



MINUTES

Small City Clean Water Standards Compliance Study Committee

Wednesday, December 5, 2018

MEMBERS PRESENT

Senator Ken Rozenboom, Co-chairperson
Senator Rich Taylor
Senator Dan Zumbach

Representative John H. Wills, Co-chairperson
Representative Terry C. Baxter
Representative Wes Breckenridge

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I. Procedural Business

Call to Order and Adjournment. The meeting of the Small City Clean Water Standards Compliance Study Committee was called to order by temporary Co-chairperson Rozenboom at 10:00 a.m., Wednesday, December 5, 2018, in Room 103 of the State Capitol, Des Moines. The meeting was adjourned at 3:01 p.m.

Election of Permanent Co-chairpersons. Members of the committee unanimously elected temporary Co-chairpersons Rozenboom and Wills as permanent Co-chairpersons.

Adoption of Rules. Members of the committee adopted procedural rules that are available on the committee's website.

Committee Charge. The charge of the committee was to identify and comprehensively review the financial and other challenges faced by small cities in complying with the various state and federal clean water standards, and to consider options for addressing those challenges. The committee was to evaluate the future effectiveness of the Wastewater and Drinking Water Treatment Financial Assistance Program and the Water Quality Financing Program, and evaluate any other existing or proposed state programs. The committee was to seek input and request information or assistance from public and private stakeholders and experts, including utility management organizations, the Iowa Association of Business and Industry, the Department of Natural Resources, the Iowa Finance Authority, the Department of Agriculture and Land Stewardship, the Economic Development Authority, the Iowa Chamber Alliance, the Iowa League of Cities, and the Iowa State Association of Counties. The committee shall submit its findings and recommendations to the General Assembly for consideration during the 2019 Legislative Session.

Welcome and Introductory Remarks. Co-chairpersons Rozenboom and Wills made opening comments and Co-chairperson Rozenboom led the committee in a moment of silence in honor of the passing of the former President of the United States, the Honorable George H. W. Bush.

II. Overview of New Water Quality Programs

Ms. Lori Beary, Community Development Director, Iowa Finance Authority (IFA), presented a summary of the new water supply programs established in Senate File 512 (2018 Iowa Acts, chapter 1001) as amended by House File 2440 (2018 Iowa Acts, chapter 1152) and administered by the IFA. These include the Wastewater and Drinking Water Treatment Financial Assistance Program (Iowa Code section 16.134) and the Water Quality Financing Program (Iowa Code section 16.153). Both programs are funded by collecting a portion of the current sales tax on water bills.

The Wastewater and Drinking Water Treatment Financial Assistance Program annually awards grants of up to \$500,000 per applicant to improve wastewater and drinking water treatment facilities, including source water protection projects. Priority for these grants is given for the following: disadvantaged communities, which are those where, generally, the rates are greater than 2 percent of household income; projects that will significantly improve the water quality in that watershed; projects that use alternative wastewater treatment technologies that are approved by the Department of Natural Resources (DNR); communities with the highest sewer or water rates; projects that use technology to address nutrient reduction; and projects that will improve source waters for drinking water utilities. Moneys for the program will transfer quarterly from tax receipts processed by the Department of Revenue (DOR). The first transfer will occur on February 24, 2019, and will continue through FY 2029. The program is expected to receive approximately \$52 million in funding during that span.



The Water Quality Financing Program creates a revolving loan fund that is to be a permanent source of water quality financial assistance in the form of low-interest loans, forgivable loans, or grants, though forgivable loans and grants are less likely to be awarded due to the perpetual nature of the program. The Water Quality Financing Program also relies on the quarterly transfer of funds from tax receipts processed by the DOR. For FY 2019-2020, the fund is projected to receive \$58 million. Applicants are to submit a watershed plan that can include one or more projects. Priority is given to projects that are collaborative. The collection of the tax will end on the earlier of July 1, 2029, or the date on which the state sales tax rate is increased above 6 percent and moneys are credited to the Natural Resources and Outdoor Recreation Trust Fund (Iowa Constitution, Art. VII, §10 and Iowa Code chapter 461). Committee members and Ms. Beary discussed the eligibility of smaller cities for these programs. Ms. Beary also explained how the loan program will be sustainable after the collection of tax ends because loans will continuously be repaid over time. Committee members and Ms. Beary discussed the difficulty of leveraging these moneys because the funding source could terminate earlier than July 1, 2029. Ms. Beary and committee members discussed the size of projects to be funded and the extent it would be used to assist smaller communities.

III. Perspectives by Water and Wastewater Managers — Iowa Rural Water Association (IRWA)

The committee considered a presentation by Mr. Randy Pleima, General Manager, Mahaska Rural Water Association, Inc., Oskaloosa. Mr. Pleima discussed efforts by IRWA to improve drinking water and wastewater supply systems to customers, including its long history of serving small communities such as Rose Hill, Iowa, with a population of less than 200. IRWA has grown from serving approximately 880 users to 4,000 users in the span of 30 years. Mr. Pleima stated that it costs \$500 to \$1,200 per household to connect a sewer system. Early bills for users under the Mahaska Rural Water Association ranged from about \$15 to \$25 per month, but using a collective septic system cost users about \$28 to \$40 per month. Mr. Pleima discussed how the effects of Environmental Protection Agency (EPA) regulations, implemented through the DNR, have created financial hardship for smaller communities in Iowa.

Mr. Pleima also discussed how small cities adopted aerated-lagoon technology because it allowed wastewater to be discharged faster and had been considered state-of-the-art. Mr. Pleima stated that because many small creeks and streams are regulated, concentrations of pollutants were too high to comply with regulations even though the pollution would come from a low population city. Mr. Pleima used the city of New Sharon as an example of a community where water bills have increased in order to provide additional treatment to wastewater. Mr. Pleima stated that a family on a fixed income might have to pay about \$40 per month whereas other families might pay around \$75 per month. According to Mr. Pleima, the federal government considers \$40 per month to be affordable. Mr. Pleima stated that small communities need grants in order to pay for new treatment systems because otherwise the systems are too expensive for low populations to assume the associated costs. Mr. Pleima also referred favorably to the concept of sales tax dollars helping grant programs.

Committee members and Mr. Pleima discussed why water quality systems are different in southern Iowa as opposed to northeastern Iowa. Mr. Pleima responded that the two regions use different aquifers and in southern Iowa water quantity can be an issue. Committee members commented on how federal standards that change over time are problematic for small communities that may be in compliance at one point in time but fall out of compliance later because they are unable to afford new technology to meet new standards. Committee members and Mr. Pleima also discussed special needs affecting rural Iowa, including northwest Iowa with livestock concentrations and associated concentrations of nitrates.



IV. Industry Perspectives — Iowa Association of Business and Industry (ABI)

The committee considered a presentation by a panel consisting of Ms. Jessica Hyland, Director, Public Policy, ABI, and Mr. Tyler Marshall, P.E., Principal Environmental Engineer, Stanley Consultants. The panel discussed ABI's working relationship with cities and strategies to improve drinking water and wastewater systems by striking a balance between minimizing costs, promoting economic growth, and providing stewardship of natural resources. The panel discussed how making a community attractive to business will lead to more industries moving to the community and explained how costs of operating a business often conflict with environmental stewardship. The panel encouraged collaborative efforts in order to solve water problems. The panel discussed the importance of the Iowa Nutrient Reduction Strategy (Iowa Code section 455B.171) and the need to establish and implement voluntary market-based approaches or incentives, including a nutrient reduction exchange that the panel said should be available in 2019 and operated by the Iowa League of Cities. The panel discussed how total point-source compliance with the Iowa Nutrient Reduction Strategy would cost about \$1.5 billion over 20 years if fully implemented. The panel discussed nutrient trading options in which point source and nonpoint source dischargers could collaborate to reduce the overall level of pollution. Mr. Marshall discussed how farm practices to reduce nutrient loss could cost 10 percent of what it would cost a facility to meet compliance with the Iowa Nutrient Reduction Strategy, but current framework does not allow that option. The panel also discussed how current best available technology cannot distinguish certain metals as soil runoff or artificially added, making it difficult to determine whether a water is impaired due to human causes. The panel discussed a proposal to adopt a bright-line rule to determine the economic efficiency for meeting standards, but that rule was eventually rejected by the EPA.

Co-chairperson Rozenboom emphasized the place of practical environmentalists in making and implementing policies affecting rural Iowa. Co-chairperson Wills asked how to verify that nutrient reduction actually occurs after an exchange of nutrient credits. The panel responded that the DNR is looking into developing a standardized nutrient tracking tool and Iowa State University has volunteered to track it. Co-chairperson Wills also asked about whether a landowner is subject to someone entering their land for a sample. The panel responded that environmental groups will be involved to address any skepticism. Co-chairperson Rozenboom asked about steps that the legislature could take to assist a nutrient reduction exchange. Senator Zumbach also raised concerns about the risks to a property owner. The panel responded that early in the process there must be a determination about who will maintain the practices and what mechanisms will be available to verify. The panel also discussed using technology to find cost-saving measures such as taking high-risk land out of production. Co-chairperson Wills asked about the distance between exchange members. The panel responded that due to environmental justice concerns, exchanges should occur within the same watershed, but that will ultimately be decided in rulemaking. Representative Baxter raised concerns about the practicality of one-size-fits-all legislation.

V. Agency Administration — DNR, Department of Agriculture and Land Stewardship (DALs), and IFA

The committee considered testimony from a panel of agency representatives, including Mr. Jon Tack, Chief of the Water Quality Bureau, Department of Natural Resources, Mr. Jake Hansen, Water Resources Bureau Chief, Department of Agriculture and Land Stewardship, and Ms. Lori Beary. The panel discussed challenges to Iowa's small communities including the fact that a majority of Iowa cities have fewer than 1,000 people so it is difficult to spread the costs for new treatment technology. Additionally, the average age of facilities is 25 years old, which is at or beyond the lifespan for a facility.



The panel also discussed the legal challenge imposed on small cities due to the required presumption that streams can provide all uses; if a stream fails to meet all uses, it becomes subject to additional regulation. The panel expressed that people should not have to spend money to meet new criteria if it does not provide a beneficial impact. The panel used the criteria for metals as an example because ammonia and bacteria are the larger problems for Iowa's waters. The panel discussed the need for more assistance programs for smaller communities because they have to meet any new compliance standards on the same timeline as any larger community would. The panel discussed the need for new technology that is less expensive to meet standards.

The panel discussed the limited role of DALS in financing water quality projects, and Mr. Hansen expressed interest in DALS being more involved with other programs in the future. The panel discussed DALS' involvement with communities adjacent to water quality projects and the agency's role in encouraging soil and water conservation districts to remain in communication with those communities. The panel discussed the role of DALS with other state agencies and that DALS continues to explore options to assist communities. Representative Breckenridge asked if there was a coordinated effort among state agencies to obtain the best return of investment. The panel responded by stating that agencies have to strike a balance between practices on a statewide scale and those for specific watersheds. To accomplish this, the panel discussed how priority is provided to projects in high-quality waters and concentrating on high-visibility projects in order to encourage replication in other places where similar projects are needed. Co-chairperson Rozenboom inquired about the contribution of nitrogen to the Gulf of Mexico from the Des Moines lobe. The panel responded by distinguishing between the quantity and mobility of nitrogen, but noted that the Des Moines lobe is an area of focus.

The panel then discussed the state revolving fund from the federal Clean Water Act (33 U.S.C. §1251 et seq.). The state revolving fund administered by IFA is available to assist any public entity that operates a utility. Loans from the program have an interest rate of 1.75 percent for a 20-year loan and 2.75 percent for a 25-year loan. Planning and design loans do not require payment for the first three years and are intended primarily for small cities. The loans are generally repaid through sewage and water rates but that is not required. Because the state revolving fund is a federal program, federal requirements such as environmental review and using American steel apply. The DNR has four environmental review specialists available to assist smaller communities. Interest accrued from the loans can be used on nonpoint source projects. Committee members and the panel discussed regulations adopted by EPA and DNR's role in enforcing those regulations in a manner that is reasonable and feasible. Committee members discussed the Nutrient Reduction Strategy and the feasibility of implementing large-scale projects. Co-chairperson Wills discussed the success of wetland projects.

VI. Management Opportunities — Association of Regional Water Organizations (ARWO)

The committee considered a presentation by a panel that included Mr. Randy Van Dyke, CEO of Iowa Lakes Regional Water, and Mr. James LaPlant, CEO and Engineer for the Iowa Regional Utilities Association (IRUA). The panel discussed the role of the ARWO and the goal of establishing or expanding policies and funding programs, including a proposal under consideration by EPA and the United States Department of Agriculture Rural Development. The panel discussed how Iowa could be a leader of good stewardship of federal money, which relies on financial sustainability and resiliency. The panel discussed the importance of the legislature's involvement. The panel stated that a main goal of the ARWO is to serve family farms and family homes, which it can achieve by partnering with communities.



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The panel discussed the distribution of the water supply to rural areas. Associations such as the IRUA buy excess water from utilities; communities served by those utilities enjoy some of the lowest rates in Iowa. The panel emphasized the importance of monitoring the quality of money spent. The panel used California and Texas as examples of places that successfully allocate natural resources to obtain the best value for the money spent. The panel discussed the importance of getting parties to work together by providing some incentives but not providing negative consequences for failure to participate. The panel used rural electric cooperatives and telecommunications as examples of getting the best utility practices to consumers and suggested that those models should be successful for water distribution because of the abundance of water supplies. The panel concluded by discussing the ideas it had presented to the United States House of Representatives Committee on Appropriations for Agriculture and the need to retain flexibility for each region.

VII. Perspectives by Cities

The committee considered presentations by a panel that included Mr. Daniel Stalder, Government Outreach Coordinator, Iowa League of Cities, Mr. Ted Payseur, Chair of the Government Affairs Committee of the Iowa Water Environment Association, Mr. Matt Wildman, Chair of the Small Community Committee of the Iowa Water Environment Association, and Mr. John Stineman, Executive Director of the Iowa Chamber Alliance. The panel first discussed the role of the Iowa League of Cities in representing every city in Iowa regardless of size. The panel discussed various issues among Iowa cities including in Tipton where rates increased by about 30 percent to raise \$5.6 million to treat trace amounts of ammonia. The panel discussed how Central City needed to raise \$4 million, which doubled the base pay on all water bills. The panel discussed how there are many cities with fewer than 600 people, which makes funding water quality projects difficult.

The panel then discussed changes in perspective about water quality issues facing the state today as compared to when the federal Clean Water Act was enacted in 1972. The panel described how water quality problems in the past are rarely issues today, but the mindset of the past fails to consider modern problems and new science. The panel mentioned how Iowa's shrinking and aging communities make it increasingly difficult for those communities to afford new water quality systems. The panel expressed the need for a greater level of appropriations to DNR to employ additional staff. The panel stated how agencies need to look at socioeconomic factors when determining the distribution of grants. The panel discussed the idea of social justice and stated that there are people who struggle to afford clean water; additional costs imposed on a community could place persons into poverty. The panel also discussed additional costs that may occur from climate change, such as the increased duration and severity of flooding events. The panel considered opportunities for funding such as tax credits. The panel discussed the importance of encouraging innovation in smaller communities because being disadvantaged does not relieve legal liability for those communities.

Mr. Wildman presented goals of the Iowa Water Environment Association's Small Community Committee, which included providing technical support, providing recommendations, evaluating research opportunities, and educating small communities on rate increases. The panel discussed the shortage of operators in small communities, which is partly due to licensure issues that impose costs on operators and small communities. The panel discussed the importance of incremental rate increases as a way to protect against future problems. The panel emphasized the fact that the lifespan of infrastructure is finite so it is important to plan ahead.

Representing the Iowa Chamber Alliance, Mr. Stineman explained that even though the alliance represents the 16 largest chambers in Iowa, the metro areas still contain small communities. He discussed how Senate File 512 reflects the complexity and challenges of water quality issues. The



panel discussed the need for grant allocation procedures to be more clear and that such procedures need to clearly define objectives of the program. The panel discussed the costs associated with complying with water quality standards and how focusing on environmental compliance does not take into concern infrastructure issues. The panel concluded by discussing how Iowa needs to make changes to ensure that it gets a fair share of federal money.

VIII. Committee Discussion and Final Remarks

The committee discussed a number of items, including the need to assist small and very small communities, that federal regulations are unfair to those communities, and that DNR is placed in a difficult position of implementing federal regulations in a manner that does not place an unfair hardship on those communities. Representative Breckenridge expressed the concern that systems in place only provide short-term solutions to long-term problems. Senator Zumbach expressed gratitude to DNR for their role in navigating between federal regulations and providing fairness to small communities. Co-chairperson Wills stated that Senate File 512 is just the start of the discussion and that the conversation needs to continue beyond the committee meeting but that future solutions need to be logical, fair, and beneficial to the state. Co-chairperson Rozenboom expressed the view that the increasing costs of federal regulations are producing marginal results because whenever a community achieves progress in complying with water quality standards, new and higher standards are put in place.

IX. Committee Recommendations

Co-chairperson Wills requested that the committee's final report include the contact information of persons presenting testimony. The committee adjourned without making recommendations.

X. Materials Filed With the Legislative Services Agency

The materials listed below were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the "Committee Documents" link on the committee's Internet site at:

www.legis.iowa.gov/committees/committee?ga=87&session=2&groupID=31964

1. Committee Charge
2. Agenda
3. Rules Proposed
4. Rules Adopted
5. Briefings on Meeting
6. Fiscal Update Article
7. 1st Presentation — Iowa Finance Authority — Materials
8. 1st Presentation — Iowa Finance Authority — Presentation
9. 3rd Presentation — 1st Panel — Presentation
10. 5th Presentation — 3rd Panel — Materials — Federal Law
11. 5th Presentation — 3rd Panel — Materials — Map
12. 5th Presentation — 3rd Panel — Materials — Summary
13. 5th Presentation — 3rd Panel — Proposal



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- 14.** 6th Presentation — 4th Panel — Materials — Facts
- 15.** 6th Presentation — 4th Panel — Materials — Notes
- 16.** Minutes — December 5 Meeting
- 17.** Final report.