



# Iowa



## ***Overview – Innovative Finance Opportunities for Nutrient Reduction***

Iowa has several new and innovative funding programs that can support additional efforts to advance nutrient reduction projects. New legislation took effect in July 2018, which creates a water service excise tax to support the Water Quality Infrastructure Fund and the Water Quality Financial Assistance Fund. These can support nonpoint source and nutrient reduction projects that implement Iowa's Nutrient Reduction Strategy. Iowa is also a leader in using its Clean Water State Revolving Fund (CWSRF) to fund nonpoint source "sponsorship projects" that combine funding for construction of wastewater utility improvements for point source dischargers with no-cost funds for water quality improvement projects on farms. **Both the new legislation and the framework for nutrient reduction sponsorship/adoption under the CWSRF create new opportunities in Iowa to increase the number and effectiveness of nutrient reduction projects on agricultural land, and to bring additional resources to the task.**

### **2018 Senate File 512**

Clean water funding legislation popularly referred to as Senate File 512 went into effect July 1, 2018. It allocates new funding to support loans and grants to control water pollution, protect drinking water, and implement watershed projects. Revenues from a new Water Service Excise Tax on metered water will be transferred into two new programs: the Water Quality Infrastructure Fund (WQIF) administered by the Division of Soil Conservation and Water Quality of the Iowa Department of Agriculture and Land Stewardship (IDALS), and the Water Quality Financial Assistance Fund (WQFAF) administered by the Iowa Finance Authority. These two Funds will receive \$2 million each in FY 2019 and \$4 million each in FY 2020. Beginning in FY 2021, the law allocates \$15 million a year to WQIF, funded by wagering tax receipts formerly used to pay off Vision Iowa Bonds, and \$12-\$15 million a year to WQFAF funded by the new excise tax. The program expires at the end of FY2029 unless extended by legislation (SF 512 Fiscal Note).

The Iowa WQIF establishes the Water Quality Initiative to "assess and reduce nutrients in this state's watersheds...implementing its responsibilities under the Iowa nutrient reduction strategy" (466B.42). The Water Quality Agriculture Infrastructure Program under the WQIF is intended to "support projects for the installation of infrastructure, including conservation structures, practices, or other measures that reduce contributing nutrient loads, associated sediment, or contaminants from sources to surface waters" consistent with Iowa's Nutrient Reduction Strategy (466B.43 2). The law creates two

programs within this Water Quality Agriculture Infrastructure program: First, an edge-of-field infrastructure program that supports projects “located on agricultural land...that capture or filter nutrients entering into a surface water.” These projects include wetlands, bioreactor systems, or land use changes (466B.43 3). Second, an in-field infrastructure program supports projects “located on agricultural land...that decrease erosion and precipitation-induced surface runoff, increase water infiltration rates, and increase soil sustainability” (466B.43 4). These programs are financed on a cost-share basis. **Because this is a new program without guidelines, there are opportunities to encourage new funding applicants and to develop procedures that emphasize nutrient reduction, and coordination of funding with other Iowa and federal nutrient management programs.**

The Iowa WQFAF, administered by the Iowa Finance Authority, provides grants and loans to disadvantaged communities and to projects that would significantly improve water quality; priority is also given to communities employing technologies that address the Iowa Nutrient Reduction Strategy (SF 512 16.134 4a,c, d, f). Forty percent of WQFAF will go to the Iowa Finance Authority for the Wastewater and Drinking Water Treatment Financial Assistance Program (a grant program), 45% to the Iowa Finance Authority for the Water Quality Financing Program (a revolving fund loan program), and the remaining 15% to the Water Quality Urban Infrastructure program. Funding options include projects that will improve water quality, use technology to address nutrient reduction or alternative wastewater treatment, and CWSRF projects that use some of the loan funds for “sponsored” projects.

**Current efforts to implement this legislation provide opportunities to influence the types of and scale of nutrient reduction projects implemented.** Currently Iowa officials are organizing administrative procedures which will help determine how these funding programs can work effectively in conjunction with funding from existing programs including nonpoint source § 319 Grants, NRCS cost-share support, Iowa Department of Agriculture and Land Stewardship (IDALS) programs, and the CWSRF to enhance cost-effective, sustainable nutrient reduction efforts. **Criteria to rank and score projects within these new programs have not yet been established.** The programs will begin taking applications in 2019.

## **Clean Water Loan Program**

Iowa’s Clean Water Loan Program, jointly administered by the Iowa Department of Natural Resources and Iowa Finance Authority, provides funding for publicly owned wastewater treatment, sewer rehabilitation and replacement, construction, and non-point source pollution related projects using program and federal CWSRF monies. The Iowa CWSRF has disbursed \$3.2 billion for projects since its inception. Due to its bonding capacity, the SRF is currently able to fund all eligible projects, with an estimated \$22.8 million in funding for nonpoint source projects in FY 2019 (Iowa IUP FY2019). Nonpoint source set-aside loan assistance includes the Livestock Water Quality Program, the General Nonpoint Source Program, the Onsite Wastewater Assistance Program, and the Local Water Protection Program.

In 2009, Iowa enacted I.C. 384.84 to create a new category of projects that allow loans for wastewater and sewer projects also to address nonpoint source water quality projects in the same watershed, at

no additional cost to the borrower. **These “water resource restoration sponsorship” projects achieve greater nutrient reductions at lower cost.** In a typical CWSRF loan, the wastewater utility borrows funds to construct infrastructure and repays both principal and interest over a 20-30 year period. On a sponsored project, the utility borrows the money it needs for its wastewater project plus up to 10 percent of the project amount in additional loan funds to pay for locally directed, watershed based projects that improve water quality located in the watershed in which the utility is located (the sponsored project). The CWSRF loans the total funds at a reduced interest rate, so that the repayment over the life of the loan is no more than would have been due on just the utility’s wastewater project. **Thus, significant and coordinated water quality improvements are achieved at no additional cost to ratepayers. (In FY 2018, Iowa allocated \$10 million in interest rate reductions, supporting up to \$110 million in sponsorship-related loans).** The first sponsored project loans were made in 2014, and while some sponsored projects involve urban stormwater, nutrient reduction projects on farmland can be supported. In Appendix D of the Iowa IUP FY 2019, the plan lists nine proposed sponsored project funding recommendations, three of which are projects involving agricultural nutrient reduction projects (Iowa IUP FY2019). Partnerships for these projects include NRCS, Water Management Association, Iowa Soybean Association, IDALS, and soil and water conservation districts. **Thus, Iowa is prepared to lead the way in using the CWSRF to implement nutrient reduction projects with partnerships between local wastewater treatment plants and drainage districts or producer organizations sponsoring the project.** This new approach offers a substantial opportunity to learn from the initial projects and to scale up, with coordination from participants from the wastewater and water utility communities.

For example, in 2015, the City of Northwood submitted an application for a sponsored project in conjunction with its application for nearly \$9 million of sewage treatment upgrades. The sponsored project provides \$897,000 in CWSRF funds to support wetland restoration for nutrient removal from Worth County Drainage Districts. The City will pay the future costs to maintain monitoring structure on the wetland site, and will pay the ongoing costs of monitoring the site to document nutrient reduction, as well as provide staff. (City of Northwood CWSRF Report, 2015). The wetlands sites are enrolled in IDALS Conservation Reserve Enhancement Program (CREP). The Worth County drainage district secures the mitigation plan and agreement, and manages and maintains the wetland site as required by the USDA. With CREP and other nonpoint matching funds, the agricultural nutrient control activities are funded at \$2.1 million, with the sponsorship providing \$897,000 at no cost.

The program prioritizes funding for recipients in accordance with the state priority rating system which includes projects with the greatest water quality impacts. 567 IAC 91 provides the criteria for scoring and ranking CWSRF projects. The ranking system is structured to compare Section 212 publicly owned wastewater treatment works projects with nonpoint source pollution control projects (567 IAC 91). The ranking was restructured in 2010 to be able to achieve highest water quality benefits with the funding available. Currently Iowa is able to fund all projects that are eligible, but has a priority system in place to use if the demand exceeds supply of loans from CWSRF (Iowa IUP FY2019).

## **Watershed Improvement Funding: Iowa Department of Agriculture and Land Stewardship**

The IDALS Division of Soil Conservation provides programs that can support implementation of nutrient reduction projects on agricultural land. The Iowa Watershed Protection Program (WSPF) (Iowa Code 2016, 466A.2) provides grants for soil and water conservation districts to provide water quality protection, flood control, and soil erosion protection in priority watersheds (IDALS, 2018). The IDALS Regional Coordinators can provide technical assistance and training on watershed development, planning and implementation to soil and water conservation districts. The recipient receives a 50-75% cost share, and the funding is used as a state match for EPA 319 funding (IDALS, 2018). IDALS also coordinates the Conservation Reserve Enhancement Program (CREP) in conjunction with NRCS and USDA Farm Services Agency to improve water quality, and reduce nutrient loads from agricultural crops. Landowners receive 100% cost-share and up to 15 years of annual rental payments. In 2017, the USDA provided \$13,042,000 to Iowa in CRP funding (USDA, 2018).

### **Section 319 Grants**

Section 319 of the Clean Water Act addresses non-point source pollution such as nutrient runoff. Section 319 provides grant funding each year through Congressional appropriations. In 2017, Congress appropriated about \$3.634 million for Iowa's 319 grant program (EPA, 2018). Grant funds in Iowa are reserved for "watershed based plans" guided by the Iowa Nonpoint Source Management Plan, and for various NPS agricultural and nonagricultural pollution control projects called "water quality projects" within the state (Iowa DNR). Funds can also supplement implementation of Best Management Practices in watersheds of priority surface and ground waters, public education, technical assistance programs, and waterbody restoration programs (Iowa Department of Agriculture and Land Stewardship).

### **USDA Funding**

The National Resource Conservation Service (NRCS) of the Department of Agriculture (USDA) manages its Environmental Quality Incentives Program. This program provides partial grants to farmers for conservation practices that may include nutrient reduction. A sub-program of EQIP, the National Water Quality Incentives (NWQI) program uses EQIP money for this purpose. In 2017, Iowa received \$32,722,200 in EQIP obligations, which cover projects such as planting cover crops, waste storage facilities, waste transfer, and heavy use protection (USDA, 2018). Ultimately, projects that meet local, state or national priorities will receive highest consideration (USDA, 2018). The Conservation Stewardship Program (CSP) and Regional Conservation Partnership Program (RCPP) also support relevant activities.

The USDA's Farm Service Agency (FSA) also manages the Conservation Reserve Program and the Conservation Reserve Enhancement Program. These programs provide annual grants to farmers to remove environmentally sensitive land from production or converting it to vegetative cover (NRCS, 2018).

## Partnerships

There is a basis for partnerships in Iowa to advance nutrient reduction implementation using new financing tools recently available. Iowa's Water Resources Coordinating Council is comprised of 17 state and federal agencies and certain NGOs from the Watershed Planning Advisory Council (WPAC). The council manages Iowa's Nutrient Reduction Strategy as part of the state's response to the 2008 Gulf Hypoxia Action Plan. Among the NGO members of the WPAC are the Iowa Soybean Association, the Iowa Farm Bureau Federation, the Iowa Corn Growers Association, the Iowa Pork Producers Association, Iowa Rural Water Association, and the Agribusiness Association of Iowa.

## References:

ELI conducted interviews with Iowa officials and organizations, and legal research on applicable statutes, regulations, and policies. In addition, financial data and description may be found in the following public sources.

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