



Dave Heineman
Governor

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

September 28, 2012

IN REPLY TO:

Patrick J. O'Donnell
Clerk of the Legislature
Rm. 1218, State Capitol
P.O. 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, FY2012.

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 LB 229 first year (FY2013) grant application for \$3.3 million. 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 an 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, and Tri-Basin Natural Resources Districts 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 and for groundwater recharge activities to further PRRIP compliance plans. Funding for PBHEP has continued and expenditures for FY2012 are listed below.

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 and Transfers in FY2012

Central Platte NRD	179,520
South Platte NRD	800
Twin Platte NRD	1,800
Tri Basin NRD	15,245
Central Nebraska Public Power & Irrigation District	27,791
PBHEP Recharge Project – Irrigation District Payments	67,644
TOTAL	\$292,300

NET Grant (non-LB 229) Expenditures in FY2012

University of Nebraska, School of Natural Resources	\$87,920
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The Department anticipates a significant increase in expenditures from the Fund during FY2013 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 LB 229, 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 Re-Regulating Reservoir Project. The J-2 Project has a total cost to the Fund of approximately \$11.5 million over the next three years. Additionally, over the next three years, Fund expenditures for other PRRIP measures to be implemented through the Coalition are expected to be approximately \$5 million.

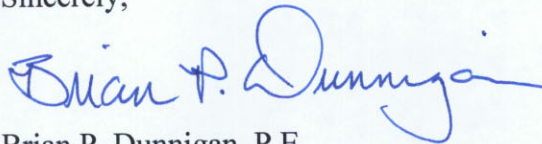
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The funding commitments of the Coalition are, and will be, possible as a result of additional resources available under LB 229, 2011. LB 229 potentially doubles the available Fund resources through FY2014 for planned uses under the Fund, conditionally with a similar potential through FY2017. Anticipated state cost share of the currently expected water resource remediation projects for the period up to FY2017 are approximately \$70 million.

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.

The balance of the Fund as of June 30, 2012, was \$12,070,863. 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 \$4.7 million appropriated for FY2013 will be requested when needed for expenditure.

Sincerely,



Brian P. Dunnigan, P.E.
Director

cc: Senator Chris Langemeier, Dist. 23, Chairman of the Natural Resources Committee