



Colorado's Water Plan

DRAFT Funding Strategy

FOR DISCUSSION on October 30, 2018

INTRODUCTION

Colorado's Water Plan has a measurable objective to raise \$100 million in new annual revenue to sustainably fund implementation. Without additional revenue, plan implementation will depend on existing inadequate revenue from utility ratepayers, federal loan and grant programs, and highly variable state severance tax (which is allocated by law to only certain kinds of projects).

In 2018, the Gates Family Foundation and Walton Family Foundation convened an informal group of water interests including state government, municipalities and water providers, agriculture interests, conservation and recreation organizations, and business. This group came together voluntarily to assess strategies for securing \$100 million in new sustainable funding to implement Colorado's Water Plan. A list of participants in this process can be found in appendix A below.

This document summarizes the group's recommendations and discussions about:

- Funding Needs
- Funding Distribution and Governance
- Sources of Funding

FUNDING NEEDS

Because the goal of this process was to fund activities in CWP, this group aligned its categories for funding with the work of the Interbasin Compact Committee (IBCC) Funding Work Group and the Ag Water Alliance Network. Both of these groups have worked with the language in the water plan to develop these categories. These categories are further defined below and include:

- Healthy Rivers
- Water Quality
- Conservation and Efficiency
- Productive Agriculture
- Colorado Compact Obligations

The group agreed that there are likely additional funding needs, beyond what is captured through activities associated with the water plan, to address water quality, productive agriculture and Colorado compact obligations. These categories may need to be addressed separately or through additional funding.

FUNDING DISTRIBUTION AND GOVERNANCE

Distribution

The intent of additional funding is to address projects throughout Colorado and for funding to be allocated evenly across the above-mentioned categories. The group recommends placing emphasis on projects that meet multiple objectives (e.g., category areas), and demonstrate local support (e.g., Roundtable support, matching funding). Recognizing that needs and priorities may shift over time, the group recommends that each category receives a minimum amount (to be determined) each year, with some flexibility across categories to address fluctuating needs and priorities and projects submitted. However, the categories should receive approximately equal amounts of funding when averaged out over a five-year rolling average.

Governance

The group discussed certain elements of governance that will be important in how this funding is administered. The Colorado Water Conservation Board (CWCB) currently administers the funding of water project grants and loans under various programs and has much of the technical expertise and infrastructure necessary to assist in funding decision-making for water projects across the state. This positions the CWCB to be the entity to provide oversight and governance for additional funding, particularly if the funding is secured through a legislative mechanism.

There may be certain parameters that would warrant exploration of a non-state agency, and/or new funding board. These would include:

- If the projects being funded fall outside the purview of the agency (e.g., water quality)
- If the decision-making process cannot accommodate adequate representation of environmental, forest health, recreational, and finance expertise, as well as potentially an at-large seat
- If the funding cannot be adequately protected from being redirected to other uses by the legislature.
- If the decision-making process does not institutionalize local input (e.g., determination of basin roundtable support of projects being funded)

SOURCES OF FUNDING

The group has discussed two strategies to secure funding. The first is to work with the 2019 Legislature to put in place either enabling mechanisms for funding (e.g., legalize sports betting) and/or to provide additional funding through fees. The second is to pursue a 2020 ballot initiative for a measure to establish a funding mechanism. The group explored many possible sources of funding and the options below were determined to be most viable. A smaller committee will further test these ideas and work towards a final legislative and ballot strategy.

Statutory funding

The group explored several avenues that the legislature could take to provide additional funding for water projects throughout the state. These include:

- Legalize sports betting with a portion of resulting revenues being dedicated towards Water Plan implementation. While it remains unknown exactly how much funding could be raised through sports betting, the first step would have to be for the legislature to legalize sports betting in the state.
- Revise the distribution of the current severance tax revenues or negotiate and/or increase in the tax that would be referred to voters in 2020.
- Eliminate or reduce the value of the *ad valorem* credit for oil and gas producers to increase the amount of state severance tax revenues.
- A container fee on bottled products that contain water (see container tax below)

2020 Ballot Initiative

Any ballot initiative to raise taxes in Colorado faces challenges with voters. However, Colorado voters do view water as an important issue for the State. The group also looked at but dismissed other possible sources including tap fees, real estate transfer tax, severance taxes, water bills.

Tourism Tax:

A tourism tax could be placed on hotels and other accommodations that offer services primarily to out-of-state customers. A tax of .5% has the potential to generate \$86M annually. A tax of .58% has the potential to generate \$100M annually.

Container Tax:

A container tax could be imposed on all containers that carry a liquid that utilize water in its production with some exemptions for items like medications. A tax or fee on containers of liquid for human consumption could be structured as a flat fee on each container (as above) or could be attached instead to the quantity of liquid in the container (e.g. 1 cent per 6 oz. or as a % of price, more like a sales tax) At \$.01 per container, it is estimated that \$70M could be generated annually. At \$.014 per container, it is estimated that \$100M could be generated annually.

Sports Betting:

If legalized by the State, sports betting could be a referred or petitioned initiative. The amount of funding that could be secured is unknown at this time.

RECOMMENDATIONS FOR CONTINUED OUTREACH AND PUBLIC ENGAGEMENT

The group discussed that for any funding measure to succeed there will need to be a broader public campaign about the importance of water for the state. Members of this group will continue to work towards a coordinated public awareness campaign about the importance of water and smart water use that works in concert with any future campaign.

FUNDING NEEDS -- CATEGORIES FOR FUNDING:

Most of the categories below were originally defined by the IBCC. This group added a category for Colorado Compact Obligations, and further defined and added bulleted generic examples below each category. In addition, the Ag-Water Network proposed the definition and bulleted list for “Productive Agriculture.”

Categories:

Healthy Rivers – The flow of Colorado’s rivers serve as the backbone for our coveted natural environment and our valuable recreation economy. To maintain river and riparian health and resiliency the Fund will support plans that respect community values and adhere to common approaches to identify stream and riparian needs, along with the implementation of collaborative solutions to meet them, such as market-based environmental and recreational water transactions. Examples include but are not limited to:

- Projects identified in stream management plans or similar projects, including, but not limited to in-stream flows, habitat restoration
- Projects to promote the sustainability of fish and wildlife
- Projects and methods that support economically important water-based recreation
- Projects that develop and support wetland habitat
- Fish passage construction for new or revised water diversion structures
- Stream restoration projects
- Environmental and recreational enhancements for new or revised water supply projects

Water Quality – Colorado’s health and prosperity as a state depend on thriving watersheds and resilient water quality. The Fund will support basin and regional projects that identify watershed needs, as well as the implementation of joint efforts to improve watershed functionality and reduce water quality risks to our communities, such as forest integrity, reduction of selenium and salts, and mine remediation. Examples include but are not limited to:

- Projects identified in collaborative and science-based watershed management plans that reduce the risk from and increase resilience to fires and/or floods, rehabilitate streams, or make landscapes resilient to climate change, including, but not limited to pre- and post-fire tree thinning and debris management
- Projects that address drinking water quality for under-resourced communities.
- Projects that address pollutants such as selenium, salts, and others, as well as mine remediation activities

Conservation and Efficiency – Colorado continues to lead the way with innovative water conservation and efficiency technologies on our farms and in our cities. The Fund will be used to accelerate these strategic improvements by: supporting agricultural water infrastructure that increases reliability and efficiency; assisting communities with water-smart new development and conservation programs; targeting smaller, fast-growing, and older communities with strategic, incentive-based grants; and

supporting reuse projects that efficiently stretch existing supplies to reduce pressure on rivers and streams. Examples include but are not limited to:

Municipal and industrial water projects that promote efficiency, conservation, and green infrastructure typically for small and medium-sized municipalities with a goal of lowering overall per capita use

- Enhance conservation efforts for small and medium sized municipalities through additional capacity to implement state-of-the-art water efficiency, such as smart-meters/bills, turf replacement, conservation outreach and education
- Increase leak detection for infrastructure repair and replacement
- Incentivize connecting water efficiency with land use planning, shrinking total water use
- Projects to update and improve agricultural infrastructure or implement technology for efficiency and storage, especially where improvements provide multiple benefits (i.e. benefits for municipal or industrial supply, recreation, or the environment)
- Incentivize outdoor landscaping practices for new and existing land uses to reduce overall consumptive water use

Productive Agriculture- Colorado agriculture feeds the state, nation, and the world, all-the-while safeguarding the environment, fueling the state's economy, and enhancing our communities. By making a commitment to Colorado's diverse agriculture production, we are wisely investing in the state's water future.

The preservation of agriculture must keep pace with growing state, national and global needs, while using resources wisely and producing more with less. A productive and profitable agriculture system requires collaboration and investment in programs that:

- Ensures the Protection of Water Rights
- Multiple-Use Storage that Acknowledges Regional Priorities
- Develops Innovative and Functional Water Leasing
- Suitable Agriculture Efficiency and Conservation Approaches
- Technical Assistance and Technological Innovation
- Dedicated Resources for Irrigated Agriculture Literacy and Agricultural Growth

Infrastructure – The growing population of Colorado depends on robust water infrastructure to supply our farms, ranches, and homes. The Fund will strategically assist in upgrading aging infrastructure while incentivizing new storage and delivery projects that collaboratively address multiple needs, such as improved flows to meet demands, stream and watershed health, and habitat quality. Given that many infrastructure projects are eligible for other funding, this category would be subject to specific criteria to ensure efficient use of state funds. *NOTE: The following sentence will need further discussion on October 30:* In addition, any project funded in this category would have to be consistent with the relevant sections of the Conceptual Framework¹.

¹ The Conceptual Framework in the Colorado Water Plan provides guidance and establishes conditions for a new multipurpose and cooperative transmountain diversion (TMD) project that would bring western slope to the eastern slope if a new TMD is proposed in the future.

Examples include but are not limited to:

- Incentivize traditional water infrastructure projects to include public and environmental benefits including river health and habitat quality (beyond required mitigation)
- Projects that support multi-purpose projects and storage methods that are supported in CWP and Basin Implementation Plans
- Financial support for technical and practical storage innovations
- Adding or upgrading infrastructure to facilitate ATMs
- Other projects could include:
 - Reservoir dredging or expansion
 - New storage
 - Reuse
 - System automation
 - Stream gauge installation
 - Piping and lining of canals
 - Diversion structures and pumping infrastructure

Colorado Compact Obligations especially focused on the Colorado River Basin – Colorado is the headwaters state. All of the water flowing through our state originates in our state. The State of Colorado is party to nine interstate agreements (“compacts”) committing Colorado to sharing a portion of each of our rivers and streams.

Colorado’s obligation as signatory to these compacts annually requires Colorado to curtail or reduce current water uses in order to comply with the terms of the compacts on the South Platte, Arkansas, Republican and Rio Grande Rivers. Only the Colorado River has never been subject to compact curtailment. The Colorado River is also unique in that it is the river of statewide interest and use across Colorado. Accordingly, compact curtailment orders on the complex network of Colorado River use would have critical implications to all of Colorado’s economy and water uses.

Colorado and the other states of the Colorado River basin are examining ways to create and “bank” water to provide water supply security through voluntary, compensated, and temporary reductions in water consumption. This “banked” water would be used to avoid, delay or mitigate a Colorado River compact curtailment order. Annual funding would be provided to compensate water users for their water savings if they choose to participate in such a program.

This fund would provide associated investments necessary to ensure water supply security and to reduce Colorado’s exposure to statewide risk related to its Colorado River water supplies

Funding would go to voluntary and compensated projects and programs that reduce the risk of compact calls, and will not be used to pay for, litigation, penalties or settlements to other states as a result of compact obligations. Examples include but are not limited to:

- Voluntary, compensated reductions in consumptive use through fallowing, deficit irrigation, crop changes, or other means, and dedication of the water savings to compact compliance purposes

- Programs that reduce municipal or industrial consumptive use through the implementation of conservation programs combined with allocation of savings to compact compliance purposes.
- Monitoring, measurement, and management of associated programs that reduce consumptive use to benefit a Colorado water compact.

DRAFT

Appendix A: Colorado's Water Plan - funding strategy group

Colorado's Water Plan - funding strategy group is an informal group that brings together a diverse set of leaders and perspectives from across Colorado to help identify a viable strategy to secure funding and implement the CWP.

Convening Organizations:

Gates Family Foundation
Walton Family Foundation

Involved Organizations:

Nathan Fey, American Whitewater
Terry Fankhauser, Colorado Cattlemen's Association
Bob Randall, Colorado Department of Natural Resources
Gail Klapper, Colorado Forum
Carrie Besnette Hauser, Colorado Mountain College
Sam Mamet, Colorado Municipal League
Andy Mueller, Colorado River District
Russ George, Colorado Water Conservation Board member
Becky Mitchell, Colorado Water Conservation Board
Kelly Brough, Denver Metro Chamber of Commerce
Jim Lochhead, Denver Water
Dan Grossman, Environmental Defense Fund
Johnny LeCoq, Fishpond
Paul Bruchez, Grand County Rancher and Outfitter
John Stulp, Interbasin Compact Committee
Joe Frank, Lower South Platte Water Conservancy District
Brad Wind, Northern Colorado Water Conservancy District
Carlos Fernandez, The Nature Conservancy
John McClow, Upper Gunnison River Water Conservancy District
Jon Goldin-Dubois, Western Resources Advocates
Maria Handley

Third Party Facilitator: Keystone Policy Center

About Keystone Policy Center:

Keystone Policy Center is a trusted non-profit organization founded in 1975 to drive actionable, shared solutions to contentious agriculture, environment, energy, education, and public health issues.