



Dave Heineman
Governor

STATE OF NEBRASKA
DEPARTMENT OF NATURAL RESOURCES
Brian P. Dunnigan, P.E.
Director

October 1, 2014

IN REPLY TO:

Patrick J. O'Donnell
Clerk of the Legislature
Room 1218, State Capitol
Lincoln, NE 68509

Dear Mr. O'Donnell:

Pursuant to *Neb. Rev. Stat.* § 61-218(6), I am submitting to the Legislature this report of the Water Resources Cash Fund (Fund) uses for the previous fiscal year, FY 2013-14.

The Fund uses state funds from multiple resources. Therefore, some review of the Fund's historical context is helpful to describe uses of the Fund in terms of legislative relationships to funding resources. LB 229, 2011, and LB 950, 2012, expanded Fund resources beyond the original (LB 701, 2007) General Fund appropriations. LB 229 provided for DNR to apply for grants from the Nebraska Environmental Trust (NET) in the amount of \$3.3 million annually for three years for use by the Fund and increased the annual transfer from the General Fund to \$3.3 million from \$2.7 million. NET transfers grant moneys directly to the Fund for use under Fund rules. LB 950 provided an additional \$1.4 million General Fund appropriation to WRCF for one year, FY 2012-13, in addition to the annual \$3.3 million otherwise required by LB 229. The NET approved the Department's LB 229 first three-year (FY 2012-15) grant application for \$3.3 million annually. Based upon the LB 229 provisions, *Neb. Rev. Stat.* § 81-15,175(4), the Department applied for a second three-year grant on August 28, 2014 and planning for Fund expenditures is based upon anticipated approval of the second three-year grant.

Uses of Fund resources have evolved since the Fund's inception, consistent with incremental and long-range planning for conserving the state's water resources. As noted in earlier reports, the Department has reserved maximum flexibility for direct use of the Fund but also committed, beginning in 2010, to utilizing portions from the Fund annually for reimbursement of costs associated with compliance under an interstate agreement for use of waters of the Platte River, the Platte River Recovery Implementation Program (PRRIP), and the associated integrated management plans (IMPs). A consortium of five natural resources districts (Central Platte, South Platte, Twin Platte, North Platte, and Tri-Basin) and the Department organized under interlocal cooperative agreements to implement the IMPs and collaboratively determine the best use of the financial resources available. The first interlocal cooperative agreement formed the Platte Basin Habitat Enhancement Program (PBHEP), and the succeeding interlocal cooperative agreement formed the Platte Basin Water Project Coalition (Coalition). The Coalition shares the same general goals as PBHEP but extends the commitment of WRCF dollars through FY 2015. These dollars are composed of \$9.9 million dollars from the LB 229, 2011 NET, grant transfers to the Fund for the first three-year grant and \$6.6 million dollars of the anticipated \$11.3 million

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dollars in General Fund appropriation available over the same time period. The Coalition's total budget for fiscal years 2013-2015 is \$23.1 million including cost share resources from local expenditures. The Department expended directly from the Fund in this and prior fiscal years to reimburse the Central Platte, South Platte, Twin Platte, North Platte, and Tri-Basin natural resources districts and multiple Platte Basin irrigation districts under PBHEP or the Coalition for partial costs associated with management actions taken to reduce consumptive uses of water and/or to enhance streamflows in the overappropriated area of the Platte River Basin. The funds were used by the districts for purchasing easements on water rights, groundwater recharge, and augmentation activities to further PRRIP compliance plans. At this point in Fund use planning, all currently available funding has been obligated through contracts with participant entities. Some contracts are completed and planning for potential future commitments continues, but further commitments are contingent upon continued Legislative appropriations and approval of the pending NET grant application. Expenditures for FY 2013-14 are listed below.

Early in FY 2013, the Department invited local natural resources districts (NRDs) in the Republican River basin to work collaboratively with the Department to develop dry-year leasing projects over the next year. The intent is to enhance Republican River Compact compliance measures using up to \$3 million of Fund resources on a 40% cost share basis for total dry-year leasing expenditures of up to \$5 million. Reimbursements totaling \$2 million were paid to the Middle and Upper Republican NRDs in FY 2013 toward their streamflow enhancement projects and the Lower Republican NRD reimbursed producers on dry-year leases for cost-shares totaling \$1 million from the Fund during FY 2014.

Cash Fund Expenditures in FY 2013-14

Canal Rehabilitation Cozad – CPNRD	1,499,769
Canal Rehabilitation Thirty-Mile – CPNRD	1,699,420
Canal Rehabilitation Orchard Alfalfa – CPNRD	1,713,077
Conservation Easements – CPNRD	479,915
J-2 Reregulating Reservoir – CPNRD, TBNRD, TPNRD, CNPPID	3,860,890
North Dry Creek Augmentation Well Project – TBNRD	1,000
2013 Platte Basin Recharge Projects – Irrigation District Payments	349,685
Groundwater, Dry Year Lease – LRNRD	1,000,000
Republican River Water Leasing – Irrigation District Payments	150,000
	<u>\$10,753,755</u>

Anticipated Funding and Future Commitments

As noted in last year's report, the Department expected a significant increase in expenditures from the Fund during FY 2014-2015 to help fund several PRRIP initiatives. Cost share commitments from the Fund have been made to Central Platte PBHEP projects for Cozad Canal and Thirty Mile Canal Conjunctive Management, at \$3.1 million and \$1.1 million in Fund cost shares, respectively, over the project duration.

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Included under the Coalition projects obligated under these funding sources are the J-2 Regulating Reservoir Project, N-CORPE, Orchard-Alfalfa Canal Rehabilitation, NPNRD conjunctive management, and others. The J-2 Project has a total cost to the Fund of approximately \$5.7 million over the next year and \$5.7 million in FY 2016. Additionally, over the next two years, Fund expenditures for other PRRIP measures to be implemented through the Coalition are expected to be approximately \$5.5 million.

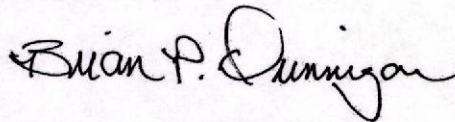
The funding commitments of the Coalition are, and will be, possible as a result of additional resources available under LB 229, 2011, notably the Department's second three-year grant application to NET on August 28, 2014, in compliance with LB 229's terms, to secure Fund resources through FY 2017. Senator's may wish to read the Department's July 1, 2014, Report to the Natural Resources Committee, on file at the Legislature's electronic portal, for a comprehensive review of demonstrated benefits from Fund expenditures.

Summary of Remaining Cash Fund Commitments through June 2015

Canal Rehabilitation Cozad – CPNRD	1,554,372
Canal Rehabilitation Thirty-Mile – CPNRD	1,490,587
Canal Rehabilitation Orchard Alfalfa – CPNRD	785,291
N-CORPE Augmentation Well – TPNRD	1,020,680
J-2 Regulating Reservoir – CPNRD, TBNRD, TPNRD, CNPPID	5,698,050
Conservation Easements – CPNRD, NPNRD	803,862
Conjunctive Management Project – NPNRD	295,137
North Dry Creek Augmentation Well – TBNRD	58,500
2014 Platte Basin Recharge Projects – Irrigation District Payments	264,422
Groundwater, Dry Year Lease – MRNRD, LRNRD	1,021,600
Republican River Water Leasing – Irrigation District Payments	750,000
	<u>\$13,742,501</u>

The balance of the Fund as of June 30, 2014, was \$13,065,627. This is comprised of the remainder of the unexpended transfers from the General Fund since Fund inception plus accrued interest, and deposit of LB 229 NET grant, less interest on the unexpended balance of funds from that grant. There were no expenditures from the Fund to a NRD pursuant to *Neb. Rev. Stat.* § 61-218(5) (a) during the reporting period. Transfer of the \$3.3 million appropriated for FY 2014-15 will be requested when needed for expenditure.

Respectfully,



Brian P. Dunnigan
Director

cc: Senator Tom Carlson, District 38, Chairman of the Natural Resources Committee