## A-Engrossed Senate Bill 839

Ordered by the Senate April 22 Including Senate Amendments dated April 22

Sponsored by COMMITTEE ON ENVIRONMENT AND NATURAL RESOURCES

## **SUMMARY**

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure.

Establishes Water Supply Development Account. Continuously appropriates funds in account to Water Resources Department to make loans and grants for qualifying projects and for **providing funding support for studies and paying** cost of administering loan and grant program. Establishes criteria **and conditions** for projects to qualify for grants and loans from account **and for selection of projects receiving funding**.

[Allows recipient of grant for critical ground water storage project in Umatilla Basin to apply for

change in grant terms and conditions.]

Establishes net environmental public benefit requirements for critical ground water storage projects in Umatilla Basin.

Creates work group to review loan and grant program. Sunsets work group on date of convening of 2014 regular session.

Declares emergency, effective on passage.

## 1 A BILL FOR AN ACT

- Relating to water; creating new provisions; amending section 17, chapter 907, Oregon Laws 2009; appropriating money; and declaring an emergency.
- 4 Be It Enacted by the People of the State of Oregon:
  - SECTION 1. As used in sections 1 to 15 of this 2013 Act:
- (1) "Newly developed water" means the new increment of water:
- 7 (a) Stored for a project providing new or expanded storage;
- (b) Allocated to a new use under a secondary water right for a project involving the allocation of water stored under an existing water right; or
- 10 (c) Conserved for a project to allocate conserved water under the program described in ORS 537.455 to 537.500.
  - (2) "Seasonally varying flows" means the streamflows needed to protect and maintain the following biological, ecological and physical functions in a given basin:
    - (a) Stream channel development and maintenance;
- 15 (b) Longitudinal, lateral and vertical connectivity to floodplains;
  - (c) Sediment transport and deposition;
- 17 (d) Migration triggers for upstream movement of adult fish and downstream movement 18 of fry and juveniles;
  - (e) Fish spawning and incubation;
- 20 (f) Juvenile fish rearing; and
- 21 (g) Adult fish passage.
- 22 SECTION 2. (1) The Water Supply Development Account is established in the State

**NOTE:** Matter in **boldfaced** type in an amended section is new; matter [*italic and bracketed*] is existing law to be omitted. New sections are in **boldfaced** type.

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- 1 Treasury, separate and distinct from the General Fund. Interest earned by the Water Supply
- 2 Development Account shall be credited to the account. Moneys in the account are contin-
- uously appropriated to the Water Resources Department for use in carrying out sections 1 to 15 of this 2013 Act.
  - (2) The department may expend moneys from the account for:
  - (a) Making loans and grants to evaluate, plan and develop in-stream and out-of-stream water development projects approved by the Water Resources Commission, including but not limited to projects to:
    - (A) Repair or replace infrastructure;
- 10 (B) Provide new or expanded water storage;
  - (C) Improve or alter operations of existing water storage facilities;
- 12 **(D)** Create new, expanded, improved or altered water distribution, conveyance or deliv-13 ery;
  - (E) Allocate stored water;
- 15 **(F) Promote water reuse;**

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- 16 (G) Promote water conservation;
  - (H) Provide streamflow protection or restoration;
    - (I) Provide for water management or measurement; and
- 19 (J) Determine seasonally varying flow requirements.
- 20 (b) Paying the related administrative costs of the department in carrying out sections 1 21 to 15 of this 2013 Act.
  - (3)(a) In addition to any other permissible uses of moneys in the account, the department may expend moneys from the account to support:
  - (A) Ongoing studies conducted by the United States Army Corps of Engineers to reallocate stored water; and
    - (B) Comprehensive basin studies conducted by the United States Bureau of Reclamation.
  - (b) Expenditures described in this subsection are not subject to any grant or loan procedures, public benefit scoring or ranking or other requirements or restrictions for grants or loans established under sections 1 to 15 of this 2013 Act.
  - SECTION 3. Loans and grants may be made from the Water Supply Development Account to persons as defined in ORS 536.007, Indian tribes as defined in ORS 391.802 and nonprofit organizations. If an applicant is required to have a water management and conservation plan, the plan must be submitted to the Water Resources Department and receive approval prior to department acceptance of an application for a loan or grant from the account.
  - <u>SECTION 4.</u> (1) A potential applicant for a loan or grant from the Water Supply Development Account may participate in a preapplication conference with the Water Resources Department.
  - (2) At the preapplication conference, the department shall inform the potential applicant of the procedural and substantive requirements of a loan or grant application and of the scoring system used to evaluate loan and grant requests. The department shall assist the potential applicant by identifying known issues that may affect project eligibility for a loan or grant from the account.
  - (3) Not less than 14 days before the preapplication conference, the applicant must provide the department with adequate project information to prepare for the preapplication confer-

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- (4) The applicant may request additional preapplication consultation with the department.

  <u>SECTION 5.</u> Applications for a loan or grant from the Water Supply Development Account must be in a form prescribed by the Water Resources Department and must include
- count must be in a form prescribed by the Water Resources Department and must include
   the following:
  - (1) A description of the need, purpose and nature of the project, including what the applicant intends to complete and how the applicant intends to proceed.
  - (2) Sufficient information to allow evaluation of the application based upon the public benefit scoring and ranking of the project.
  - (3) Current contact information for the principal contact, fiscal officer and involved landowners.
  - (4) For applications involving physical changes or monitoring on private land, evidence that landowners are aware of and agree to the proposal and are aware that monitoring information is a public record.
  - (5) The location of the proposed project, using public land survey reference points, latitude and longitude, county, watershed, river and stream mile, if appropriate.
    - (6) An itemized budget for the project, including fiscal and administrative costs.
    - (7) A description of funds, services or materials available to the project.
    - (8) A project schedule, including beginning and completion dates.
    - (9) Any conditions that may affect the completion of the project.
  - (10) A completed feasibility analysis if appropriate.
  - (11) Suggestions for interim and long-term project performance benchmarks.
  - (12) If the application is for a grant, demonstrated in-kind and cash cost match of not less than 25 percent of the amount of the grant sought from the account.
    - (13) If the application is for a loan, evidence demonstrating ability to repay the loan and provide collateral.
      - (14) Letters of support for the proposed project.
    - (15) If required by the department, a description of consultations with affected Indian tribes regarding the project.
      - (16) Any other information required by the department.
    - SECTION 6. (1) The Water Resources Commission shall adopt rules establishing a system for scoring and ranking projects to determine which projects are to be awarded loans and grants from the Water Supply Development Account, including but not limited to the application of minimum criteria designed to achieve the outcomes described in section 8 of this 2013 Act. The system shall be based on the public benefit categories described in section 7 of this 2013 Act. The commission shall make the loan and grant funding decisions once each year. Applications must be filed with the Water Resources Department. The department shall accept an application for a loan or grant at any time, but shall establish a yearly deadline for the consideration of a pool of applications.
    - (2) The department shall conduct a preliminary review of applications to check for completeness, eligibility and minimum requirements upon receipt of each application. The department shall return incomplete applications to the applicant. The department shall provide public notice by posting new funding applications on the department's website for a 60-day period prior to reviewing the applications. The department shall provide for the receipt of public comment on the applications during the 60-day period that applications are posted on

the department's website.

- (3) The department shall forward applications that have passed preliminary review, along with any comments received from applicants or the public, to a technical review team consisting of representatives of the Water Resources Department, the Department of Environmental Quality, the State Department of Fish and Wildlife, the State Department of Agriculture, the Oregon Business Development Department, affected Indian tribes, any collaborative body established by the Governor to address challenges, opportunities and priorities for the region affected by the project and additional experts as determined by the Water Resources Department. The technical review team shall conduct the initial scoring and ranking for the projects described in the applications, consider comments from applicants and the public and make loan and grant funding recommendations to the commission. The commission shall determine the final scoring and ranking of projects and make the final decision regarding which projects are awarded loans or grants from the account. Before the commission makes a final decision on an application, the commission shall offer one additional opportunity for public comment.
- (4) The department is not required to obligate all available account moneys during a funding cycle. Any available account moneys that are not obligated during a funding cycle shall be carried forward and be made available for projects in future funding cycles.
- (5) The department shall document the ranking of all applications and make the application ranking publicly available after the funding decisions by the commission have been published.
- SECTION 7. (1) Projects applying under section 6 of this 2013 Act for funding from the Water Supply Development Account shall be evaluated based upon the public benefits of the project. The evaluation must consider both positive and negative effects of a project. The three categories of public benefit to be considered in the project evaluation are economic benefits, environmental benefits and social or cultural benefits. Each category of benefits shall be given equal importance in the evaluation of a project. The technical review team described in section 6 of this 2013 Act shall use the evaluation system to assign initial scores and rankings to projects. The Water Resources Commission shall use the evaluation system to assign final scorings and rankings to the projects. The commission shall award loan and grant funding from the account to the projects that have the greatest public benefit and will best achieve the outcomes described in section 8 of this 2013 Act.
- (2) The evaluation of economic benefits for a project shall be based on the changes in economic conditions expected to result from the project, including but not limited to conditions related to:
  - (a) Job creation or retention;
  - (b) Increases in state, local or tribal government revenues;
  - (c) Increases in efficiency or innovation;
- (d) Enhancement of infrastructure, farmland, public resource lands, industrial lands, commercial lands or lands having other key uses; and
- (e) Enhanced economic value associated with tourism or recreational or commercial fishing, with fisheries involving native fish of importance to Indian tribes or with other economic values resulting from restoring or protecting water in-stream.
- (3) The evaluation of environmental benefits for a project shall be based on the changes in environmental conditions expected to result from the project, including but not limited to

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- (a) A measurable improvement in protected streamflows that:
- 3 (A) Restores the natural hydrograph;
  - (B) Restores floodplain function; or
- 5 (C) Supports fish species that are state or federally listed as sensitive, threatened or endangered species;
  - (b) A measurable improvement in ground water levels that enhances environmental conditions in ground water restricted areas or other areas;
    - (c) A measurable improvement in the quality of surface water or ground water;
- 10 (d) Water conservation;
  - (e) Increased ecosystem resiliency to climate change impacts; and
  - (f) Improvements that address one or more limiting ecological factors in the project watershed.
  - (4) The evaluation of the social or cultural benefits for a project shall be based on the changes in social or cultural conditions expected to result from the project, including but not limited to conditions related to:
    - (a) The promotion of public health and safety and of local food systems;
  - (b) A measurable improvement in conditions for members of minority or low-income communities, tribal communities or other communities traditionally underrepresented in public processes;
    - (c) The promotion of recreation and scenic values;
    - (d) Contribution to the body of scientific data publicly available in this state;
  - (e) The promotion of state or local priorities, including but not limited to the restoration and protection of native fish species of cultural significance to Indian tribes; and
  - (f) The promotion of collaborative basin planning efforts by the use of a place-based integrated water resource planning approach under the state integrated water resources strategy.
  - <u>SECTION 8.</u> (1) The Water Resources Commission shall design the minimum criteria for the project scoring and ranking system described in section 6 of this 2013 Act to achieve the following outcomes:
  - (a) The issuance of grants or loans only to projects that provide benefits in each of the three categories of public benefit described in section 7 of this 2013 Act.
    - (b) Preference for partnerships and collaborative projects.
    - (c) The funding of projects of diverse sizes, types and geographic locations.
  - (d) If a project proposes to divert water, preference for projects that provide a measurable improvement in protected streamflows.
  - (2) The Water Resources Department shall review the loan and grant program on a biennial basis to assess to what extent the outcomes described in subsection (1) of this section are being achieved, and shall report the review findings to the Water Resources Commission. The commission shall modify the project selection process as necessary to better achieve the outcomes described in subsection (1) of this section.
  - SECTION 9. (1) The recipient of a grant from the Water Supply Development Account must agree to the conditions set forth in subsection (2) of this section if the grant is for the development of a new or expanded above-ground storage facility that:
    - (a) Impounds surface water on a perennial stream;

- (b) Diverts water from a stream that supports state or federally listed sensitive, threatened or endangered fish species; or
  - (c) Diverts more than 500 acre-feet of water annually.
- (2) Twenty-five percent of the newly developed water from a project described in subsection (1) of this section must be dedicated to in-stream use.
- SECTION 10. (1) A project that receives a loan or grant from the Water Supply Development Account must:
- (a) Demonstrate social or cultural benefits and economic benefits sufficient to qualify the project under the scoring and ranking system described in section 6 of this 2013 Act; and
  - (b) Demonstrate environmental benefits:

- (A) By dedicating 25 percent of conserved water or newly developed water to in-stream use; or
- (B) If the project is not subject to section 9 of this 2013 Act, that are sufficient to qualify the project under the scoring and ranking system described in section 6 of this 2013 Act.
- (2) As used in this section, "conserved water" has the meaning given that term in ORS 537.455.
- SECTION 11. If a project dedicates water to in-stream use under the requirements described in section 9 of this 2013 Act or as allowed under section 10 of this 2013 Act, the Water Resources Department shall protect the dedicated water in-stream. Dedicated water may come from newly developed water or from other sources and may be put in-stream at other locations in the watershed if the Water Resources Department, in consultation with the State Department of Fish and Wildlife, determines that the alternate location would provide greater or equal environmental benefit. The Water Resources Department, in consultation with the State Department of Fish and Wildlife, shall determine the timing of the flows to maximize in-stream benefits in a manner consistent with public health and safety.
- SECTION 12. (1) The Water Resources Department shall make a determination as provided under subsection (2) of this section if an application for a loan or grant from the Water Supply Development Account is for a project that requires the issuance of a new water storage or aquifer recharge permit or limited license outside of the official irrigation season and:
  - (a) Impounds surface water on a perennial stream;
- (b) Diverts water from a stream that supports state or federally listed sensitive, threatened or endangered fish species; or
  - (c) Diverts more than 500 acre-feet of surface water annually.
- (2) The department shall review a completed application for a project described in subsection (1) of this section to determine whether seasonally varying flow requirements have been established under this section for the stream of interest. If the department determines that the requirements have not been established, the department shall establish seasonally varying flow requirements before issuing a loan or grant from the account. For purposes of establishing the requirements, the department may rely upon existing scientific data and analysis or may fund new data and analysis. The department may use account moneys to pay the cost of establishing seasonally varying flow requirements and to pay other costs directly related to project development.
- (3) The department shall develop methods and standards for establishing seasonally varying flows in consultation with the State Department of Fish and Wildlife and affected

Indian tribes. Once a seasonally varying flow requirement is established for a stream of interest, there is a rebuttable presumption that the flow requirement is accurate.

- (4) The Water Resources Department shall condition the loan or grant applicant's new water storage permit and resulting certificate, new aquifer recharge permit and resulting certificate or new limited license associated with a project receiving a grant or loan from the account to protect the seasonally varying flow requirement in effect at the time the loan or grant is issued for the project.
- (5) If the department receives an application for a water permit or limited license after a seasonally varying flow requirement has been established for the identified source stream under this section, the department shall condition any water permit and resulting certificate or any limited license issued as a result of the application as necessary to protect the seasonally varying flow requirement.
- (6) Prior to applying conditions to a permit described in subsection (4) or (5) of this section, the department must complete a determination of water availability and verify that the permit applicant has complied with any requirements imposed by statute, rule or department policies.
- SECTION 13. (1) Before loan or grant moneys are expended from the Water Supply Development Account for any construction project, the recipient must obtain all applicable local, state, tribal and federal permits and show that the project complies with local land use laws. Project materials must include a notation indicating that Water Resources Department funding was used for the project.
- (2) Project completion and operation must comply with applicable local, state, tribal and federal laws and permitting requirements.
- (3) Loan or grant recipients must complete and operate the funded project as described in the loan or grant application. Before commencing implementation of a project funded with account moneys, the recipient must demonstrate to the satisfaction of the department that the public benefits identified for the project, including any environmental benefits proposed at a location other than the project site, will be realized in a timely fashion.
- (4) At regular intervals, and upon completion of the project, the loan or grant recipient must submit updates to the department that describe the completed work, the public benefits achieved and project expenditures. The recipient must regularly measure and report the water diverted and used from the project. The recipient must monitor, evaluate and maintain the project for the life of the loan, or for a specified number of years for a grant, and provide annual progress reports to the department. The department may impose other project-specific conditions by noting the conditions during project evaluation and including the condition in the funding agreement for the project.
- (5) The department may terminate, reduce or delay funding for a project if the loan or grant recipient fails to comply with any provision of subsections (1) to (4) of this section.
- SECTION 14. (1) The Water Resources Commission shall adopt rules establishing standards for borrowers obtaining loans issued from the Water Supply Development Account. The commission shall design the standards to ensure that all loans have a high probability of repayment and that all loans are adequately secured in the event of a default. The commission shall solicit comments from the Oregon Department of Administrative Services and the State Treasurer when designing the standards. The standards may include, but need not be limited to, standards that give preference to entities with ad valorem taxing authority.

- (2) If the Water Resources Department approves the financing for the implementation of a water development project, the department and the applicant may enter into a loan contract, secured by a first lien or by other good and sufficient collateral in the manner provided in ORS 541.740.
- SECTION 15. The Water Resources Department may enter into water service contracts to recover all or a portion of moneys expended from the Water Supply Development Account. Moneys received through the water service contracts, or as repayment of account loans, must be deposited in the account.
  - SECTION 16. Section 17, chapter 907, Oregon Laws 2009, is amended to read:
- **Sec. 17.** (1) As used in this section, "critical ground water storage project" means an underground or below-ground storage of river water in a critical ground water area designated under ORS 537.730 for use in:
- (a) Aquifer storage and recovery as described in ORS 537.534 and streamflow augmentation and restoration; or
- (b) Recharging ground water basins and reservoirs as described in ORS 537.135 and streamflow augmentation and restoration.
- (2) The Water Resources Department may issue a grant under this section only for a critical ground water storage project that is located in the Umatilla Basin and that meets the conditions described in this section.
- (3)(a) [Except as provided in subsection (4) of this section, notwithstanding ORS 537.534,] If the project uses artificial recharge to recharge an alluvial aquifer that is not confined, the project must be designed:
- [(a)] (A) To provide [for no more than 75 percent of new stored water to be withdrawn and for not less than 25 percent of the new water to be dedicated for the purpose of providing] net environmental public benefits [or in-stream benefits] in an amount equal to at least 25 percent of the water stored by the project; and
- [(b)] (B) To the extent practicable, to [return dedicated new stored water for stream] deliver any net environmental public benefit water to be provided in the form of in-stream flow augmentation at a time of year that the Water Resources Department, in consultation with the State Department of Fish and Wildlife and relevant tribal governments, determines will provide the maximum net environmental public benefit or in-stream benefit.
- (b) For purposes of determining whether a project described in this subsection produces the required net environmental public benefit, the project shall be considered to be for the development of not more than 25,000 acre-feet of aquifer recharge as described in a final grant report submitted by the grantee to the department.
- (4) If more than 25 percent of the funding for an aquifer storage and recovery project is from grants of state moneys and is not subject to repayment, the project must be designed to [dedicate for the purpose of providing] provide net environmental public benefit [or in-stream benefit a percentage of the new stored water created by the project] in an amount that equals or exceeds the percentage of funding for the project that is from grants of state moneys. The Water Resources Department shall manage the [dedicated increment of new stored water] amount of water provided for net environmental public benefit [and in-stream benefit] in the form of in-stream flow.
- (5) On or before the earlier of six years after the issuance of the ground water recharge permit or the date the water right certificate is issued, the department shall quantify and legally protect in-stream the increment of new water returned in stream from a project described in this section.

- (6) The department shall require as a contractual condition for issuing the grant, and as a condition of any new ground water recharge permit or water right certificate issued for the project, that if the project receives grants or loans from state moneys other than a grant issued under this section or other state moneys used to complete the feasibility design and pilot phase of project development funded by a grant under this section, the project must be operated in a manner that actually dedicates the percentage of new stored water for net environmental public benefit or in-stream benefit that the project was designed to dedicate for those purposes.
- (7) This section does not limit the authority granted the Environmental Quality Commission or the Department of Environmental Quality under ORS chapter 468B.
  - (8) This section is repealed January 2, 2030.

- SECTION 17. At the request of the grantee, the terms and conditions of a grant approved by the department under section 17, chapter 907, Oregon Laws 2009, prior to the effective date of this 2013 Act shall be amended to replace the terms and conditions originally imposed for the grant with terms and conditions similar to the terms and conditions imposed for grants issued under section 17, chapter 907, Oregon Laws 2009, as amended by section 16 of this 2013 Act.
- SECTION 18. (1) The Governor, or a designee of the Governor, shall convene a work group composed of members the Governor or designee deems to be appropriate and to be sufficiently representative of agricultural, municipal, conservation and tribal interests and of other groups having an interest in water resources development.
- (2) The work group shall review the structure established for water development project loans and grants under sections 1 to 15 of this 2013 Act and develop any proposals for changing the structure. The review may include but need not be limited to possible changes in the long-term structure of the decision-making process regarding:
- (a) The appropriate role of the state in providing loan and grant funding for multipurpose water resource development under sections 1 to 15 of this 2013 Act; and
- (b) The decision-making process for the allocation of newly developed water from projects for which the uses of the water were not specified in the funding application.
- (3) The work group shall meet at times and places specified by the Governor or the designee of the Governor.
- (4) The work group shall submit a report in the manner provided in ORS 192.245, including any recommendations for legislation, to the Governor and to an interim committee of the Legislative Assembly related to natural resources no later than October 1, 2013.
  - (5) The Water Resources Department shall provide staff support to the work group.
- (6) Members of the work group are not entitled to compensation, but may be reimbursed for actual and necessary travel and other expenses incurred by them in the performance of their official duties in the manner and amounts provided for in ORS 292.495. Claims for expenses shall be paid out of funds appropriated to the department for purposes of the work group.
- SECTION 19. Section 18 of this 2013 Act is repealed on the date of the convening of the 2014 regular session of the Legislative Assembly as specified in ORS 171.010.
- SECTION 20. Section 12 of this 2013 Act applies to projects for which a new water storage or aquifer recharge permit or new limited license is issued on or after the effective date of this 2013 Act.
  - SECTION 21. This 2013 Act being necessary for the immediate preservation of the public

- peace, health and safety, an emergency is declared to exist, and this 2013 Act takes effect on its passage.
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