

(\$ in thousands)

Project Title	Priority Ranking	Funding Source	Project Requests for State Funds		
			2018	2020	2022
Reinvest in Minnesota - CREP	1	GO	\$ 30,000	\$ 0	\$ 0
Local Government Roads Wetland Replacement	2	GO	\$ 16,380	\$ 11,000	\$ 11,000
Total Project Requests			\$ 46,380	\$ 11,000	\$ 11,000
General Obligation Bonds (GO) Total			\$ 46,380	\$ 11,000	\$ 11,000

Reinvest in Minnesota - CREP

AT A GLANCE**2018 Request Amount:** \$30,000**Priority Ranking:** 1

Project Summary: \$30 million is requested to acquire permanent easements for water quality and wildlife habitat purposes in the west central and southern agricultural portions of the state. This is part of a state-federal partnership known as the Minnesota Conservation Reserve Enhancement Program (MN CREP), putting 60,000 acres of buffers, wetland restorations, wellhead protection, and wildlife habitat on the ground in the next five years leveraging federal funding at approximately \$2 for every state dollar.

Project Description

In February 2017, Governor Dayton announced an ambitious water quality improvement goal of 25% improvement by the year 2025. This request for \$30M in state funds is one component of our work toward that goal. The MN CREP is voluntary, locally-driven, and targets the most environmentally sensitive acres as part of the United States Department of Agriculture (USDA) Conservation Reserve Program (CRP) and state Reinvest In Minnesota (RIM) Reserve program. The RIM program compensates landowners for permanent conservation easements and establishing native vegetation in riparian areas, on economically marginal, flood-prone, environmentally sensitive or highly erodible lands.

The MN CREP is focused on nutrient and sediment reduction priorities and habitat goals identified in local and statewide management strategies and plans. It uses riparian buffer, wetland restoration, and other practices to address areas of critical riparian protection and areas with water quality impairments due to modifications in hydrology, sedimentation, and nutrient transport. To support the goal of 60,000 acres of permanent protection in 54 counties, the state has established strong partnerships with agencies, producers (and producer organizations), soil and water conservation districts and non-governmental organizations. This effort will leverage State and Local technical expertise, strategic planning, and fiscal resources to assure that projects are cost effective and provide significant environmental benefits for both water quality and habitat.

BWSR has worked closely with the Commissioners of DNR, Agriculture, Health, and PCA to develop the program. In January 2017, Governor Dayton and Acting USDA Secretary Scuse signed the MN CREP Agreement for 60,000 acres at an estimated cost of approximately \$500 million over the next five years. A combination of USDA CRP payments and incentives and state funding will be necessary to achieve a potential 70:30 federal to state match. The State has already made a significant commitment through a mixture of Bonding, Outdoor Heritage Fund, Clean Water Fund and Environment and Natural Resources Trust Funds to meet our obligation, but we haven't reached our target. Because of the short term duration of a CREP (five years) and the length of time that it takes to complete easement transactions on a large scale (1-2 years), it is important to secure as much state funding in the beginning so that we can enter into agreements with landowners for easements and begin easement transaction work as soon as possible. Once the easements are recorded, restoration work can then begin.

Project Rationale

The MN CREP Agreement was signed by Governor Dayton and Acting Secretary of USDA Scuse in January of 2017. It approves the MN CREP and proposes 60,000 acres being covered by a short term CRP contract in combination with a perpetual RIM Reserve Conservation easement. It estimates costs to be \$350 million from USDA and \$150 million from the State. This request will assist the State in reaching the match required to fully utilize the USDA funding. It is estimated that \$30 million of bonding funding will leverage \$69.9 million of USDA funds.

The state has invested heavily in conducting assessments of water quality and wildlife habitat throughout the state in the last few years. There are numerous reports that document various water quality impairments in the agricultural region of the state. This project will improve water quality, protect water courses and provide wildlife habitat through buffers, wetland restorations, wellhead protection strategies and floodplain restorations.

Project Timeline

General MN CREP Timeline

January 2017 – MN CREP Agreement Signed by Governor and USDA

May 2017 – Continuous Sign-up Began

December 31, 2020 – 60,000 acres enrolled

December 31, 2023 – 60,000 acres restored

Typical MN CREP landowner timeline

Sign-up occurs

CRP contract begins and RIM easement recorded – within 1 to 2 years

Restoration completed – within 1 to 3 years after RIM easement recorded

Other Considerations

This is an opportunity to leverage federal funds, \$2.3 for every state dollar. MN CREP easements with riparian buffer practices can be used to satisfy the buffer law. It is critical to secure the full state commitment this funding cycle because federal dollars are only released proportionally to what the state appropriates and the state must have the funds appropriated to obligate for landowner payments.

Landowner interest continues to be strong as they enter marginal lands into the MN CREP and continue to produce agricultural products on their better land. This long-term trend is expected to continue through the life of the MN CREP.

Impact on Agency Operating Budgets

This is an opportunity to leverage federal funds, \$2.3 for every state dollar. MN CREP easements with riparian buffer practices can be used to satisfy the buffer law. It is critical to secure the full state commitment this funding cycle because federal dollars are only released proportionally to what the state appropriates and the state must have the funds appropriated to obligate for landowner payments.

Landowner interest continues to be strong as they enter marginal lands into the MN CREP and continue to produce agricultural products on their better land. This long-term trend is expected to

continue through the life of the MN CREP.

Description of Previous Appropriations

- 1996 - \$11.5 million
- 1998 - \$15.0 million
- 2000 - \$21 million (\$20 million for CREP)
- 2001 - \$51.4 million (CREP)
- 2003 - \$1 million
- 2005 - \$23 million
- 2007 - \$1 million (SE flood response)
- 2008 - \$25 million
- 2009 – \$0.5 million (NW Flood Recovery)
- 2010 - \$10 million (Southern MN Flood Response)
- 2011 - \$20 million
- 2011 - \$1.614 million (Grass Lake Kandiyohi County)
- 2012 - \$6 million
- 2012 - \$ 1.5 million (2012 flood response)
- 2014 - \$6 million
- 2015 - \$4.7 million (37 county 2014 flood response)
- 2017 - \$10 million (MN CREP)

Project Contact Person

Angie Becker Kudelka
Assistant Director
612-616-5112
angie.beckerkudelka@state.mn.us

Local Government Roads Wetland Replacement

AT A GLANCE**2018 Request Amount:** \$16,380**Priority Ranking:** 2

Project Summary: \$16.38 million is requested to restore and permanently protect 600 to 1,000 acres of wetlands, resulting in the generation of approximately 450 wetland replacement (mitigation) credits for the Local Government Roads Wetland Replacement Program (LGRWRP) to meet state and federal requirements. This program provides planned and funded local public road improvement projects with the wetland mitigation necessary to obtain permits and complete construction, as required by State/Federal law.

Project Description

Local public road improvement projects often include unavoidable impacts to wetlands and the State has a statutory obligation to provide the necessary mitigation for the wetlands lost to these local road projects. Since its inception in 1996, the program has provided approximately 4,500 compensatory wetland mitigation credits to offset 3,100 acres of wetlands impacted by eligible public road projects.

The program is out of credits in areas of the state and is nearing default statewide. In 2016, the state began closing bank service areas until 2017 legislation required re-opening of them all. This means spending of remaining credits will happen ever faster. The program also has a debt of approximately \$1.5 million in wetland credits to the Minnesota Department of Transportation (MnDOT) resulting from credits previously loaned to the program to help temporarily offset the funding shortage. After accounting for the 2017 appropriations, debt, and projected demand, the program is expected to run a deficit of 430 credits by the end of 2020. In addition to unpaid debt, this means that approximately 171 local road projects will be unable to obtain permits, unless and until alternative mitigation is obtained. The current funding request is part of the agency's long-term plan to bring the program into statewide solvency and meet the State's statutory obligation.

The agency's 2018 request accounts for the 2016/2017 funding deficit and inflation. The current request of \$16.38 million will provide for the planning, design, construction, restoration, and permanent protection of 600 to 1,000 acres of wetlands to generate approximately 450 wetland replacement credits over seven years for compliance with State and Federal permitting requirements for public road improvement projects. The wetland restoration projects are completed in accordance with State and Federal rules and credits are typically allocated two to seven years after initiation of the project, necessitating a long-term approach to program planning and funding.

Project Rationale

While local road improvement projects are necessary for public safety and transportation, both State and Federal law require any associated wetland impacts to be "replaced" with other wetland resources (e.g. a previously drained wetland that has been restored). Lacking these replacement wetlands, local

road authorities cannot obtain the necessary permits to complete construction of planned road improvement projects.

Public benefits generated by the program include the following:

- On-time and on-budget completion of local public transportation projects.
- More efficient permitting due to agreements and coordination with the U.S. Army Corps of Engineers (responsible for issuing permits under Section 404 of the Federal Clean Water Act).
- Mitigation is provided at a significantly lower public cost due to program efficiencies and economies of scale.
- Higher quality, more sustainable and environmentally beneficial replacement wetlands.

Project Timeline

Wetland replacement projects typically involve the restoration of previously drained or filled wetlands that have been converted to another land use. A typical project will take six to eight years from initiation to completion (final deposit of credits in the Wetland Bank). Assuming an appropriation at the beginning of FY19, the following is an approximate expected timeline:

- FY19: Issue request for proposals and solicit projects, review and accept proposals, and begin the project design and permitting process.
- FY20: Project design and permitting, easement establishment, construction planning, and possibly initiate some construction activities.
- FY21: Construction, construction certification, monitoring, and initial credit releases.
- FY22: Complete any remaining construction activities, corrective actions, monitoring, credit releases, and use of credits.
- FY23: Monitoring, credit releases, and use of credits.
- FY24: Monitoring, credit releases, and use of credits.
- FY25: Monitoring, credit releases, and use of credits.

The project timeline for each individual site will be affected by permitting processes and the wetland banking requirements of U.S. Army Corps of Engineers. Various other factors will also affect timelines, from weather (construction) to addressing pre-existing property rights (easement establishment).

Other Considerations

Without a full State funding commitment to this program, planned and funded local road improvement projects will either not be completed, or will be delayed and incur substantially increased costs.

Specifically, a lack of full State funding will result in the following negative consequences:

- Increased costs of mitigation that will be transferred to local governments.
- Increased permitting costs and timelines due to elimination of the streamlined process that currently exists with the U.S. Army Corps of Engineers.
- Increased program implementation costs for local, state, and federal agency staff due to the elimination of program efficiencies.
- Decreased wetland mitigation quality, resulting in a loss of public value.
- Reversal of the stakeholder consensus that resulted in wetland regulatory reforms (Laws 1996, Chap. 462 and Laws 2000, Chap. 382).

Also important to note that a lack of credits in certain areas due to inadequate funding necessitates

use of credits from other geographic areas, resulting in the State incurring a penalty in the form of a higher replacement ratio (additional credits are required for the same impact). These penalties use credits at a faster rate and increase the cost to taxpayers.

Impact on Agency Operating Budgets

All of the requested funds will be allocated to the planning, establishment, and use of replacement wetlands by local road authorities in accordance with the following approximate distribution:

- 13% for planning, design, permitting, monitoring, and other replacement wetland establishment activities.
- 82% for construction and acquisition of necessary property rights (i.e. perpetual conservation easements).
- 5% for allocating the resulting credits to local road projects and general administration of the statutory requirement.

Description of Previous Appropriations

A one-time \$5 million catch-up was appropriated from the General Fund in 2017 to keep the program operational. Previous capital appropriations include:

<u>Year</u>	<u>Agency Request</u>	<u>Bonding Appropriation</u>
2008	8,500,000	3,480,000
2010	8,420,000	2,500,000
2012	13,100,000	6,000,000
2014	5,400,000	2,000,000
2016	10,330,000	0
2017	10,330,000	5,000,000

Project Contact Person

Angie Becker Kudelka
Assistant Director
612-616-5112
angie.beckerkudelka@state.mn.us