

Pete Ricketts
Governor

STATE OF NEBRASKA

DEPARTMENT OF NATURAL RESOURCES
Gordon W. "Jeff" Fassett, P.E.
Director

October 4, 2016

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

Dear Mr. O'Donnell,

Pursuant to *Neb. Rev. Stat.* § 61-218(6), please accept this report to the Legislature regarding the Water Resources Cash Fund (Fund) uses for the previous fiscal year, FY 2015-16 that is managed by the Department of Natural Resources (Department).

The Fund currently receives resources from both General Fund transfers and from a grant with the Nebraska Environmental Trust (NET). Table 1 provides an annual summary of the resources that have been made available to the Fund since FY 2011-12. Note that \$10.8 million in General Fund resources were transferred to the Fund prior to FY 2012. The original legislative intent stated in LB701, 2007, proposed using General Fund funding through FY 2019 and was unchanged by LB229, 2011.

Table 1. Summary of resources made available to the Fund since FY 2011-12¹.

WATER RESOURCES CASH FUND Funding Amounts and Sources			
Authority	Fiscal Year	General Fund Transfers	Nebraska Environmental Trust Grant
LB 229, 2011	2011-12	\$3.3 M	\$3.3 M (Grant #1)
LB 229, 2011; LB 950, 2012	2012-13	\$4.7 M	\$3.3 M (Grant #1)
LB 229, 2011	2013-14	\$3.3 M	\$3.3 M (Grant #1)
LB 229, 2011	2014-15	\$3.3 M	\$3.3 M (Grant #2)
LB 229, 2011	2015-16	\$3.3 M	\$3.3 M (Grant #2)
LB 229, 2011	2016-17	\$3.3 M	\$3.3 M (Grant #2)
LB 229, 2011	2017-18	\$3.3 M	- -
LB 229, 2011	2018-19	\$3.3 M	- -

Expenditures from the Fund in FY 2015-16 and commitments for future expenditures are identified in the lists below.

¹ This chart is corrected from the chart submitted in the 2014-15 Report to the Legislature

NET Cash Fund Expenditures in FY 2015-16

Canal Rehabilitation Orchard Alfalfa – CPNRD	\$	196,357
J-2 Regulating Reservoir – CPNRD, TBNRD, TPNRD, CNPPID	\$	2,939,490
North Dry Creek Augmentation Well Project – TBNRD	\$	6,764
E65 & Elwood Reservoir Recharge Project	\$	93,954
Fall/Winter 2015 E65 & Elwood Reservoir Recharge Project	\$	148,928
Phelps Canal Recharge Project	\$	35,276

General Fund Transfers Expenditures in FY 2015-16

J-2 Regulating Reservoir – CPNRD, TBNRD, TPNRD, CNPPID	\$	2,632,832
Conservation Study Phase II	\$	42,686
Groundwater, Dry Year Leasing – URNRD, MRNRD	\$	1,465,579
Grandview Permanent Retirement – NPNRD	\$	9,432
Platte Basin Coalition Insurance	\$	578
Phelps Canal Recharge Project	\$	4,599

Total \$ 7,576,476

Summary of Cash Fund Commitments through June 2017

NET Funds:

N-CORPE Augmentation Well – TPNRD	\$	2,617,606
North Platte NRD Lease/Recharge – Cow Camp	\$	453,683
Platte Valley Irrigation District	\$	3,000
Western Irrigation District	\$	9,000
Suburban Irrigation District	\$	3,000
E65 & Elwood Reservoir Recharge Project	\$	2,419
Retirement Agreement – NPNRD – Hardt and Tighe	\$	1,989,158
Phelps Canal Recharge Project	\$	11,225
Oliver Reservoir Streamflow Enhancement Project – SPNRD	\$	277,200
Industrial Baseline Offset - SPNRD	\$	4,296

General Fund Transfers:

North Platte NRD Lease/Recharge – Cow Camp	\$	173,250
Conservation Study Phase II	\$	70,314

Total \$ 5,614,151

The balance of the Fund as of June 30, 2016, was \$5,203,122. This is comprised of the remainder of the unexpended transfers from the General Fund since Fund inception, plus accrued interest and deposits of LB 229 NET grants, less interest on the unexpended balance of funds from that grant which was returned to the NET. NET grant funding of \$3.3 million approved in FY 2016 was not requested until August of 2016 and thus is not reflected in the FY 2016 ending balance. 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 of General Funds transferred for FY 2016-17 will be requested when needed for expenditure.

As noted in earlier reports, the Department has reserved maximum flexibility for direct use of the Fund. Within that flexibility, the Department made a commitment beginning in 2010, to expend directly from the Fund in this and prior fiscal years for reimbursement of costs associated with achieving compliance under the Platte River Recovery Implementation Program (PRRIP) and the associated with the implementation of Platte River Basin integrated management plans (IMPs). In overappropriated Upper Platte River Basin, the Department and the local natural resources districts work collaboratively to determine the best use of the financial resources available. This effort includes 5 natural resources districts (Central Platte, South Platte, Twin Platte, North Platte, and Tri-Basin) and the Department, organized under an interlocal cooperative agreement, the Platte Basin Water Project Coalition (Coalition). Coalition funding is comprised of \$19.8 million dollars from LB 229 (six years of NET grant transfers to the Fund) and \$9,067,300 dollars of the anticipated \$21.2 million dollars in General Fund appropriations available over the same time period. The Coalition's total budget for fiscal years 2012-2017 is \$42,827,300, including cost share resources from local natural resource district expenditures.

Altogether, Fund contributions to Coalition projects will leverage \$13,960,000 in local match with potential for further leveraging of federal funds of approximately \$60 million. The funds were used by the districts for purchasing easements on lands with water rights, costs associated with diversions of excess surface water streamflows for the purpose of ground water recharge, surface/ground water conjunctive management and streamflow augmentation groundwater well projects to further meet the terms of PRRIP, and the requirements of the IMPs. Remaining Coalition dollars to be committed to projects total \$7,052,300. Planning for potential future commitments continues. If members of the legislature are interested in greater detail and background they may wish to review 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 to the Coalition projects through that publication date.

In addition to Upper Platte River Basin activities, the Department has worked with local natural resources districts in the Republican River Basin to implement various management actions in support of Compact compliance since 2013. The intent has been to enhance Republican River Compact compliance measures using Fund resources on a 40% local cost share basis. During Fiscal Years 2014, 2015, and 2016, \$3,465,600 from the Fund was paid to the Upper, Middle, and Lower Republican natural resources districts.

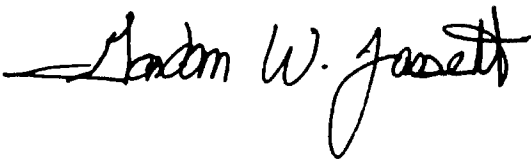
The Fund was created with LB 701 in 2007. The original legislation contained a provision such that continued funding for the Fund, through 2019, would come from an estimated annual amount of \$2,700,000 from General Funds and \$7,545,000 from grain checkoff. Total funding for the Fund of \$88,815,000 was anticipated then to meet the state's commitments as part of the initial 13

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year increment of the Platte River Recovery Implementation Program (PRRIP). Funding sources have changed over time, and to-date, the Fund has received \$28,700,000 from the General Fund and \$19,800,000 from NET funds. No grain checkoff monies were received by the Fund due to immediate legislative changes; therefore the total amount of funding received by the Fund to-date is \$48,500,000.

This amount is far less than the originally anticipated commitments and there is still a need for continued funding. Uses of Fund resources have evolved since its inception, consistent with incremental and long-range planning for conserving the state's water resources. Beyond PRRIP, purposes of the Fund include aiding in management actions so that fully and overappropriated areas of the state could reduce consumptive uses and enhance streamflows or groundwater recharge, through efforts to "back up the train" for overusing the sustainable level of water resources of the State. This means funding will be needed for management actions in the overappropriated area of the Upper Platte River Basin to return to a fully appropriated condition, management actions in the Republican River Basin to meet Compact compliance, and for the far western area of the Niobrara Basin, upstream of Box Butte Reservoir. Reaching a fully appropriated condition in the Upper Platte River Basin, maintaining compliance with the Republican River Compact, and assisting management actions in the Upper Niobrara Basin continue are water management challenges with statutory and interstate compliance goals for the State of Nebraska, and for the locally controlled natural resources districts through our collaborative integrated management planning efforts.

Respectfully,

A handwritten signature in black ink that reads "Gordon W. Fassett". The signature is written in a cursive, flowing style.

Gordon W. Fassett, P.E.
Director

cc: Senator Ken Schilz, District 47
Chairman, Natural Resources Committee