

(\$ in thousands)

Project Title	Priority Ranking	Funding Source	Project Requests for State Funds		
			2022	2024	2026
Local Government Roads Wetlands Replacement Program	1	GO	\$ 14,000	\$ 0	\$ 0
		GF	\$ 6,000	\$ 0	\$ 0
MN CREP - Conservation Reserve Enhancement Program	2	GO	\$ 9,900	\$ 0	\$ 0
Asset Preservation for Conservation Easements	3	GO	\$ 2,200	\$ 1,100	\$ 1,100
Water Storage in the Minnesota River Basin	4	GO	\$ 10,000	\$ 0	\$ 0
Conservation Lands Protection	5	GO	\$ 10,000	\$ 0	\$ 0
Total Project Requests			\$ 52,100	\$ 1,100	\$ 1,100
General Obligation Bonds (GO) Total			\$ 46,100	\$ 1,100	\$ 1,100
General Fund Cash (GF) Total			\$ 6,000	\$ 0	\$ 0

(\$ in thousands)

Local Government Roads Wetlands Replacement Program

AT A GLANCE

2022 Request Amount:	\$20,000
Priority Ranking:	1
Project Summary:	\$14M in GO Bonds and \$6M in GF is requested to meet Minn. Stat. §103G.222 which requires BWSR to replace wetlands, and wetland areas of public waters, drained or filled by public transportation projects on existing roads. These funds will restore and permanently protect 600 to 900 acres of wetlands and generate up to 540 wetland replacement (mitigation) credits for the Local Government Roads Wetland Replacement Program (LGRWRP) to meet State and Federal requirements.

Project Description

Local public road improvement projects often include unavoidable impacts to wetlands, and the state has a statutory obligation to provide the required mitigation for the wetlands lost to these local road projects. Since its inception in 1996, the LGRWRP has provided approximately 5,300 compensatory wetland mitigation credits to offset 3,700 acres of wetlands impacted by eligible public road projects.

The program is implemented on a regional basis consisting of ten “bank service areas,” which are based on watersheds. In early 2020 the LGRWRP was on the verge of default statewide. The state contributed \$23 million in 2020 which was critical to maintaining program viability, helped to improve credit projections, and was an important first step towards long-term program sustainability. However, due to past insufficient funding, the program is still out of credits in three of the ten bank service areas. In addition, the program has a debt of approximately \$1.4 million in wetland credits to the Minnesota Department of Transportation (MnDOT) resulting from credits previously loaned to the program to temporarily offset credit shortages. Finally, when allowable under Federal law, credits can be taken from certain other bank service areas with a penalty, which results in spending credits at an even faster rate when sufficient credits were not available in a given bank service area.

The current funding request accounts for the expected credits that will result from past funding, the debt to MnDOT, and the projected credit needs from approximately 75 local government road projects annually. In the absence of sufficient funding, local governments would be unable to obtain permits unless and until alternative mitigation is obtained, causing significant delays and cost increases for many road projects. This 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 obligations.

The current request of \$20.0 million will provide for the planning, design, construction, restoration, and permanent protection of 600 to 900 acres of wetlands to generate approximately 540 wetland

replacement credits over seven to nine 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. As noted above, statute requires the State to provide required wetland mitigation for qualifying local road improvement projects.

Public benefits generated by the program include the following:

- On-time and on-budget completion of local public transportation projects.
- Improved permitting efficiency 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 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 FY23, the following is an approximate expected timeline:

FY23: Issue request for proposals and solicit projects, review and accept proposals, and begin the project design and permitting process.

FY24: Project design and permitting, easement establishment, construction planning, and possibly initiate some construction activities.

FY25: Construction, construction certification, monitoring, and initial credit releases.

FY26: Complete any remaining construction activities, corrective actions, monitoring, credit releases, and use of credits.

FY27: Monitoring, credit releases, and use of credits.

FY28: Monitoring, credit releases, and use of credits.

FY29: 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 the 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 substantial 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, a lack of credits in certain bank service areas due to inadequate funding necessitates use of credits from other bank service 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 Bond funds will be allocated for the construction and acquisition of necessary property rights (i.e. perpetual conservation easements).

The General Funds will be utilized as follows:

- Up to \$2.0 million for planning, design, permitting, monitoring, other replacement wetland establishment activities, and credit allocation;
- Up to \$200,000 for easement stewardship; and
- At least \$3.8 million for the purchase of private wetland bank credits to meet short-term needs.

Description of Previous Appropriations

2016: \$0

2017: \$5 million GO bonds, \$5 million GF cash

2018: \$6.7 million GO bonds

2019: \$0

2020: \$15 million GO bonds, \$8 million GF cash

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(\$ in thousands)

MN CREP - Conservation Reserve Enhancement Program**AT A GLANCE****2022 Request Amount:** \$9,900**Priority Ranking:** 2

Project Summary: \$9.9M is requested to acquire conservation easements for water quality and wildlife habitat as part of the Minnesota Conservation Reserve Enhancement Program (MN CREP) state-federal partnership. MNCREP permanently protects and restores buffers, wetlands and wildlife habitat while protecting surface, groundwater and drinking water supplies. The state-federal partnership leverages federal United States Department of Agriculture (USDA) funding of up to \$2 for every state dollar spent.

Project Description

This request for \$9.9 million in state funds completes the state contribution towards our goal. MN CREP is voluntary, locally driven, and targets the most environmentally sensitive acres as part of the USDA Conservation Reserve Program (CRP) and the State's Reinvest In Minnesota (RIM) Reserve Program. The RIM program compensates landowners for permanent conservation easements and for establishment of native vegetation in riparian areas, and on economically marginal, flood-prone, environmentally sensitive or highly erodible lands.

MN CREP is focused on nutrient and sediment reduction priorities and habitat goals identified in local and statewide management plans. It uses riparian buffers, wetland restoration, and other practices to protect critical riparian areas and areas with water quality impairments due to modifications to hydrology, sedimentation, and nutrient transport. To support the permanent protection of these areas, the state has established strong partnerships with other agencies, producers (and producer organizations), soil and water conservation districts and non-governmental organizations. This effort utilizes 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 worked closely with the Commissioners of DNR, Agriculture, Health, and PCA to develop this program. In January 2017, Governor Dayton and Acting USDA Secretary Scuse signed the MN CREP Agreement at an estimated cost of approximately \$525 million over five years. A combination of USDA CRP payments and incentives and state funding is necessary to achieve a potential 2:1 federal to state match. The State has made a significant commitment through Bonding, Outdoor Heritage Fund, Clean Water Fund and Environment and Natural Resources Trust Funds to meet our obligation, and this request will fully meet the State's match commitment of \$175 million.

Project Rationale

The state has invested heavily in assessing water quality and wildlife habitat throughout the state. There are numerous reports that document water quality impairments in the agricultural region of the state. This project will improve water quality, protect sources of drinking water, protect and restore watercourses and provide wildlife habitat through permanent protection of buffers, wetland restorations and wellhead areas.

Project Timeline

General MN CREP Timeline

January 2017 – MN CREP Agreement Signed by Governor and USDA

May 2017 – Continuous Sign-up Began

August 2018 – Federal government temporarily suspended CRP program

June 2019 – Applications resume

January 2023 – All funds committed to permanent easements and landscape restoration

January 2026 – All lands under easement are fully restored

Typical MN CREP landowner timeline

Voluntary application

Application review, scoring and selection – within 1 month

CRP contract begins and RIM easement recorded – within 1 year

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

Other Considerations

It is critical to secure the full state commitment as federal dollars are released proportionally to the state appropriation; therefore, the state must have funds appropriated for landowner payments.

Landowner interest continues to be strong as applications to enroll marginal lands into MN CREP and continue production on a majority of their land.

Impact on Agency Operating Budgets

This \$9.9 million request combined with the USDA amount of \$19.8 million would mean \$29.7 million worth of accomplishments. BWSR will utilize these funds for landowner payments and program support. Up to \$0.9 million is to support the RIM Reserve program.

This amount is necessary to support engineering and easement

acquisition functions and for establishment of conservation practices on easement lands.

SWCDs receive a portion of this total through a Conservation Easement Service Grant to offset their cost in assisting BWSR with securing easements, developing conservation plans and monitoring easement compliance.

Description of Previous Appropriations

<u>Source</u>	<u>Appropriated in past session (,000s)</u>
ENRTF	\$19,500
CWF	\$68,850
OHF	\$55,790
Capital Investment	\$21,000

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Asset Preservation for Conservation Easements

AT A GLANCE

2022 Request Amount:	\$2,200
Priority Ranking:	3
Project Summary:	\$2.2M is requested for critical asset preservation for Reinvest in Minnesota (RIM) Reserve conservation easements. Repair or replacement of structures on state-held easements is necessary to maintain the public benefits of water quality and habitat, and to minimize offsite impacts on adjacent properties. This includes water control structures that have lasted beyond their expected lifespan and fixing or replacing them is needed to avoid costly expenditures associated with structural failures.

Project Description

Since 1986, the RIM Reserve program has been restoring economically marginal and environmentally sensitive agricultural land to protect soil and water quality and support fish and wildlife habitat. On behalf of the State of Minnesota, the Board of Water and Soil Resources (BWSR) holds more than 250,000 acres in over 6,500 permanent conservation easements under the RIM Reserve program. These land holdings covey significant obligations to BWSR to manage, monitor, and enforce these capital assets.

Wetland restoration has been a key part of RIM Reserve since its inception often involves disabling drain tile, filling ditches, excavating basins, constructing berms, and installing water control structures. The purpose of these activities is the restoration of the natural landscape and to prevent water-related impacts on adjacent properties.

In partnership with soil and water conservation districts (SWCDs), easements are inspected for the first five consecutive years beginning in the year after the easement is recorded. Thereafter, on-site inspections are performed every three years and compliance checks are performed in the other two years. This work is funded via General Fund appropriations and the Easement Stewardship Fund established in 2017.

Necessary repairs, maintenance, and replacement of water control structures are identified as a result of these inspections and when concerns are brought forward by landowners adjacent to a RIM Reserve easement. Currently BWSR staff have documented 60 projects in need of repair. The estimated cost for construction work alone is \$1,200,000. In addition, BWSR anticipates receiving an additional 40 requests for repair work on RIM Reserve easements over the next 2 years, which represents another \$800,000 of construction costs.

Over the past two years BWSR has been able to complete 22 repair and replacement projects at a

construction cost of \$318,000. The construction costs of the current backlog of projects dwarfs BWSR's available resources, such that only the most significant repair issues can be addressed. This request will help begin addressing the backlog of repair and replacement work on state held conservation easements. Asset preservation on RIM Reserve easements ensures the state investments are maintained, work is accomplished in a planned and efficient manner, and positive relations with neighbors are maintained.

Project Rationale

The state has made significant investments to acquire easements to restore and preserve the land for water quality and wildlife habitat benefits. Providing funding to undertake necessary repairs ensures these benefits continue and ensure continued program support by enabling timely agency response to complaints brought by neighbors. Further, failure to address repairs in a timely fashion presents a liability for the state should excess water damage personal property and crops.

Project Timeline

BWSR staff are already consulting with SWCDs and landowners so that work can begin on the current list of 60 projects as soon as possible after funds are appropriated. It is expected that all funds would be expended within 3 years of receipt.

Other Considerations

Having access to predictable funding for asset preservation provides assurances to Minnesotans, local partners, and landowners that the state, as the easement holder, will be there should the need arise. BWSR intends to request additional asset preservation funding in the future as our easement base continues to grow, and many have water control structures that are nearing or past their expected lifespan.

The need for work is expected to be exacerbated due to the effects of climate change that is resulting in larger and more frequent and intense rainfall events further stressing aging structures and increasing the likelihood of failure.

Impact on Agency Operating Budgets

Approximately 10% of appropriated funds will be necessary for engineering, construction oversight and administration.

100 projects = \$2M of construction costs
= \$200k staff costs for engineering and construction oversight

Description of Previous Appropriations

This is a new initiative and there are no previous appropriations.

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Water Storage in the Minnesota River Basin

AT A GLANCE

2022 Request Amount:	\$10,000
Priority Ranking:	4
Project Summary:	\$10 million to acquire land, design, and construct projects that will support the recommendations of the Climate Sub-Cabinet by implementing water storage and management projects to control water volume and rates to protect infrastructure, improve water quality and related public benefits, and mitigate climate change impacts in the Minnesota River and Lower Mississippi River watersheds.

Project Description

This capital budget request will provide support for the Governor's Climate Subcabinet. Funds will be allocated for high priority projects through a competitive process to request applications from local governments that will control water rates and/or volumes to protect infrastructure, improve water quality and related public benefits, and mitigate the impacts of climate change. Development and implementation of the Governors' water storage initiative will be instrumental in making these funds available for local government led priority projects. BWSR has already and will continue to work with other state agencies, federal partners, local government associations and other interested and affected individuals and organizations to ensure the funds will meet state and local objectives.

Successful applicants will be required to have a state approved and locally adopted water management plan, a feasibility study showing the project will result in changes to the rate and volume of water movement, provide a match, be able to demonstrate meeting environmental and public benefits, and operate and maintain the project for its estimated lifespan.

The geographic scope for these funds will be directed to the Minnesota River and Lower Mississippi River watersheds. Focusing on these areas of the state will provide funds for areas of the state that have been affected by increasing rainfall and agricultural drainage. Implementing water storage practices will provide for improved water management while allowing for highly productive agriculture.

Full funding of this request is estimated to result in approximately 15 projects.

Project Rationale

Minnesota is experiencing larger and more frequent and intense rainfall events, resulting in negative impacts to agriculture and infrastructure, significant erosion along riverbanks and declining water quality.

Water storage projects are engineered to slow down or temporarily hold back water from reentering a stream or river. For example, during a storm, water is directed into a wetland, holding basin, or soil in a farm field and then is slowly released downstream. This action provides water quality treatment by allowing sediment to settle out. It also reduces the water volume and speed leaving our landscape, which in turn reduces erosion along river banks and the amount of sediment entering Minnesota's streams, lakes and rivers.

Implementing water storage projects in priority locations at a watershed scale will protect public and private property and provide a wide range of environmental benefits by adapting to our changing climate.

Project Timeline

Last half of 2022: Program development, including consultation with other state agencies, federal partners, local government associations and other interested and affected individuals and organizations

First half of 2023: Open RFP, project ranking, BWSR awards grants

Mid 2023: Project workplan and grant agreement execution

2024: Project construction by local government grantees

2025: Final Project reporting

Other Considerations

A systematic approach to putting storage on the landscape is very important to the success of a program like this. While practices that reduce the volume of water leaving the landscape (e.g. soil health practices) can be beneficial when placed anywhere in a watershed, storage practices that reduce how fast water leaves a watershed need to be strategically placed to have the greatest effects downstream. Placement of structural practices must be prioritized on a watershed scale.

Impact on Agency Operating Budgets

Approximately 10% of appropriated funds will be necessary for program development and oversight, grant management and oversight, and technical assistance.

Description of Previous Appropriations

This is a new initiative and there are no previous appropriations.

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Conservation Lands Protection

AT A GLANCE

2022 Request Amount:	\$10,000
Priority Ranking:	5
Project Summary:	\$10 million in state funds are requested to save, restore, and enhance lands that would otherwise expire from a federal conservation program. The state will hold Reinvest In Minnesota (RIM) Reserve perpetual conservation easements for public benefits of water quality and wildlife habitat.

Project Description

The RIM Reserve program compensates landowners for granting conservation easements and establishing upland and wetland areas on economically marginal, flood prone, environmentally sensitive or highly erodible lands. Restoring and permanently protecting these areas can address climate change objectives that include sequestering carbon, soil health, water quantity management, water quality, and pollinator and wildlife habitat.

The key priority of this program will be to target expiring federal Conservation Reserve Program (CRP) acreage. Nearly 230,000 acres of existing CRP lands will expire by the end of 2023. Targeting RIM will ensure permanent protection thereby preventing conversion of these lands back into cropland which would eliminate the CRP benefits that include carbon sequestration, reduction in sediment and nutrients and improved water quality and quality management. In addition, research indicates that tilling land results in a rapid return of carbon that was previously stored in soil released into the atmosphere. This will also help accelerate the State's climate adaptation and carbon sequestration objectives consistent with the goals and objectives of the Climate Sub-Cabinet.

To be successful in improved water management, the lands targeted for protection and restoration should be targeted at a watershed scale. To achieve this critical goal, BWSR will coordinate its efforts with the One Watershed, One Plan process of state approved and locally adopted plans under chapters 103B, C, and D.

Further, BWSR is currently exploring opportunities to partner with USDA-Natural Resources Conservation Service to leverage federal resources to expand the reach of this proposal.

Fully funding this request will protect and restore more than 1,200 acres or previously drained wetlands and adjacent uplands on approximately 30 easements.

Project Rationale

The RIM Reserve program has a proven track record of working with soil and water conservation

districts and landowners to protect and restore land that provide multiple public benefits. This proposal targets these efforts to address the negative consequences of climate change. Restoring land to a natural condition provides direct climate change benefits by sequestering carbon and adapting to changing hydrology across the state.

This project directly connects to the work of the Climate Sub Cabinet to ensure consistency with statewide efforts.

Project Timeline

Prior to enactment of this bond request, BWSR will engage local partners, state and federal agencies, nongovernment organizations and others to finalize plans for landowner outreach and program targeting. Once program details are finalized, the typical timeline for a RIM Reserve easement is:

Typical RIM landowner timeline

Voluntary application

Application review, scoring and selection – within 1 month

RIM easement recorded – within 1 year

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

Other Considerations

Experience with current conservation easement programs indicate strong landowner interest in protecting and restoring lands for environmental and conservation purposes. Receiving additional funding to restore the natural landscape areas will capitalize on this interest and enable meeting important state and national goals related to climate change.

Impact on Agency Operating Budgets

Up to \$1.0 million of the request is to support the RIM Reserve program. This amount is necessary to support engineering and easement acquisition functions and to establish conservation practices on easement lands. SWCDs will receive a portion of this total through a Conservation Easement Services Grant to offset their cost in assisting BWSR with securing easements, developing conservation plans and monitoring easement compliance.

Description of Previous Appropriations

Below are previous bonding appropriations received for RIM Reserve conservation easements, however they did not target expiring CRP lands and were instead focused on the MNCREP.

2017 Bonding RIM Reserve \$10M

2018 Bonding RIM Reserve \$10M

2020 Bonding Rim Reserve \$1M

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