# INPUT NEEDED TODAY:
# Local Consult Round 2 Scenario and How to Pay for It

Kansans across the state emphasized the importance of water quality and availability during the first round of Water Local Consult meetings held in June 2024. They also weighed in on three investment scenario options that showed how state funding could be used to address aquifer, water quality and reservoir problems. Using that feedback and recognizing we cannot afford the combined 10-year, $3.7B "Game Changer" scenarios that were presented, the Kansas Water Office along with the Kansas Department of Health and Environment and the Kansas Department of Agriculture have crafted a new 10-year $1.4B investment scenario to address our most pressing water problems. First, here is some background information on the investment scenario you will be discussing today:

- **All existing programs currently funded at $60M per year remain in place***. However, evaluation of many of those programs is called for so that outcomes can be measured against investments and programs can be modified where needed. Questions about the approach to modifying programs will be presented during the breakout discussions. (*Note, this is the "Stand Pat" scenario presented in June 2024).

- **Based on the first round of local consult input, an additional $80M per year investment (on average) scenario is presented in the Investment Levels and Outcomes handout.** This represents $140M average annual investment in addressing our most pressing aquifer, quality and reservoir problems ($60M current + $80M additional scenario) for a total of $1.4B over 10 years.

- **How to pay for any additional investments** will also be discussed in the breakout sessions, and these discussions will inform future budget requests.

- Discussions in the breakout sessions will focus on **criteria that could be used to prioritize investments, regardless of investment levels.** A list of those criteria is included in a separate handout.

- **Today is not just about more money.** It's about data, education and transparency on water issues within communities (usable life, water quality, etc) and what part the State has in helping to address those issues so Kansans see results at a good pace. It's about measuring and sharing results and making changes so we've solved problems by the end of the 10-year program. It's about getting good value for taxpayer dollars, not just building programs. These aren't easy things to do or talk about, but they're important to tackle to make real progress in providing Kansans with access to clean, secure water supplies for generations to come.

## TODAY'S DISCUSSION

In the breakout groups, you will be asked your thoughts on current and potential sources of funding and what mix of funding makes sense given the water problems we face in Kansas. This is not an exhaustive list of potential revenue sources and does NOT represent a recommendation of the state. We want to hear your feedback!

A thought starter example is provided that could generate $140M per year, which is an increase of $80M per year on average. This example revenue chart demonstrates a few of the options that could make up the increased investment.

In your breakout groups, you will discuss general support for the different types of revenue sources and whether they should be considered in creating a funding plan for future water investments.

### EXAMPLE FOR TODAY'S DISCUSSION

| | Current Funding | | Example New Funding | | Example Total Funding |
|---|---|---|---|---|---|
| General Fund Transfer | $41M | + | | = | $41M |
| Existing Fees | $13M | + | $13M | = | $26M |
| Economic Development Initiatives Fund Transfer | $2M | + | | = | $2M |
| Carry Over Funding | $4M | + | | = | $4M |
| Agriculture Irrigation Water Use Fee | | + | $8M | = | $8M |
| Sales Tax | | + | $35M | = | $35M |
| Bonding | | + | $20M | = | $20M |
| Severance Tax Increase | | + | $4M | = | $4M |
| **Program Total** | **$60M** | **+** | **$80** | **=** | **$140M** |

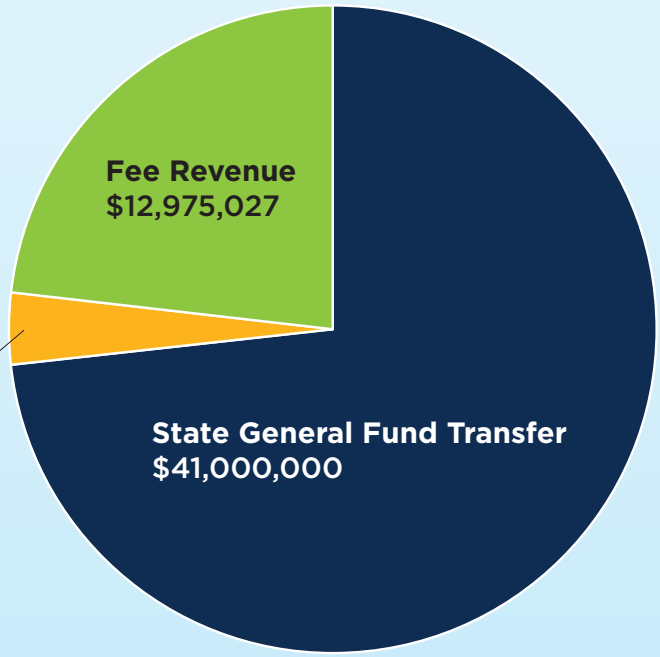
## HOW TO PAY FOR IT

**Current funding sources**
Investments in the water programs being discussed today currently come from three primary sources:

1. User Fees
2. The State General Fund
3. Economic Development Initiatives Fund transfer

All flow through the State Water Plan Fund and are shown here.

**State Water Plan Fund (SWPF) Revenue**




### 1 User Fees: Approx $13M per year

Fees are assessed on most Kansas water users and industries that use our water resources.

**State Water Usage Fees = $7.39M/year**

| | Recreational | Stockwater | Industrial | Municipal Water | Irrigation |
|---|---|---|---|---|---|
| **102 billion gallons of water used annually** | 1% | 1% | 3% | 11% | 83% |
| **Fee amount**<br><br>**Total paid FY25** | No fee | $.03 / 1,000 gallons = **$440,000** | $.03 / 1,000 gallons = **$850,000** | $.03 / 1,000 gallons for bulk water purchase = **$3.2M** | No fee |
| **Fee amount**<br><br>**Total paid FY25** | | | | $.03 / 1,000 gallons for drinking water = **$2.9M** | |

- The rates for stockwater, industrial and municipal drinking water fees were initially established in 1989.
  - Anecdotally, these current fees cost the average family between 18 and 41 cents on their monthly water bills.

**Water Impact Fees = $5.6M**

| | Pesticide registration fee | Fertilizer registration fee | Pollution fines & penalties | Sand Royalties |
|---|---|---|---|---|
| **Fee amount** | $100/per product registration | $1.40/per ton of product | Varies | $.15/per ton of material |
| **Total paid FY25** | **$1.5M** | **$4M** | **$70,000** | **$15,000** |

## 2 State General Fund: Approx $41M per year

The State General Fund (SGF) is primarily made up of individual and corporate income taxes along with sales tax. The SGF is the largest unrestricted source of funding for the overall state budget and funds many competing priorities. Each year these priorities are weighed by the Governor and the State Legislature to balance needs with limited resources. Examples of statewide needs that are funded through the SGF are shown in the chart below:

| | SGF Expenditure |
|---|---|
| State Water Plan Fund | $41M |
| General Kansas State Government | $582M |
| Human Services (health, children) | $2.95B |
| K-12 Education | $4.98B |
| Higher Education | $1.34B |

Although SGF has been the source for a significant portion of water investments over the last few years, water will continue to compete annually with the many other state priorities shown to the left, like education, health, public safety, and more. This competition for SGF funding will only continue to grow in the coming years as the recently passed tax cuts are implemented and one-time federal funds from pandemic-era programs, the Inflation Reduction Act, and Bipartisan Infrastructure Law are phased out. And because SGF is unrestricted, allocations are not guaranteed and can be decreased in any given year, especially in the event of economic downturns.

Because of inherent vulnerability of current water funding to these factors, it's important to discuss raising revenues and dedicating those increases to water projects and programs. Having a dedicated funding source enables the State to make consistent, significant progress toward our water goals over a 10-year period. For example, a case could be made for increasing the current sales tax rate and dedicating a portion of that revenue to water, because every Kansan and every Kansas business needs clean water. A .1% increase in the state sales tax, from 6.5% to 6.6%, would raise enough money to increase state water funding by an additional approximate $80M while keeping other state investments constant. Without an increase in tax revenue, the state would need to "carve off" approximately 2% of its existing state revenue (and associated spending on other priorities) to achieve the same approximate $80M increase to water investments.

## 3 Economic Development Initiatives Fund Transfer: Up to $2M

By current statute (KSA 79-4804), $2 million is to be transferred annually from the State's Economic Development Initiatives Fund (EDIF) to the State Water Plan Fund, though the Legislature may choose to transfer a lower amount in any given year. EDIF was created to support and enhance the existing economic foundation of the State, foster growth through the expansion of current businesses, and establish or attract new businesses.

## OTHER POTENTIAL SOURCES OF FUNDING/FINANCING THAT COULD BE CONSIDERED


Bonding has been used by the State of Kansas to finance investments in long-term infrastructure projects like highways, college buildings and even reservoir actions, such as the dredging of John Redmond Reservoir. Just like a personal budget, you would not want to take out a mortgage to go to the grocery store. You would only want to use a mortgage for an asset that will have a long life.

For the purposes of infrastructure investment, bonds are like a mortgage. Bond funds should only be used for infrastructure that will last beyond the repayment schedule. Many of the needed state water investments would qualify as long-term infrastructure investments that future generations will benefit from.

Funding major water infrastructure projects through annual budget appropriations as we currently do limits the State's ability to be proactive and systematically address large water infrastructure needs. By using bond proceeds to fund water related infrastructure projects, the State could move to a cashflow model similar to how transportation projects are funded.

Expensive and ongoing projects like sediment reduction in reservoirs, dam reconstruction, interconnection projects, and replacing water/sewer systems for communities could be paid for through this cashflow model. This approach would be strengthened by explicitly outlining the selection criteria for these projects so that development and construction pipelines (again, similar to transportation) could be established and the regular cadence of work could become an expectation of stakeholders.

Bond payments would need to be accounted for through available revenues and appropriations. Using a similar approach as the KDOT cash-flow approach, the State can issue bonds for the water program to finance the design and construction of infrastructure projects.


Kansas could consider charging an agriculture irrigation water use fee to support additional technology upgrades for irrigation systems, technical assistance, conservation incentives, and grants to communities running out of water to purchase water rights and/or connect to regional water systems where available.

- It should be noted that while irrigators do not pay use fees to the State, those irrigators located in Groundwater Management Districts (GMDs) pay water use fees at the local level ranging from $.14 per acre-foot to up to $2.00 per-acre foot depending on where they are located. Those fees are set by, collected by and invested in local projects and programs by the GMDs. There is no proposal or discussion about changing the GMD's fee assessment role. Additionally, irrigators do pay other existing statewide fees like the pesticide registration fee and the fertilizer registration fee. For example, a $1.00 per acre-foot state fee on irrigated water use would raise roughly $3.8M given that roughly 3.8M acre-feet was diverted for irrigation use in 2022 (a $2 per acre-foot state fee would generate $7.6M, etc.).

- There are many kinds of fee structures that could be considered for a potential irrigation use fee, and fees could be lowered or capped. Another approach could be to assess a $200 fee on each water right; with about 34,000 active rights, that would generate approximately $6.8M a year.

- Utah and other states use irrigation use fees, similar to Kansas fees for industrial users and stock water users, on programs to improve efficiency for those users to preserve the resource for future generations. Utah charges a flat fee based on the acre-foot use. For example, if a Utah water right uses between 4,000-4,500 acre-feet, they would pay a $550 fee.


The severance tax is assessed for all oil or gas that is severed from the earth or water in Kansas. The rate has not been increased since its enactment in 1983. The statutory tax rate is 8%, but with various exemptions, the current effective rate of 4.33%. In 2023, the severance tax raised approximately $58M per year. Remediation or other types of water quality projects could be funded with this sort of tax.