



IOWA HOUSE DEMOCRATS

BILL AND AMENDMENT SUMMARY

Water Quality SF 512 AS AMENDED BY HOUSE

Status of Bill: House Floor

Lead Democrats: Reps. Prichard, Bearinger, Isenhart

Committee: Natural Resources (12-3) Approps (12-9), Ways and Means (9-6) **Floor Manager:** Rep. Baltimore

Research Analyst: Joe Gilde; 515-281-6970; joseph.gilde@legis.iowa.gov

Background

SF 512 funds water quality efforts by creating a new water excise tax. The legislation exempts sales and use tax of water by a water utility, then creates a new water excise tax of which, when fully implemented, will see one half of the tax transferred to the Water Quality Financial Assistance Fund, with the remaining half staying in the general fund.

Additionally, beginning in FY 2021, \$15 million from the Rebuild Iowa's Infrastructure Fund(RIIF) that is currently being used to pay off Vision Iowa Bonds will be appropriated the Water Quality Infrastructure Fund.

SF 512 is a bouncing bill. Last year the House attached a strike-after amendment mirroring HF 612, which passed the chamber 79-19. The Senate resisted that amendment; the House now has the option to recede on the amendment and accept the Senate File or resist and send the legislation to conference committee.

Summary

Water Service Excise Tax

A Water Service Tax is created in Iowa Code. The tax is an excise tax, or a tax on a specific good or service, of 6% imposed on the sale or furnishing by a water utility of delivery of water by piped distribution system to consumers or users in the state. These water services, which are currently taxed under the regular state sales tax, are exempted from these current sales taxes. This effectively has no change on taxes paid by water consumers, but allows the revenue from these water services to be diverted from the general fund to the new fund established in this bill.

The diversion of this water tax is phased in over 3 years. For FY 19 1/6th of the revenue from the excise tax diversion will be transferred from the general fund, with half of the funding going to the Water Quality Infrastructure Fund and half to the Water Quality Financial Assistance Fund. In FY 20 1/3rd of the tax will be transferred from the general fund, with half of the funding going to the Water Quality Infrastructure Fund and half to the Water Quality Financial Assistance Fund. In FY 21 through FY 30 one half of the money will be transferred from the general fund to the Water Quality Financial Assistance Fund.

Because we are exempting the current 5% sales tax on water, there will be an impact on both the SAVE and LOST funds. The impact on the general fund, SAVE, LOST and the amounts going to the respective funds is laid out below.

	General Fund (\$ in millions)	SAVE (\$ in millions)	LOST (\$ in millions)	Rebuild Iowa Infrastructure Plan (\$ in millions)	Water Quality Infrastructure Fund (\$ in millions)	Water Quality Financial Assistance Fund (\$ in millions)
FY 2019	0	-3.9	-3.4	0	1.9	1.9
FY 2020	-4.0	-4.0	-3.5	0	4	4
FY 2021	-8.2	-4.1	-3.6	-15	15	12.3
FY 2022	-8.4	-4.2	-3.7	-15	15	12.6
FY 2023	-8.6	-4.3	-3.8	-15	15	12.9

Water Quality Financial Assistance Fund

The Water Quality Financial Assistance Fund is created as a revolving fund within the state treasury. It will be funded with money generated from the water service excise tax, which when fully implemented will divert half of the funds to the fund with the other half remaining in the General Fund. This diversion is expected to generate approximately \$130 million for the Water Quality Financial Assistance Fund. Under the legislation, the excise tax would be repealed on January 1, 2030.

Once in the Water Quality Financial Assistance Fund, funding will be distributed as follows:

- 40% of the funds will be directed to the Iowa Finance Authority (IFA) to support the Wastewater and Drinking Water Treatment Financial Assistance Fund. The in existence wastewater treatment financial assistance fund is being expanded to allow for drinking water and source water protection projects, with priority given to communities that employ technologies outlined in the Nutrient Reduction Strategy.
- 45% of the funding will be directed to IFA for the water quality financing program. The water quality financing program is a loan program designed to provide financial assistance to enhance surface and groundwater, with higher priority given to projects that incorporate both point and nonpoint sources.
- %15 of the funds will be directed to the Department of Agriculture and Land Stewardship (IDALS) for the water quality urban infrastructure program. The program will fund projects on a cost share basis to provide assistance to urban storm water and erosion control projects.

Water Quality Infrastructure Fund

SF 512 appropriates \$15 million from the Rebuild Iowa's Infrastructure Fund (RIIF) beginning in FY 2021. This money is currently being used to repay Vision Iowa bonds. This money is deposited into the Water Quality Infrastructure Fund which would provide financial assistance to landowners for the installation of in-field and edge-of-field structures through the Water Quality Infrastructure Program . These structures are long-term

investments that will provide lasting water quality improvement. Examples of edge-of-field structures include:

- Wetlands, bioreactor systems that treat water in tile drainage to reduce nitrates, and saturated buffers where tile lines empty into a grassed buffer strip instead of directly into a stream, and land use changes.

Examples of in-field structures include:

- Terraces, waterways located in cropland, soil erosion control structures, and managed drainage systems.

Under the program, preference is given to landowners who are part of a financing entity participating in a program under the Water Quality Financial Assistance Fund. Structures that are awarded assistance from the fund are to be financed on a cost-share basis, but the bill does not establish the ratio of assistance awarded to landowner investment.

Amendment Summary

H-1440 passed House 79-19:

H-1440 funds water quality efforts and by creating a new water excise tax. The legislation exempts sales and use tax of water by a water utility, then creates a new water excise tax of which 1/6th will go to funding drinking and wastewater infrastructure and 5/6th to water quality assistance. With the revenue from the excise tax, the Iowa Finance Authority will bond against the revenue and create a revolving loan fund. The water excise tax begins in 2018 and ramps up the diversion year over year.

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The diversion of this water tax is phased in over 6 years. 1/6th of the revenue from the excise tax diversion will go to the Water Quality Financial Assistance Fund. The remainder of the money, going to the Water Quality Assistance Fund, will increase by 1/6th of the revenue each year until all of the funds generated by the tax are transferred to the fund starting in FY 2024. The water excise tax is repealed on January 1, 2030.

Because we are exempting the current 5% sales tax on water, there will be an impact on both the SAVE and LOST funds. The impact on the general fund, SAVE, LOST and the amounts going to the respective funds is laid out below.

	General Fund (in millions)	SAVE (in millions)	LOST (in millions)	Water Quality Protection and Wastewater Program	Water Quality Project Financial Assistance Fund	Total
FY 2018	0	-3.7	-3.3	616,667	3,083,333	3,700,000
FY 2019	-3.9	-3.9	-3.4	1,283,333	6,416,667	7,700,000
FY 2020	-8.0	-4.0	-3.5	1,983,333	9,916,667	11,900,000
FY 2021	-12.3	-4.1	-3.6	2,736,667	13,683,333	16,420,000
FY 2022	-16.8	-4.2	-3.7	3,500,000	17,500,000	21,000,000
FY 2023	-21.6	-4.3	-3.8	4,300,000	21,500,000	25,800,000

Water Quality Infrastructure Fund

The Water Quality Infrastructure Fund is within the Iowa Department of Agriculture and Land Stewardship (IDALS) Division of Soil and Water Conservation. The fund will receive 1/6th of the revenue generated from the water service excise tax. The fund will be used for the exclusive purpose of supporting water quality agricultural infrastructure programs (as per 466B.43). This fund is repealed in on the date that all money transferred to the fund is expended.

The Water Quality Infrastructure Fund will fund in field and edge of field practices. Funding will be on a cost-share basis and can include demonstration projects. Multiple projects are allowed on one location and can be both in-field and edge of field practices.

Edge of field practice include wetlands, bioreactors, saturated buffers, and buffer strips. The general purpose of all edge-of-field programs will be to capture or filter out nutrients prior to entering surface water.

In-field practices include structures, terraces, waterways, and soil conservation or erosion control structures or managed drainage structures as projects that would qualify for the stated goal of decreasing erosion and surface runoff, increase water infiltration rates and increase soil sustainability.

The Water Quality Infrastructure Fund requires that the programs be administered in a way that aligns with the Iowa nutrient reduction strategy. The strategy is meant to be a science and technology-based framework to assess and reduce nutrients to Iowa waters and the Gulf of Mexico. It outlines voluntary efforts to reduce nutrients in surface water from both point sources, such as wastewater treatment plants and industrial facilities, and nonpoint sources, including farm fields and urban areas. The Soil and Water Division at IDALS must submit a report to the Legislature detailing expenditures from the program beginning in 2018.

Water Quality Assistance Fund

The Water Quality Assistance Fund will receive the remaining 5/6th of the money generated by the water service excise tax, which will then be divided into two funds. Of the money received, 1/6th will go to the Water Quality Protection and Wastewater Treatment Grant Fund and 5/6th will go to the Water Quality Project Financial Assistance Fund.

The Water Quality Protection and Wastewater Treatment Grant Fund will be administered by the Iowa Finance Authority (IFA). Funds will be used to award grants to municipalities conducting source water protection projects, water infrastructure or wastewater infrastructure improvements. Additionally, grants can pay for up to fifty percent for studies related to water quality improvement. Grants will not exceed \$500,000 per recipient.

The remainder of the tax revenue will go to the Water Quality Project Financial Assistance Fund at IFA. The fund will support projects deemed to improve water quality or water resource management. Funds can be used for loans, forgivable loans and grants. IFA will determine the length of a loan and interest rate of the loan. IFA will bond against this revenue stream going to the Water Quality Financial Assistance Fund in order to increase the money available for water quality improvements.

The bill establishes a water quality financing review committee. The committee is made up of the Secretary of Agriculture, the executive director of the Iowa Finance Authority, and the director of the Department of Natural Resources. The committee reviews and approves applications for financial assistance under the Water Quality Project Financial Assistance Fund.

Nutrient Trading

H-1440 also allows for funds to be used on a nutrient exchange. Under the exchange idea, an entity could get financing from IFA for a project in the watershed that would improve water quality in the whole watershed. So for example, the City of Des Moines could partner with a community or individual in the watershed to secure financing for water quality infrastructure improvements.

Nutrient trading is spoken to several times in relation to funds for the excise tax. There are questions as to how this would work functionally as no exchange is created in the bill. Any exchange created would will need legislative approval.

Gilde, Joseph [LEGIS]G:\Caucus Staff\jgilde\2018\Agriculture\Water Quality\sfs12newtemplate.docx\January 23, 2018\9:00 AM

House and Senate Water Quality Comparison

	HF 612	SF 512
Funding	<p>Water excise tax diversion: Diversion of the excise tax is phased in over six years and will account for \$22 million annually when phased in. The tax sunsets in 2030.</p> <p>The Iowa Finance Authority would bond against the revenue from the excise tax.</p>	<p>\$15 million annually from RIFF from 2020-2029</p> <p>Water excise tax diversion: Diversion of the excise tax is phased in over three years, with half staying in the general fund and half being transferred for water quality purposes, which will account for \$ 11 million annually when phased in. The tax sunsets in 2030.</p>
Fund Distribution	<p>\$4.3 million will go to the Water Quality and Wastewater Program and \$21.5 million will go to the Water Quality Project and Financial Assistance Fund.</p> <p>Of the \$21.5 million appropriated to the Water Quality Project and Financial Assistance Fund, \$3.5 million will be go to the Wastewater Treatment Grant Fund with the remainder going to the Water quality financial assistance fund.</p> <p>Expands levy authority for soil and water conservation districts.</p>	<p>\$15 million from RIFF goes to the Water Quality Infrastructure Fund. The money is currently being used to repay Vision Iowa Bonds and will go to water quality once the bonds are paid off.</p> <p>Funds from the excise tax go to the Water Quality Financial Assistance Fund, which then distributes the money to other funds. \$5.8 million will go to the Wastewater and Drinking Water Treatment Financial Assistance Program, \$5.1 million to the Water Quality Financing Program and \$1.9 million to the Water Quality Urban Infrastructure program.</p>
Oversight	<p>Water Quality and Wastewater Grant Fund: Review Committee consisting of Governor, Secretary of Ag, director of IFA, director of DNR and a member from each of the four caucuses.</p> <p>Water quality financial assistance fund: Three member committee selected to consider application for the program. Consists of a member appointed by the directors of IFA, DNR and Secretary of Agriculture with a focus on watershed level water improvements.</p>	<p>The Water Quality Infrastructure Fund: Fund located at IDALS will fund cost share projects at IDALS discretion. No cost share percentage is laid out in legislation.</p> <p>Wastewater and Drinking Water Treatment Financial Assistance Program: Review Committee consisting of Governor, Secretary of Ag, director of IFA, director of DNR and a member from each of the four caucuses.</p>