



Dave Heineman
Governor

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

September 30, 2013

IN REPLY TO:

Patrick J. O'Donnell
Clerk of the Legislature
Rm. 1218, State Capitol
PO Box 94604
Lincoln, NE 68509-4604

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, FY2013.

In order to be as informative as possible, this year's report reviews the Fund's recent historical context 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 the Department of Natural Resources (Department) to apply for grants from the Nebraska Environmental Trust (NET) 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. The NET approved the Department's grant application and has transferred \$3.3 million in each of FY2012 and FY2013. LB 950 provided an additional \$1.4 million General Fund appropriation to the Fund for one year, FY2013, in addition to the annual \$3.3 million otherwise required by LB 229.

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 \$2 million or more from the Fund annually over the period for reimbursement of costs associated with the Platte River Recovery Implementation Program (PRRIP) and the Platte Basin Habitat Enhancement Program (PBHEP). PBHEP is a consortium of five natural resources districts and the Department organized under interlocal cooperative agreement. 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 (NRDs) and multiple Platte Basin irrigation districts under PBHEP, for partial costs associated with management actions taken to reduce consumptive uses of water and/or 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. Funding for PBHEP has continued and expenditures for FY2013 are listed below.

Early in FY2013, the Department invited local natural resources districts 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 FY2013 toward their streamflow enhancement projects. The Lower Republican NRD chose to contract with producers on dry-year leases which will be paid and cost-shares totaling \$1 million reimbursed from the Fund during FY2014.

The Department has also obtained funding from sources other than the State General Fund for purposes associated with the Fund's statutory uses. Generic grants were obtained from the NET in previous fiscal years, as anticipated under the Fund's 2007 enabling legislation. Three such grants for studies were obtained from NET totaling \$1,313,120 with actual grant expenditures spanning four fiscal years and concluded in FY2012. In consideration of obtaining funds under provisions of LB 950, 2012, further non-LB 229 NET grants for such studies by the Fund are not anticipated.

Cash Fund Expenditures in FY2013

| | |
|---|---------------------|
| Central Platte NRD | 967,765 |
| South Platte NRD | 43,225 |
| Twin Platte NRD | 1,600 |
| Tri-Basin NRD | 931 |
| Middle Republican NRD | 1,000,000 |
| Upper Republican NRD | 1,000,000 |
| North Platte NRD | 143,136 |
| PBHEP Recharge Project – Irrigation District Payments | 400 |
| | <u>\$ 3,157,057</u> |

Anticipated Funding and Future Commitments

The Department anticipates a significant increase in expenditures from the Fund during FY2014 and FY2015 to help fund several Platte River Basin recovery projects. 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.

Pursuant to LB 229 requirements, the Department applied for NET grant funding in September 2011 for expenditure under the Fund's rules. Upon receiving approval of this grant, the Department and the five natural resources districts organized under PBHEP have developed an additional financial management agreement under a newly formed interlocal cooperative agreement called the Platte Basin Water Project Coalition (Coalition). The Coalition shares the same general goals as PBHEP but extends the commitment of Fund dollars through FY2015. These dollars are composed of \$9.9 million dollars from the LB229, 2011 NET grant transfers to the Fund for the next three years and \$6.6 million dollars of the anticipated \$11.3 million dollars in General Fund appropriation available over the next three years. The Coalition's total budget for fiscal years 2013-2015 is \$23.1 million including cost-share resources from local expenditures. Projects already obligated under these funding sources include the J-2 Regulating

Reservoir Project (J-2 Project). The J-2 Project has a total cost to the Fund of approximately \$11.5 million over the next two years. Additionally, over the next two years, Fund expenditures for other PRRIP measures to be implemented through the Coalition are expected to be approximately \$5 million.

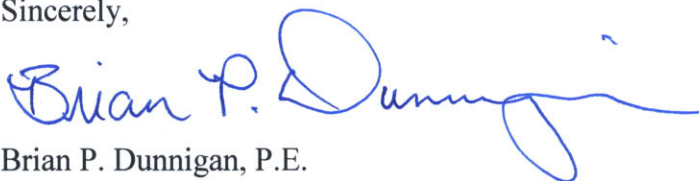
The funding commitments of the Coalition are, and will be, possible as a result of additional resources available under LB 229, 2011. LB 229 potentially doubles the available Fund resources through FY2014 for planned uses under the Fund, conditionally with a similar potential through FY2017.

Summary of Cash Fund Commitments through FY2015

| | |
|--|----------------------|
| TBNRD Water Lease from CNPP&ID (2013 Phelps Recharge) | 76,000 |
| TBNRD North Dry Creek Project (water lease transfer) | 2,000 |
| CPNRD Thirty-Mile Canal Rehab | 1,110,741 |
| CPNRD Cozad Canal Rehab | 3,095,920 |
| DNR CNPP&ID Groundwater Recharge Project | 75,000 |
| TPNRD N-CORPE Project | 120,680 |
| J-2 Regulating Reservoir | 11,334,450 |
| Orchard –Alfalfa Canal Rehabilitation and Water Rights | 2,498,368 |
| CPNRD Conservation Easement Package | 1,113,545 |
| N-CORPE | 900,000 |
| Phase II North Dry Creek | 58,500 |
| NPNRD Lease/Recharge | 295,137 |
| PBHEP Overruns | 300,000 |
| LRNRD Dry-Year Leases | 1,000,000 |
| 2013 Recharge Contracts | 275,715 |
| | <u>\$ 22,256,056</u> |

The balance of the Fund as of June 30, 2013, was \$17,093,949. This is comprised of the remainder of the unexpended transfers from the General Fund since Fund inception plus accrued interest, and deposit of the LB 229 NET grant, less interest on the unexpended balance of funds from that grant. There were no expenditures from the Fund to a natural resources district pursuant to *Neb. Rev. Stat.* § 61-218(5)(a) during the reporting period. Transfer of the \$3.3 million appropriated for FY2014 will be requested when needed for expenditure.

Sincerely,



Brian P. Dunnigan, P.E.
Director

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