA comes from existing revenue sources and from fees paid by those that benefit directly from stored water. In general, those fee sources include:

- Fees from groundwater pumping, about \$2.50 per acre-foot
- Four cent *ad valorem* property tax
- State general fund appropriation

In addition to these three funding sources, the AWBA has received revenue from the Southern Nevada Water Authority for intrastate storage.

Arizona Water Protection Fund

The Arizona Legislature established the Arizona Water Protection Fund in 1994 to provide monies for implementation of projects that will maintain, enhance and restore rivers, streams and associated riparian resources through a yearly competitive public grant process. The Arizona Water Protection Fund is funded by the State Legislature.

Rural Water Studies Fund

The Rural Water Studies fund was established to assist watershed groups with the funding of projects and studies pertaining to the understanding, planning, management, and

enhancement of water supplies in rural Arizona. Funding is authorized annually by the State Legislature. Requests for funding are reviewed by the Arizona Department of Water Resources when funds are available. Watershed partnerships and/or watershed groups include local stakeholders and representatives of resource and regulatory agencies that are active in rural areas.

Budgeting and Prioritization

Several states have adopted a system of budget review and project or program prioritization for water and natural resources funds. Below is a brief summary of the prioritization process by state.

State	Prioritization Process
Nebraska	Nebraska Natural Resources Commission (NRC) oversees Water Sustainability Fund operations including selecting successful applicants. The Commission is comprised of 13 individuals representing each river basin and 14 individuals appointed by the Governor representing water use interests (groundwater irrigators, surface water irrigators, outdoor recreation, municipal use, public power districts, etc).
Colorado	A 12-member Energy and Mineral Impact Assistance Advisory Committee assists the Colorado Department of Local Affairs in making funding decisions in distributing discretionary grants to local governments from the revenue from the Local Government Severance Tax Fund.
Texas	The State Water Implementation Fund for Texas (SWIFT) is used to implement strategies from regional water plans. Water plan project prioritization occurs at two levels – regional and state. At the regional level, 16 regional water planning groups prioritize projects in their regional water plans every five years using uniform standards developed by a stakeholder committee. The uniform standards score projects based on decade of need, project feasibility, viability, sustainability and cost effectiveness. At the state level, the Texas Water Development Board administrative rules include a prioritization system based on criteria such as population served and readiness to proceed for water supply projects applying for financing through SWIFT.

Fee and Revenue Protection

Minnesota

Article XI, Sections 14 and 15 of the Minnesota Constitution create several funds related to water and natural resources. The sources of the funds, including sales tax revenues, as well as, the permanent protection of those funds is outlined within these sections of the Constitution.

Missouri

Funding for water and natural resource activities in Missouri comes from the Design for Conservation Sales Tax and the Parks, Soils, and Water Sales Tax. Both taxes have been subject of public ballots in the states repeatedly over a 40 year timeframe. In 1999 the state attempted to divert money from the conservation tax to pay refunds for taxpayers. The Missouri Supreme Court rules that the state's 1/8th percent conservation sales tax must be used only for conservation and cannot be considered part of the state's total revenue.

Local Water Entities with Capacity to Raise Revenue

Following are some examples of water-related districts with the capacity to raise revenue for local programs and projects.

Groundwater Management Districts

Groundwater Management Districts (GMDs) are special local districts located over the Ogallala-High Plains aquifer in Kansas for the purpose of management and conservation of the groundwater resources within their district.

Under the Groundwater Management District Act (KSA 82a-1028(h)) a GMD may levy water user charges and land assessments, issue general and special bonds and incur indebtedness. In general, operational funds for the GMDs are derived from user charges assessed to water users within the district. The amount of the assessment made is determined by volume of water used and the user charge then in effect. An additional assessment is made on landowners based on acres owned in the district. Below is a table showing the land and water assessment by district.

GMD	Land Assessment	Water Assessment
Western Kansas GMD#1	\$0.05 per acre	\$1.00 per acre-foot
Equus Beds GMD#2	\$0.05 per acre	\$1.00 per acre-foot
Southwest GMD#3	\$0.05 per acre	\$0.12 per acre-foot
Northwest GMD#4	\$0.05 per acre	\$0.418 per acre-foot
Big Bend GMD#5	\$0.05 per acre	\$0.67 per acre-foot

By statute (82a-1030) a GMD board's water use charge cannot exceed \$1.00 per acre-foot, except when more than 50% of the authorized place of use for such groundwater is outside of the district boundaries. Initially, this water use charge was capped at \$0.60 per acre-foot. At the request of GMD#2, the statute was amended several years ago to allow for a greater assessment. There are current discussions to amend this statute in the coming years to again allow for an assessment cap increase.

Watershed Districts

The Kansas Watershed District Act of 1953 allowed for the formation of watershed districts. Since 1953, local citizens have developed 80 organized watershed districts in Kansas. These districts develop and implement a general plan for watershed dam construction and maintenance. There are more than 1,500 structures in the state's 80 watershed districts. According to the Watershed District Act (24-1219(d)), a district board has the authority to levy an annual tax of not to exceed two mills to create a general fund for the repayment of certain engineering, operation and maintenance and administrative costs. A watershed district board may increase the levy, not to exceed a total of four mills, through a resolution and public notification process.

Horsethief Reservoir Benefit District

In 2004, the Kansas Legislature enacted the Horsethief reservoir benefit district act creating the benefit district and outlining the terms and powers of the governing body. This governing body has the authority to issue bonds, provide a fee schedule imposed on recreational users, and

imposed a Horsethief reservoir benefit district sales tax. Horsethief reservoir is located near Jetmore in the Pawnee Watershed District. The lake offers cabin rentals, fishing, boating and other recreational opportunities.

Reservoir Improvement Districts

In 2014, the Kansas legislature enacted the Reservoir improvement district act that allows for the formation of a local district with the power to construct, improve, maintain or operate reservoir sustainability projects including water conservation activities. The act further provides that these districts can impose charges and incur indebtedness.