

**WATERSHED QUALITY PLANNING TASK FORCE MEETING SUMMARY
DECEMBER 6, 2006**

Committee Members Attendance	Representing
Rep. Donovan Olson	District 48
Sen. David Johnson	District 3
Sen. Brian Schoenjahn	District 12
Jim Boyt	Iowa Association of Business and Industry
Wayne Gieselman	Iowa Dept. of Natural Resources
Tom Hadden	Growing Green Communities
Jared Hill	Iowa Corn Grower's Association
Steve Hershner	Iowa Water Pollution Control Association
Linda Kinman	Iowa Environmental Council
Jerry Nepple attended for Dean Lemke	Iowa Dept. of Agriculture & Land Stewardship
Richard Meyer	Iowa Conservation Alliance
Ted Payseur	Veenstra and Kimm, Inc.
Emily Piper	Iowa Rural Water Association
Jane Riessen	Iowa Association of Municipal Utilities
Rick Robinson	Iowa Farm Bureau Federation
Jeremy Rosonke	Iowa Conservation Alliance
Deb Ryun	Conservation Districts of Iowa
Julie Smith	Iowa League of Cities
Roger Wolf	Iowa Soybean Association

Guest Attendance	Representing
David Adelman	Iowa League of Cities
Geri Crawford	Metro Waste Authority
Mike Delaney	NRWA
Bill Ehm	Iowa Dept. of Natural Resources
Jim Friedrich	Senate Republican Caucus Staff
Mary Gillaspey	Metro Waste Authority
Dr. Neil Harl	ISU – Speaker on Tax Policy
Doug Harr	DNR – Speaker on Sustainable Funding
Susan Heathcote	Iowa Environmental Council
Tammie Krausman	Iowa Dept. of Natural Resources
Jace Mikels	Senate Democratic Caucus Staff
Jeff Myrom	Mid-American Energy
Lew Olson	House Republican Caucus Staff
Tom Oswald	USDA Natural Resources Conservation Service
Jenifer Parsons	House Democratic Caucus Staff
Duane Sand	Iowa Natural Heritage Foundation
Gary Stuhlfauth	Ohio EPA – Speaker on Credit Trading
Todd Sutphin	Iowa Soybean Association
Sharon Tahtinen	Iowa Dept. of Natural Resources

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The meeting was called to order at 10:00 a.m. in the board room at Metro Waste Authority.

Tax Policy Presentation

Tom Hadden introduced Neil Harl known as Charles F. Curtiss Distinguished Professor in Agriculture and Emeritus Professor of Economics at Iowa State University. Dr. Harl gave a presentation on tax implications of soil and water conservation programs and an outline of the presentation was distributed.

Dr. Harl discussed the following three ways society can achieve objectives in this area.

1. One way is by passing laws and implementing them through regulations. This way has been used for the greatest time period.
2. We have moved a degree beyond objective one and are using economic incentives more. These can be in the form of subsidies, tax credits, or deductions. This has become a more common way to convince the owners of resources to do what society would like them to do.
3. To develop a soil and water conservation ethic so people do what is right. The problem is there are always the 5 to 10 percent who may not be as ethical as others, so there are always limits in relying solely upon an ethic.

Dr. Harl talked about the economic incentives and the range of those incentives that are presently in use particularly at the federal level. The current conservation reserve program (CRP), authorized in the 1985 farm bill, has become a widely used program. The acreage has been above 30 million for a long time. In the last several months the question arose if it will diminish because of the pressure on corn production in corn producing areas. There has been more speculation as to whether there will be a movement of land out of CRP into inter-till crop use, and the question of additional cost of 15.3 percent self employment tax. The IRS has provided a comment period through March 19, 2007. The latest development in regards to the IRS decision about their position on the conservation reserve program will be posted to the main website at www.econ.iastate.edu/faculty/harl.

The oldest provision we have, soil and water conservation expense deduction, was passed in 1954 and effective in 1955. It provided a deduction from income tax for expenses that meet certain conditions:

1. Must be engaged in the business of farming.
2. Must be for the purpose of soil and water conservation.
3. Land used in farming for the first time is not enough. It's not a problem in Iowa but is in places where the sod is not broken up. First use is not eligible for soil and water conservation expense deduction.
4. There is a limit of 25 percent of gross income from farming in the operation. Serves modified gross income because sales of land and machinery don't count but sales of livestock do count.
5. Must be consistent with Natural Resource Conservation Service (NRCS) plan. If there is no NRCS plan then must be covered with a State plan.
6. One time election of expenses sets the tone and tenure, and must continue for the life of the tax payer.
7. There's a recapture provision for ten years. If land is sold within ten years a portion of the amount must be repaid.

The Conservation Security Program is getting a lot of attention today and is part of the 2002 farm bill. Refer to pages 6 through 8 of the handout for more information about this program and eligibility for Section 126 exclusion of government cost sharing payments. This allows tax payers to exclude from

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income government cost sharing payments. There have been many state and federal programs that have been approved. Dr. Harl can provide the entire list of programs approved for exclusion if interested.

Information was presented on fertilizer, lime, and other soil conditioning expenditures plus specific conservation programs that are listed and detailed in the presentation handout.

Question: What can be done in the state of Iowa to improve water quality?

Response: We still are experiencing too much runoff in watersheds and need to continue doing the following:

1. Control runoff from livestock and products
2. Create filtration systems and buffer areas
3. Provide incentives that are market oriented
4. Be innovative and creative - how to get people to do the right thing

John Timmons of Iowa State University headed several studies on watersheds from the mid fifties until the mid seventies. There is literature available at the ISU library. Dr. Harl can be contacted if interested in attaining more information.

Question: Are there examples or studies of a particular type of switchgrass being planted, harvested, and used near watersheds?

Response: Studies have been completed in Southern Iowa approximately ten years ago; more checking would need to be done to produce the results.

Dr. Harl can be contacted at the following phone numbers to answer questions or if further information is requested.

[515-294-6354, Iowa State University Office Phone](tel:515-294-6354)
[515-232-0487, Home Office Phone](tel:515-232-0487)
[808-324-6313, Kailua-Kona, Hawaii](tel:808-324-6313)
harl@iastate.edu
www.econ.iastate.edu/faculty/harl

Legislative Appropriations Budget Handout

The handout of budget appropriations was distributed. Questions relating to specific budget appropriations can be emailed to Geri Crawford at gcr@mwatoday.com, and will be compiled for Deb Kozel to address at the next meeting. The compiled information will be forwarded to Wayne Gieselman and Sharon Tahtinen at the IDNR.

Sustainable Funding Report

Doug Harr is the Wildlife Diversity Program Coordinator in charge of Iowa's non-game wildlife resources. In July 2006 he was asked by the Director's office to serve on the support staff of the Sustainable Funding Advisory committee that was charged by the legislature last year. The Sustainable Funding for Iowa's Natural Resources PowerPoint presentation was distributed.

The problems identified with natural resources in the state of Iowa were:

1. Funding for natural resources inadequate with annual struggle for meager resources
2. Poor water quality unacceptable to most Iowans
3. Recreational infrastructure strained and opportunities inadequate

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4. Will of the people not conforming with will of the government

There was a start to a solution pertaining to the identified problems last year when in the Iowa House a bill was filed, HF 2797, that called for a sustainable natural resources funding study. An Advisory committee was then charged with studying the issue and responsible for providing a final report to the General Assembly by January 10, 2007. The bill named the agencies, organizations, and legislative representatives who would serve on the advisory committee, and named the Director of the DNR as the Chair. Legislative members of the committee include: Senator Dick Dearden, Senator Mary Lundby, Representative Henry Rahons and Representative John Whitaker.

The bill mandated the following to be included in the report:

1. What other states have done in meeting conservation needs.
2. An initiative to be recommended in legislature. The initiative must be agreed upon by the members of the Advisory committee.
3. The amount of revenue needed and what kinds of work would be accomplished if the initiative was implemented and funding was received.
4. An analysis of Iowans' willingness to pay for the identified conservation funding initiative.

The committee met in August and put together rules under which they would operate. Conservation funding principals were also developed and were guidelines the committee set up to work under. The Departments of Natural Resources, Agriculture and Land Stewardship, and the County Conservation Board were asked to provide information about current streams of money being used and what the perceived needs are. Duane Sand of the Iowa Natural Heritage Foundation was contacted for his advice because of his experience in dealing with issues of conservation funding. Special reports were also requested.

Most states that have substantial conservation funding get it from several sources. The two main sources of funding used in various states are:

1. The most familiar is the Missouri model and is now being used by Arkansas where a portion of the sales tax is set aside for conservation purposes. Missouri has two different percentages of sales tax; they have one-eighth of one percent sales tax that goes to the Department of Conservation for wildlife, forestry and general natural resource needs, and a more recent sales tax of one-tenth of one percent that goes strictly to parks and to soil conservation needs in the state. They do require periodic renewal by a vote of the citizens of Missouri. Recently the one-tenth of one percent sales tax was renewed by a large majority in the last election.
2. The other primary source of funding in many states is from some avenue of the gaming, gambling, or lottery revenue. There are different versions of this type of funding used in different states.

Refer to the PowerPoint handout for more detailed information.

The committee came up with approximately forty-two different possibilities for conservation funding. The recommended primary choices were:

1. Gaming/gambling revenues
2. Sales tax increase
3. Sales tax on lottery tickets

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4. Tax incentives/credits for conservation – This would not be an income stream to the agencies managing resources but rather incentives for landowners.
5. Consideration of bonding

Estimates were determined of the revenue needed over the next 10 to 20 years to protect our natural resources in the state of Iowa. The realistic amount settled on was \$150 million annually. The committee recommendation of where the funds would go and how the funds would be used is as follows:

1. Resource enhancement and protection (REAP) - \$20 million
2. Local conservation partnership program - \$20 million
3. Watershed improvement review board - \$20 million
4. Lake restoration - \$10 million
5. Iowa wildlife action plan, Iowa forest plan, comprehensive parks needs assessment - \$35 million
6. Soil erosion control, conservation reserve enhancement program, livestock assistance, nutrient education - \$30 million
7. Recreational trails - \$15 million

Question: How much of the allocated money is geared toward water quality?

Response: The allocated money for water quality would fall under several of the different targeted areas of the program.

Question: Did the committee look at all programs, staff, and departments for ineffectiveness, inefficiencies, and consolidation of programs, and what about targeting of funding to specific areas?

Response: This is a gross examination of everything, so the committee did not look necessarily at where inefficiencies, etc. may occur. They did look at overlap funding. There were different agencies looking at funding the same things. There was quite a bit of overlap in some of the needs seen by the DNR and by IDALS. The committee was able to eliminate some of that duplication to help bring those figures down, and targeted funds were also being looked at within those various programs.

Question: Was there discussion on whether it was the responsibility of the legislature or the executive branch to target those programs overlapping funds?

Response: There was no discussion.

What would we get for the recommended funding?

1. Improvements to Iowa's parks and trails. The infrastructure needs would be met for park and land consolidations, and connectivity and consolidation of trails across large portions of the state.
2. Better soil conservation practices and enhanced water quality in the state.
3. Improved or consolidated natural areas set aside for fish and wildlife, state preserves, and other needs for the decline of fish and wildlife resources in the state.

The committee consensus principles for accountability of any money that comes through the initiative and how that money is to be used was determined as follows:

1. The funding must be performance-based and prove accountability of allocations.
2. This is "new" money to add to existing resources, not a replacement "shell game".
3. Create a common-ground and common-sense initiative, one that makes sense to everyone and seems reasonable to Iowans as a whole.

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4. Create an initiative that is “legislative-proof”. The committee agreed, including legislators who served on the committee, for the need to be a permanently protected source of money whatever the funding stream ends up being.

An important legislative charge to the committee was to determine and assess Iowans’ willingness to pay. A public poll and opinion firm from California was retained to conduct a random telephone survey of Iowa citizens in early December 2006. The cost of the project is being handled through the IDNR as the legislature did not allocate funds to conduct this type of survey. Results are in and will be presented to the committee next week. The responses received will indicate the priorities of Iowans, and will help the committee in providing the final report. The results of the poll will be made available.

Committee deadlines:

1. The information and recommendations will be put in a draft report by December 10, 2006.
2. The committee will review and edit draft for final report by December 15, 2006.
3. Final report will be completed and printed by January 5, 2007.
4. Final report will be presented to the Legislature and Governor on January 10, 2007.

Information pertaining to sustainable funding for Iowa’s natural resources is available online at www.iowadnr.com/sustainablefunding/index.html.

Watershed Credit Trading

Presenter Gary Stuhlfauth, with the Ohio EPA Division of Surface Water, gave an overview on water quality trading focusing on nutrients. Handouts pertaining to the overview on water quality trading and proposed rules were distributed.

Watershed credit trading has a twenty-year history in the United States and is not a program that has blossomed. Credits are generated by reducing pollution. Most water quality trading programs in the U.S. have been relatively small and have addressed only local water quality issues. Ohio is getting ready to take the last step to adopt rules for water quality trading. There are many pollutants that may be candidates for water quality trading and the most interest is aimed at nutrients. In Ohio phosphorus is an issue. Current water quality trading activities in Ohio were discussed for the Upper Little Miami River, Great Miami River Basin, and Sugar Creek River Basin. Refer to handout for more information.

Streams were assessed and monitored in Ohio in the year 2000. The leading causes of impairment were habitat alterations, siltation, organic enrichment, nutrients, flow alteration, and metals. Organic enrichment and nutrients were impairing 1200 miles of Ohio streams.

When thinking about leading causes of impairment and water quality credit, it’s important to consider the nonpoint sources that contribute to the impairment. Studies show the point and nonpoint estimated percentage of source contributions. In terms of water quality trading in Ohio, sixteen of twenty approved TMDL studies have been done for nutrients. They are finding a major portion of the nutrient load is coming from nonpoint sources, with TMDL’s showing 50 to 60 percent reductions are needed to meet the TMDL conditions. Wastewater treatment plants will be looking at expenditures to upgrade the plants for nutrient removal to meet the loads set out in the TMDL. For nonpoint sources there are no regulatory programs that drive those reductions.

The following information on credit trading terms was discussed. Refer to the water quality trading handout for more information.

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- Environmental benefits beyond the pollutant loading reductions. Examples of these added benefits include creation and restoration of wetlands, flood plains, and wildlife or waterfowl habitat.
- Baseline levels of pollutant reduction that must be achieved before credits can be generated.
- Best management practices (BMP) that reduce or prevent discharge of pollutants to waters of the state, typically from nonpoint sources.
- Credit or water quality credit. The quantity of a pollutant that is available for a trade after applying the appropriate trading ratio.
- Downstream trade where one source purchases credits for pollutant reductions made by another source located downstream of buyer's location.
- Load allocation is the portion of a TMDL assigned to nonpoint sources of a pollutant.
- Permitted source liability. In the event of default by another source generating credits, the NPDES permit holder is responsible for complying with the limits or other provisions that would apply if the trade had not occurred.
- Point source or point source trade in which the person using credits and the person generating credits are both NPDES permit holders.
- Total maximum daily load or TMDL. The amount of pollutant that can be present in a water body without causing an impairment of the applicable water quality standard for any portion of that water.
- Trading ratio where a ratio of the mass of pollutant reduced using a BMP to the mass of pollutant that would need to be reduced at a treatment plant through plant upgrades.
- Upstream trade where one source purchases credits for pollutant reductions that are made by another source located upstream of buyer's location.
- Waste load allocation (WLA) is portions of a TMDL that are assigned to individual point sources of a pollutant.

Ohio's proposed "new" rules are available online at www.epa.state.oh.us/dsw, or for more information contact Elizabeth Bailik at elizabeth.bailik@epa.state.oh.us.

Various Ohio National Pollutant Discharge Elimination System (NPDES) permits are available online at www.epa.state.oh.us/dsw/permits/districts/SWDO.html.

For questions or further information about water quality trading contact Gary at:

Gary Stuhlfauth

Ohio EPA Division of Surface Water

614-644-2026

gary.stuhlfauth@epa.state.oh.us

Watershed Quality Task Force Legislative Charges and Sub-Committee Assignments

A handout was provided of the proposed four sub-committee recommendations. They were reviewed and discussed by the full committee. Recommendation was made to remove sub-committee #4 (water quantity) and keep sub-committees #1, #2, and #3. Lead persons were assigned to each of the three remaining sub-committees. It was agreed that each lead person would be contacting sub-committee members, set future sub-committee meeting schedules, and that each committee would determine the chairperson assignment. It was requested that contact information and meeting schedules from each sub-committee be emailed to Geri Crawford at gcr@mwatoday.com to distribute to full committee members and post to the DNR website.

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A progress report from each committee will be presented at the next full committee meeting on January 26, 2007. The 2007 Water Quality Planning Task Force meeting schedule was distributed and approved.

Proposed Sub-Committees approved:

1. Sub-committee #1 – Improving and sustaining water quality; Facilitating implementation of existing programs
Lead: Rick Robinson
Iowa Farm Bureau Federation
515-225-5432
rrobinson@ifbf.org

2. Sub-committee #2 – Creating economic incentives for compliance; Providing incentives for the development of pollution control quantification protocols and procedures
Lead: Julie Smith
Iowa League of Cities
515-210-6616
jasmithlaw@mchsi.com

3. Sub-committee #3 – Providing greater flexibility through community-based, non-regulatory and performance-driven watershed management
Lead: Roger Wolf
Iowa Soybean Association
515-251-8640
rwolf@iasoybeans.com

Next Meeting

Date:

Friday, January 26, 2007

Time:

10:00 a.m. – 3:00 p.m.

Location:

Metro Waste Authority
300 E. Locust Street
Des Moines, Iowa
515-224-0021

Adjournment

The meeting adjourned at 2:57 p.m.