

(\$ in thousands)

Project Title	Priority Ranking	Funding Source	Project Requests for State Funds		
			2020	2022	2024
Local Roads Wetlands Replacement Program	1	GO	\$ 26,400	\$ 0	\$ 0
MN CREP - Conservation Reserve Enhancement Program	2	GO	\$ 16,500	\$ 0	\$ 0
Total Project Requests			\$ 42,900	\$ 0	\$ 0
General Obligation Bonds (GO) Total			\$ 42,900	\$ 0	\$ 0

Local Roads Wetlands Replacement Program

AT A GLANCE

2020 Request Amount: \$26,400

Priority Ranking: 1

Project Summary: \$26.4 million in State funds is requested to meet the state mandate which requires the Board of Water and Soil Resources to replace the wetlands, and wetland areas of public waters, drained or filled by certain public transportation projects on existing roads. These funds will restore and protect up to 1,500 acres of wetlands, generating approximately 800 wetland replacement 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 necessary mitigation for the wetlands lost to these local road projects. Since its inception in 1996, the LGRWRP has provided approximately 5,000 compensatory wetland mitigation credits to offset 3,500 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. Due to insufficient funding, the program is now out of credits in three of the ten bank service areas. When allowable under Federal law, credits can be taken from certain other bank service areas with a penalty. These penalties result in the spending of remaining credits at an even faster rate. Consequently, the LGRWRP is also nearing default statewide. 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 help temporarily offset funding shortages.

After accounting for funding appropriated through 2018, debt, and projected demand, the LGRWRP is expected to be out of credits statewide by the end of 2021 or early 2022. In addition to unpaid debt to MnDOT, this means that approximately 171 local road projects annually will be unable to obtain permits unless and until alternative mitigation is obtained, causing significant delays and cost increases for these 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 \$26.4 million will provide for the planning, design, construction, restoration, and permanent protection of 1,000 to 1,500 acres of wetlands to generate approximately 800 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.

As a result of continued underfunding, without these resources the state will no longer be able to provide planned and funded local public road improvement projects with the wetland mitigation necessary to obtain permits and complete construction, as required by State and Federal law.

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 :

- 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 FY20, the following is an approximate expected timeline:

- FY21: Issue request for proposals and solicit projects, review and accept proposals, and begin the project design and permitting process.
- FY22: Project design and permitting, easement establishment, construction planning, and possibly initiate some construction activities.
- FY23: Construction, construction certification, monitoring, and initial credit releases.
- FY24: Complete any remaining construction activities, corrective actions, monitoring, credit releases, and use of credits.
- FY25: Monitoring, credit releases, and use of credits.
- FY26: Monitoring, credit releases, and use of credits.
- FY27: 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 substantial increased costs.

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

Also important to note that 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

BWSR is required to periodically monitor and inspect easements to ensure owner compliance with the terms of the easement (MN Rule 8420.0735, Subp. 1B). To comply with this requirement, BWSR

typically inspects wetland banking easements every five years. In 2015, the legislature established a mitigation easement stewardship account (Minn. Stat. § 103B.103) to provide a long-term funding mechanism for monitoring and managing wetland banking easements.

Description of Previous Appropriations

Previous capital appropriations include:

Year	Stated Agency Need	Bonding Appropriation	General Fund Appropriation	Funding Deficit
2016	\$10,330,000	0	0	(10,330,000)
2017	\$10,330,000	5,000,000	5,000,000	(330,000)
2018	\$16,380,000	6,700,000	0	(9,680,000)
2019	\$26,400,000	0	0	(26,400,000)

Project Contact Person

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(\$ in thousands)

MN CREP - Conservation Reserve Enhancement Program**AT A GLANCE****2020 Request Amount:** \$16,500**Priority Ranking:** 2

Project Summary: \$16.5 million is requested to acquire permanent easements for water quality and wildlife habitat in the west central and southern agricultural portions of the state. This investment is part of a state-federal partnership, resulting in 60,000 acres of buffers, wetland restorations and wellhead protection in the next five to seven years and leveraging federal US Department of Agriculture (USDA) matches up to \$2 for every state dollar spent.

Project Description

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 goal of 60,000 acres of permanent protection in 54 counties, the state has established strong partnerships with other agencies, producers (and producer organizations), soil and water conservation districts and non-governmental organizations. This effort will utilize 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 will be necessary to achieve a potential 2:1 federal to state match. The State has already made a significant commitment through Bonding, Outdoor Heritage Fund, Clean Water Fund and Environment and Natural Resources Trust Funds to meet our obligation, but we have not reached our funding target yet. With the current federal funding structure, this request will achieve our original funding goal.

Because of the short-term duration of 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 state funding early to enter into agreements with landowners for easements and begin easement transaction work as soon as possible.

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.

When the agreement was signed, MN CREP costs were estimated to be \$350 million from USDA and \$175 million from the State. This request will assist the State in reaching the match required to fully utilize the USDA funding. \$16.5 million of bonding funding will bring the State's total contribution to \$175 million.

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 – 60,000 acres enrolled

January 2026 – 60,000 acres 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 this funding cycle 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 they enter marginal lands into MN CREP and continue production on a majority of their land. This trend is expected to continue throughout the life of MN CREP.

Impact on Agency Operating Budgets

BWSR enters into joint powers agreements with soil and water conservation districts to conduct monitoring of Reinvest in Minnesota (RIM) easements. Inspections are conducted in each of the first five years after the easement is recorded and every three years thereafter. BWSR currently compensates SWCD's approximately \$50 per easement for this work that is funded through general fund appropriations.

Description of Previous Appropriations

FY16/17: \$29.75 million from the clean water fund and \$25.06 million from the outdoor heritage fund.

FY18/19: \$19.5 million from the environment and natural resources trust fund, \$16.25 million from the clean water fund, \$30.731 million from the outdoor heritage fund, \$10 million from general obligation bonds.

FY20/21: \$17.25 million from the clean water fund, \$10 million from general obligation bonds.

Total: \$158.541 million.

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