



Unfinished Business

Minnesota's Conservation Budgets After the 2016
Legislative Session and Summary of Governor's
FY2018-19 Budget and Bonding Proposals



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*The work of Conservation Minnesota is guided by your values and priorities.
We listen to Minnesotans and focus on solving the conservation problems that matter most to you. And
we provide reliable information to help you make important decisions
for your family and community.*

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EXECUTIVE SUMMARY

Today, many people are wondering if the gears of government can effectively turn during times of partisan division. But one constant has guided Minnesota since its founding days. That is, the things that bring us together are much more substantial than those things that divide us.

Minnesotans have a strong sense of place that knows no partisan tilt. Our natural environment is deeply rooted in who we are as people, and we recognize the importance of preserving what we have to pass it on to future generations. This was proven in 2008 when Minnesota voters overwhelmingly voted to raise our sales tax for a dedicated fund to protect our natural environment and cultural history.

Just as important - our natural resources and economic vitality are inextricably linked.

- Hunting and wildlife-watching activities support 48,000 jobs and create \$3.8 billion in economic activity in the state.¹
- Minnesota's forest products industry supports 62,000 jobs and \$8.9 billion in industry output.²
- Conversion of recycled materials supports 60,215 jobs and \$3.4 billion in wages in the state.³
- Repairing and upgrading water infrastructure supports jobs in local communities; investing the proposed \$180 million for water infrastructure will create 3,600 jobs per year.⁴
- Renewable energy projects for the state result in over 5,000 jobs related to construction alone and up to 20,000 overall jobs from increased economic activity, largely in rural parts of the state.⁵
- Quality of life and access to outdoor recreation are increasingly recognized as important factors in sustaining economic growth in rural communities.⁶

And while these statistics are promising, Minnesota can do more to build prosperous communities and protect our lakes, forests, and prairies for future generations. However, in our annual analysis of Minnesota's state budget for conservation, we find that legislators in the 2016 session left considerable unfinished business when it comes to protecting these critical resources. When the Legislature adjourned last year without passing the state's bonding bill, more than \$300 million in conservation and environmental projects failed to make it into the field. And that lost funding also meant the state left behind several hundred million dollars in potential federal matching funds that would have addressed municipal water treatment upgrades around the state, cleaned up the St. Louis River watershed, and funded programs to promote wildlife habitat and reduce water pollution.

Lawmakers also failed to pass a tax bill that included general funds needed to implement the Governor's stream buffer initiative. While some one-time funds were included in the supplemental budget that did pass, overall general funding for conservation and environment continues to hover far below historic levels. In the 1990s the state annually dedicated about two percent of the budget to conservation and environmental spending. By 2016, that number had shrunk to less than one percent.

¹ MN DNR, *2016-2017 Agency Budget*, Agency Profile, p. 1.

² MN Forest Resources Council, *Report on the Competitiveness of Minnesota's Primary Forest Products Industry* (2014), p. 6.

³ Star Tribune, Feb. 2, 2016.

⁴ Blue Green Alliance, *Repair MN Facts* (2016)

⁵ Energy Transition Lab, *Clean Energy in Minnesota: Economic Impacts and Policy Drivers* (Nov. 2016)

⁶ McGranahan and Wojan, *Recasting the Creative Class to Examine Growth Processes in Urban and Rural Communities*, Farm and Rural Research Branch, Economic Research Service, USDA (2007)

The second half of this report looks ahead to the 2017 legislative session and summarizes the Governor's recently released budget and bonding proposals.

The Governor's bonding request for water and conservation needs has increased to \$356 million in 2017 to account for increased costs and additional needs. This represents 21.4% of the Governor's total request, which is slightly less than the historic average for conservation. The Governor's bonding bill:

- renews his proposal for \$167 million to help communities repair aging water infrastructure,
- provides \$30 million for the federal-state Conservation Reserve Enhancement Program (CREP), a voluntary program for conservation easements to improve water quality,
- provides the state match needed to receive \$47 million in federal funds to clean up contamination in the St. Louis River, and
- provides needed funding for wildlife habitat, park rehabilitation, and waste management.

The Governor also has released his operating budget proposal for the 2018-2019 budget cycle. The Governor:

- Proposes general funds for implementing his stream buffer program, including both compensation for farmers and county aid payments for implementation,
- Proposes general fund increases for parks, forestry, DNR enforcement, agency compensation increases, and landfill issues, and
- Includes fee increases to help balance a number of specialized accounts, including park fees, hunting and fishing fees, snowmobile and ATV licenses, the AIS surcharge, and certain pesticide fees.

Even with the new general funds proposed by the Governor, spending on conservation remains below 1% of all state general funds. Actual general fund spending on conservation, without accounting for inflation, is less in 2016 than it was in 2001.

The Governor also made recommendations regarding Legacy Funds (created by the 2008 Clean Water, Land & Legacy Amendment.) For Clean Water Funds, the Governor proposed allocating the 2018-19 funds largely according the recommendations of an interagency team rather than the Clean Water Council. For Parks & Trails Funds, the Governor followed the split between state, metro and regional parks that has become the consensus use of these funds, and for Outdoor Heritage Funds, the Governor did not make a specific proposal (the Lessard-Sams Outdoor Heritage Council makes annual recommendations on the use of these funds.)

The Governor's 2017 budget and bonding proposals illustrate the amount of work that needs to be done to complete the unfinished business of protecting our water and conserving the natural resources that define Minnesota and support its economy. The people of Minnesota are ready to see the Minnesota Legislature get back to work. And while compromise may not be easily reached on many of the hot button issues of the day, the issues that we all agree on, like passing budget and bonding bills that make us good stewards of our lands and waters, are a great place to start.

INTRODUCTION

The primary task of the 2016 Legislature was to pass the state's regular capital investment bill, also known as the bonding bill. In addition, because the state budget showed a \$900 million operating fund surplus for the 2016-2017 budget, legislators were expected to pass a supplemental operating budget to allocate the surplus.

However, for much of a particularly contentious legislative session, virtually no progress was made toward accomplishing these tasks. By the last week of session in May, there was no agreement on a supplemental budget and neither the House nor the Senate had successfully passed a bonding bill. On the chaotic final day of session, a supplemental budget and related tax bill were passed, but a drafting error in the tax bill caused the Governor to veto it. An eleventh hour attempt to pass a bonding bill failed, and no bonding bill was sent to the Governor.

As a result of the failure of the bonding and tax bills, critical water quality and conservation needs were left unaddressed and federal matching funds needed to accomplish this work were left on the table. Much of the unfinished business from the 2016 session will need to be completed in 2017 if the state is to move forward in protecting our water and natural resources.

This report is divided into two sections. The first section discusses the 2016 legislative session and examines bonding proposals, the supplemental budget, and the allocation of dedicated funds from the Environmental Trust Fund and Minnesota's Clean Water, Land, and Legacy Amendment (Legacy Funds.)

The second section looks to the 2017 session and provides an overview of Governor's 2017 bonding proposals which renew his requests for important water quality and conservation work. In addition, because the Legislature must also pass a state operating budget for the coming budget cycle, this report will summarize the Governor's proposed budget for fiscal years 2018 and 2019.

SUMMARY OF THE 2016 LEGISLATIVE SESSION

CAPITAL INVESTMENT (BONDING)

Governor's bonding request includes \$309 million for conservation

Bonding has for decades served as an important source of funding for conservation and the environment because projects such as water treatment infrastructure, wetland restoration, habitat protection, and parks and trails are long term capital projects best suited for bonding. Bonding spreads the cost of these projects over time, reflecting the fact that they benefit both present and future generations of taxpayers.

In addition, bonding projects such as wetland restoration, trail construction, reforestation, and water treatment improvements are often located in rural areas, and as such provide jobs and economic benefit in local communities across the state.

Recognizing this, Governor Dayton's 2016 \$1.4 billion bonding proposal included \$309 million for water quality and conservation projects. *See Attachment B.* Highlights included:

- \$167 million to help communities repair aging and deteriorating water infrastructure
- \$30 million for conservation easements to protect water quality in rural areas
- \$12.5 million needed to secure federal funding to clean up contaminated areas in the St. Louis River
- \$16.5 million for habitat protection and reforestation

Legislature fails to pass bonding bill

For most of the legislative session, there was little progress on a bonding bill as lawmakers debated the overall size of the bonding package. In the first week of May (three weeks before the constitutional last day of session), the Senate first released its \$1.5 billion bonding proposal. The proposal was larger than the Governor's \$1.4 billion package, and more than double the House's initial proposal of a \$600 million target for the bill. However, the bill failed on the Senate floor, where it was one vote short of the three-fifths majority needed to pass bonding bills.

On May 18, with four days remaining for the Legislature to pass bills, the House released the details of an \$800 million bonding proposal. This bill was heard in committee and brought to the floor, but it too failed to receive the three-fifths majority needed for passage. Despite the fact that neither body had successfully passed a bonding bill, a conference committee was appointed to try to assemble a compromise bill.

At about 11:00 p.m. on Sunday, May 22, one hour before the midnight deadline for the end of session, a spreadsheet was distributed on the House floor outlining an agreement for a new bonding package. Despite much confusion about what was included in the bill, the House passed it at 11:45 p.m. The bill was raced to the Senate floor where it was passed, but amended to include additional language. In order for the bill to be sent to the Governor, the House would have had to re-pass the bill as amended by the Senate. However, the House adjourned at 11:55 p.m. without re-passing the bill. As a result, no bonding bill was sent to the Governor.

Lack of bonding bill means loss of matching funds, water quality needs in limbo

The bonding agreement that failed in the final hours of session had reduced the amounts allocated to many important water quality and conservation programs. Whereas the Governor had recommended \$309 million for conservation and environment programs, the agreement by the Legislature included only \$256.9 million. *See Attachment B.*

The Governor's push to help communities across the state repair and replace aging and inadequate water treatment infrastructure was reduced from \$167 million to \$133.5 million. Many Department of Natural Resources programs were zeroed out altogether, including virtually all habitat protection programs. This raises concerns that Legacy funds may be substituted as the sole source of revenue for these programs rather than supplementing existing funds as intended by the constitutional amendment. And the Conservation Reserve Enhancement Program (CREP), which is a landmark federal state partnership to protect water quality through targeted conservation easements, would have received only \$10 million in the failed bonding agreement – instead of the \$30 million proposed by the Governor.

Even more concerning, the failure to pass any bonding bill left significant federal matching dollars on the table:

- The Governor's water infrastructure package included \$25 million for state clean water revolving funds, which would have entitled the state to receive **\$85 million in federal matching dollars**. Unless the state match is received by June 30, 2017, the state will lose these federal dollars, which are critical to funding low interest loans for communities to repair and upgrade water treatment facilities.⁷
- The Governor's request for a project to clean up contamination in the St. Louis River estuary would have allowed Minnesota to access **\$47 million in federal matching dollars**.
- The CREP program which provides voluntary water quality conservation easements to farmers, leverages a minimum **2:1 federal match** and failure to provide bond funds endangers the ability of the state to access the full amount of this match.

SUPPLEMENTAL OPERATING BUDGET

Forecast shows \$900 M surplus for FY 2016-17 budget

Minnesota operates on a two-year biennial budget enacted in odd-year legislative sessions. Therefore, the 2015 Legislature enacted a budget for the 2016-2017 biennium. In even years, the Legislature usually focuses on the capital investment budget, discussed above. However, sometimes the economic forecast changes the state's projected revenues and a surplus or deficit may result. In such cases, the Governor and Legislature can propose a supplemental budget to account for the change in revenues in the even-year legislative session.

In 2016, the state's November economic forecast showed that the state would have a \$900 million surplus for the current 2016-2017 budget cycle. Governor Dayton accordingly released a supplemental budget proposal which recommended spending the budget surplus on a variety of initiatives, including broadband access in rural Minnesota, programs to decrease racial disparities, investments in numerous K-12 education programs, and some increases for conservation programs.

By mid-April, the House and Senate had also introduced supplemental spending proposals. Governor Dayton and the Senate had both proposed using the surplus for additional spending, whereas the House proposed using the \$900 million surplus on tax relief and capital projects (using cash instead of bonds.) A conference committee was appointed to find a compromise on the proposals.

On the last day of session, the supplemental budget conference committee finally completed its work. The committee met until 2:30 a.m. and reconvened at 8:00 a.m. to finish considering amendments and adopt all of the articles in the bill. Legislative staff rushed to compile the paperwork for the extensive bills, and both the House and Senate then passed the supplemental spending bill and related tax bill.

Following the Legislature's adjournment, the Governor signed the supplemental spending bill but did not sign the tax bill (thereby exercising a "pocket veto") because it included a drafting error that would have had a significant fiscal cost to the state.

⁷ See MN Public Facilities Authority, *Clean Water Revolving Fund 2017 Intended Use Plan*, at https://mn.gov/deed/assets/clean-water-revolving-fund-intended_tcm1045-132568.pdf

Supplemental budget includes one-time funds for conservation programs

The supplemental budget bill as signed by the Governor used \$238.7 M of the surplus for additional spending. The bill also reduced some revenues and raised other revenues with a net impact of using \$171.7 of the surplus. The remaining \$728.6 M of the surplus was left on the books and carries forward to the FY 2018-19 biennium.

The changes are summarized below:⁸

Surplus	900.0
Additional spending:	-238.7
Reduced Revenues:	-24.4
<u>Increased revenues:</u>	<u>+171.7</u>
Ending balance	=728.6

Of the \$238.7 million in additional spending, \$13.5 million in general funds was allocated to natural resources agencies. Most of this was one-time funding, including:

- one-time general funds for state parks and trails
- one-time increase of \$4 million to the DNR and MPCA for the Northmet Mining permit process
- \$600,000 for a study to develop a working lands program to promote perennial crops
- One time funds to the MPCA for administrative work related to the St. Louis River contamination clean-up
- Various small amounts including funding for recycling grants, an AIS grant to combat starry stonewort, one time funds for the Wolf Ridge Learning center, and one time grants for flood modeling and evaluating school trust lands.⁹

The DNR's forestry division received an ongoing general fund increase of \$2 million per year. An additional \$4.4 M of spending increases (including \$1 million for the Forever Green program which is working to develop economically viable perennial cover crops) was allocated to the Dept. of Agriculture, but this was largely offset by a cancellation of funding for Avian Flu disaster spending.¹⁰

Failure of tax bill leaves buffer funding and sustainable forestry incentives hanging

In 2015, the Legislature enacted a new law to improve water quality in lakes and rivers by requiring vegetative buffers on streams and rivers. In 2016, the Legislature clarified the provisions of the new law and included funding in the tax bill for special county aid for implementing and enforcing the buffer requirements. The aid would have provided \$10 million per year to be distributed to counties based on the number of miles of public water basins and watercourses in the county and the county's share of the total number of agricultural acres in the state. The aid payments would have started in fiscal year 2017. However, the failure of the tax bill meant this important funding for buffer implementation was left undone.

In addition, the tax bill included language provided clarification of the state's Sustainable Forestry Incentive Act (SFIA). One critical revision clarified that landowners should be able to withdraw from the

⁸ House Fiscal Analysis, *Money Matters: Summary of the Fiscal actions of the 2016 Legislature*, p. 2.

⁹ See *2016 Minnesota State Senate Fiscal Review*, pages 29-30.

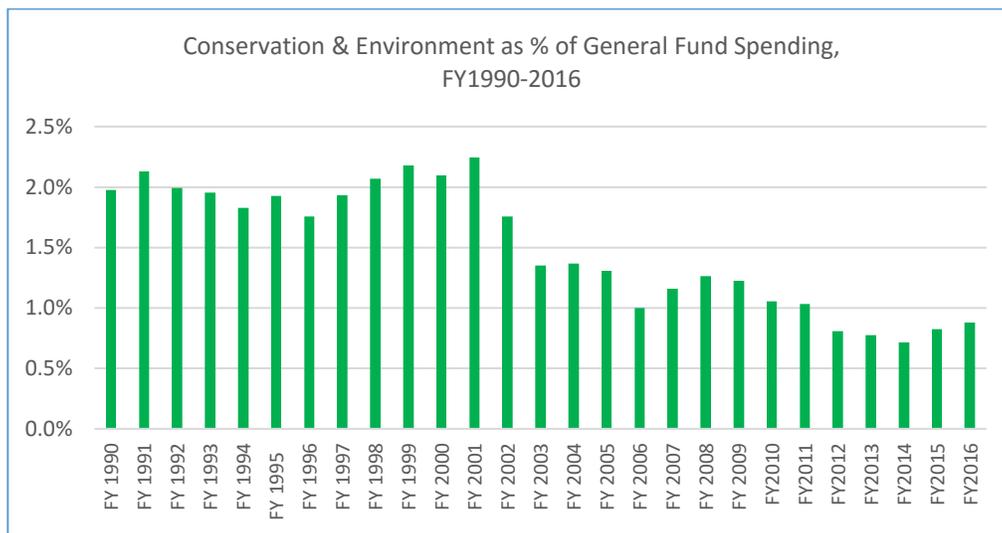
¹⁰ *2016 Money Matters*, p. 6.

SFIA program without penalty if they enroll their land in a permanent conservation easement such as a buffer easement. However, these important changes went down with the tax bill and now must be re-passed by the Legislature.

Conservation general fund spending shrinks from 2% to less than 1% of state budget

Even with the small one time increases for conservation budgets, general fund spending for conservation agencies remains well below prior levels. From 1990 to 2000, the state spent an average of 2% of general funds on conservation and environment. This percentage has now shrunk to less than 1%. See Figure 1.

Figure 1



Source: Minnesota Management & Budget, Fund Statements.

General fund support for conservation has shrunk in both nominal and inflation adjusted dollars

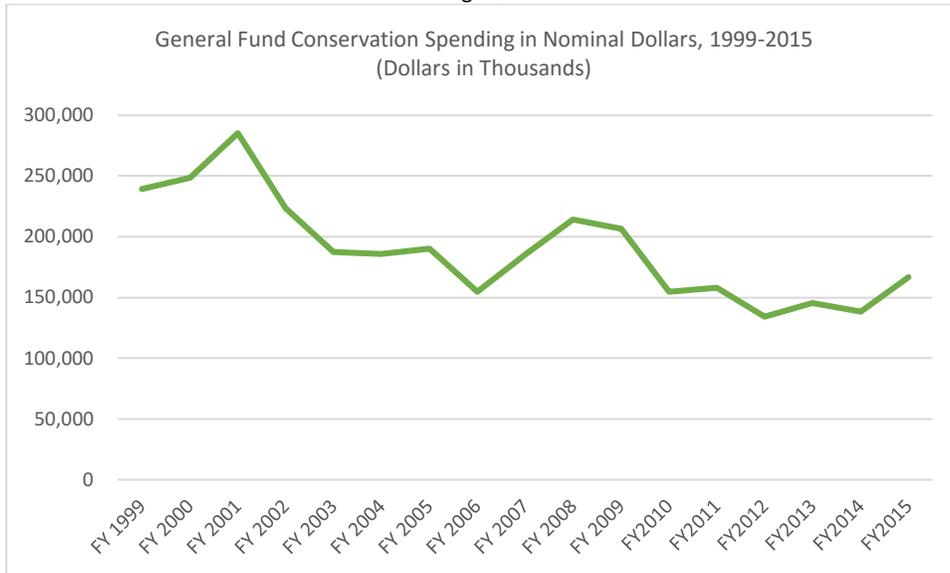
General fund support for conservation in Minnesota has shrunk dramatically – not just in terms of a percentage of spending – but in actual dollars. From 2001 to 2015, general fund spending for the five primary conservation agencies (DNR, MPCA, BWSR, MDA and Metro Parks) dropped from \$285 million to \$166 million. See Figure 2.

In inflation adjusted dollars, the decline is even more dramatic. See Figure 3.

Many conservation programs rely heavily on general fund spending because dedicated funding is often limited to highly specific purposes or projects. In addition, general fund spending is needed to address emerging issues and new problems such as diseases, new invasive species, and water quality and water quantity issues. Declining general funds makes it difficult for agencies to keep up with needed work and creates a concern that Legacy Funds will be used to backfill these needs rather than supplement existing funding as required by the Constitution.¹¹

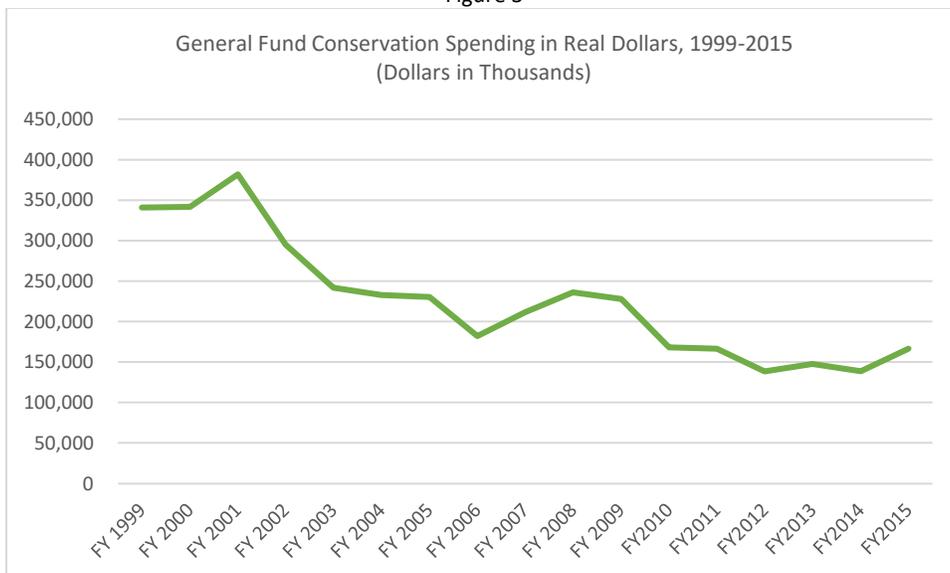
¹¹ Art. XI, Sec. 15 of the Minnesota Constitution requires that money dedicated by the Clean Water Land and Legacy Amendment “must supplement traditional sources of funding for these purposes and may not be used as a substitute.”

Figure 2



Source: MMB Fund Statements.

Figure 3



Source: MMB Fund Statements. Adjusted to constant 2015 dollars using the BLS CPI.

It's important to note that federal funds have not been picking up the slack. Critical conservation work has also been impacted by drastically declining federal funds. For example, in 2001, congressional funding for national parks represented 0.12 percent of overall federal spending. By 2014, it had declined to 0.069 percent.¹² Similarly, federal support for grassland protection through farm bill programs such as the Conservation Reserve Program (CRP) has dwindled: CRP acres stood at 37 million acres nationwide in 2007, by 2017 they will be capped at 24 million acres. Minnesota farmers had nearly 1.5 million acres enrolled in the general CRP program in 2007; enrollment fell to under 600,000 acres by 2015.¹³

¹² Taylor, Phil, *The Park Service's Befuddled Funding*, Green Wire: E&E News (2016)

¹³ DNR Report Card, *Pioneer Press*, March 16, 2016.

LEGACY AMENDMENT AND LCCMR

Legacy Funds

In 2008, Minnesota voters overwhelmingly approved the Clean Water, Land, and Legacy Amendment which constitutionally dedicated a portion of the state sales tax towards water, habitat, parks and trails and cultural heritage. The dedicated revenues are deposited into four funds: the Outdoor Heritage Fund, the Clean Water Fund, the Parks & Trails Fund, and the Arts & Cultural Heritage Fund. The Clean Water Fund and Parks & Trails Fund are appropriated on a biennial basis; the Outdoor Heritage Fund is appropriated annually based on the recommendations of the Lessard Sams Outdoor Heritage Council.

In 2016, the Legislature passed a Legacy bill¹⁴ that included \$109.847 million in allocations from the Outdoor Heritage Fund and made certain adjustments to the Clean Water Fund and Parks & Trails Fund. The allocations from the Outdoor Heritage Fund largely followed the recommendations of the Lessard Sams Council.

The OHF appropriations were divided into five categories consistent with the constitutional language creating the fund:

- *Prairies* \$ 31,000,000 (28.2%)
- *Forests* \$ 18,379,000 (16.7%)
- *Wetlands* \$ 31,055,000 (28.3%)
- *Habitat* \$ 29,138,000 (26.5%)
- *Administration & Other* \$ 275,000 (0.25%)

Due to a reduction in sales tax revenue projected in the February state budget forecast, three of the four funds were projected to have very small or negative balance reserves in the FY 2016-17 biennium. The commissioner of Minnesota Management & Budget (MMB) used authority in current law to delay or cancel appropriations to bring the funds back into balance as described in the summary for each fund.

The Legacy bill also cancelled some unused Clean Water Fund appropriations from prior years, and re-allocated funds to the MPCA's watershed assessment program and the MDA's Agricultural Water Quality Certification Program.

Finally, the Legacy bill included policy language requiring recipients of Parks & Trails Funds to provide information regarding previous funding sources to ensure Legacy Funds are not used to substitute for traditional sources of funding.

LCCMR Funds (Lottery)

Forty percent of the net profits from the Minnesota State Lottery are deposited each year into the state's Environment and Natural Resources Trust Fund (ENRTF). (The remaining sixty percent of lottery net profits are sent to the General Fund.) The ENRTF is invested by the State Board of Investment, and 5.5% of the market value of the fund is available each year for appropriations to protect Minnesota's environment and natural resources.¹⁵ The Legislative-Citizen Commission on Minnesota Resources

¹⁴ SF2527, Ch. 172 (2016)

¹⁵ Minnesota Constitution, Art. XI, Sec. 14.

(LCCMR) conducts an extensive process to hear proposed projects and make site visits. The LCCMR then makes annual recommendations to the Legislature for allocating these funds.

In response to its 2016 Request for Proposal, the LCCMR received 186 proposals requesting a total of approximately \$131 million. Through a competitive multi-step process, 97 of these proposals, requesting a total of \$70.4 million, were chosen to present to the LCCMR and 89 of the proposals were selected to receive a recommendation for funding to the Legislature.

The Legislature adopted 79 of the recommendations, but decreased the amount allocated for six of these. In addition, the Legislature eliminated ten of the recommendations, and added seven new appropriations which had not been vetted by the Council. On May 31, 79 of the appropriations, totaling \$37,909,000, were signed into law by the Governor, but the seven new appropriations, totaling \$8,428,000, were line-item vetoed.

The Governor's veto letter noted that the Legislature had added these projects by omitting or reducing a number of projects recommended by the LCCMR. The Governor stated:

This action seriously undermines the integrity of a process that includes citizens who volunteer hundreds of hours each year reviewing and recommending projects for funding. While funding was restored partially or in total for some of these projects during the conference committee negotiations, a total of 15 LCCMR-recommended projects were omitted or reduced in the final conference committee report.¹⁶

The Governor noted that his veto of the seven projects that had not been vetted by the Council "underscore(s) my conviction that the Legislature must work with its Citizen Councils, not against them."¹⁷

2017 LEGISLATIVE SESSION: GOVERNOR'S BUDGET AND BONDING PROPOSALS

As described above, the 2016 Legislature left unfinished business and work that must be completed in the 2017 legislative session to ensure Minnesota does not lose ground in protecting its lakes, rivers, drinking water, and outdoor resources. This **unfinished work includes:**

- Approving the bond funding which is urgently needed to help local communities repair and upgrade **drinking water and wastewater infrastructure**. Without bonding in 2017, Minnesota will miss out on the 4:1 federal match for the state revolving fund and communities across the state will not receive the needed financing to begin these projects.
- Approving \$30 million in bonding so the state can prepare the matching funds needed for the landmark **federal-state CREP agreement** that will bring \$350 million in federal dollars for water quality conservation easements.
- Appropriating bond funds for the **St. Louis River clean up**. Due to the failure to provide these bond funds last year, the Legislature must now allocate the entire state match needed this year

¹⁶ Governor Mark Dayton to the Honorable Sandra L Pappas, May 31, 2016, at <http://mn.gov/governor/newsroom/index.jsp?id=1055-243103>

¹⁷ Ibid.

(\$25.4 million) in order to ensure that Minnesota does not miss out on the critical federal matching dollars (\$47.2 million).

- Appropriating needed bonding for other conservation needs including **habitat, parks and trails, and landfill cleanup**.
- Passing a tax bill that includes aid for **stream buffer implementation** and enforcement, and needed changes to the **Sustainable Forest Incentive Act**

In addition, the Legislature must pass the **state's operating budget for the coming biennium**. Because the supplemental budget passed by the Legislature last year left a large amount of the surplus in 2017 on the bottom line, this amount will carry forward and the Legislature will almost certainly have a budget surplus to work with in the new budget. The November economic forecast indicated that the amount of the surplus for FY2018-2019 will be \$1.4 billion. However, a new forecast will be released in February 2017 and the exact amount of the surplus may change.

2017 CAPITAL INVESTMENT (BONDING)

Governor proposes 2017 bonding bill

On January 4, 2017, Governor Dayton released a 2017 bonding proposal which closely resembles his 2016 bonding proposal. The 2017 proposal is slightly larger than the Governor's 2016 proposal (\$1.5 billion vs. \$1.4 billion) but is well below the state's debt capacity of \$3 billion. The Governor's office estimated the bonding package would create or support 23,000 jobs across Minnesota.¹⁸

For conservation and environment, the Governor renewed his request for \$30 million for the critical state federal CREP program, his \$9.5 million request for wildlife areas which is part of the pheasant habitat plan, and his full \$167 million request for PFA funding for water infrastructure repair and upgrades. In addition, the 2017 proposal includes certain increases from the 2016 proposal:

- DNR asset management and flood mitigation allocations are increased by \$1 million and \$3 million respectively
- Projects are added for the Prospector's ATV Trail, the Two Harbors Small Craft facility, and the St. Paul Great River Passage,
- The request for the St. Louis River clean-up is increased from \$12.7 million to \$25.4 million because the delay caused by the lack of bonding last year means the full amount of the state match is now needed to ensure that Minnesota does not lose the federal matching funds,
- \$20 million is added for Capitol Assistance grants to local governments for integrated solid waste management systems, such as recycling and composting facilities, waste-to-energy facilities and transfer stations. The request includes projects in Polk, Clay and McLeod counties.
- Local road wetland replacement grants are increased from \$5 million to \$10 million.

See Attachment B.

¹⁸Office of Governor Mark Dayton, Press Release dated Jan. 4, 2017.

The bonding agreement reached by the Legislature at the end of the 2016 session had reduced water infrastructure funding to \$133.5 million. The Governor's full request of \$167 million is needed to build future lending capacity in the state's revolving loan fund to respond to the increased demand on the loan programs that will be driven by the additional grant funds included in the Governor's budget. The number proposed by the Governor will mean more communities will be able to access financing for their infrastructure projects.

The Governor's full request of \$30 million in bonding for CREP is also urgent. CREP will allow the state to receive \$350 million in federal funds for wellhead protection, buffers, and wetland protection. Last year, Legacy Funds were set aside for a portion of the required \$150 million state match on the grounds that they were needed to supplement the traditional levels of bond funding.¹⁹ Since no bond funds were allocated in 2016, it is critical that CREP receive the full amount of the Governor's proposed \$30 million in bonding to ensure that Legacy funds are properly supplementing bond funding, not substituting for it.

Prior to passage of the Legacy amendment, conservation-related bonding represented 22.4% of general fund bonding. *See Attachment C.* The Governor's 2017 proposal represents 21.4%, which is roughly consistent with historic levels. *See Attachment C.*

Habitat bonding has declined raising substitution concerns

The bonding package assembled by the Legislature at the end of the 2016 session substantially reduced the Governor's recommendation for virtually all DNR habitat programs:

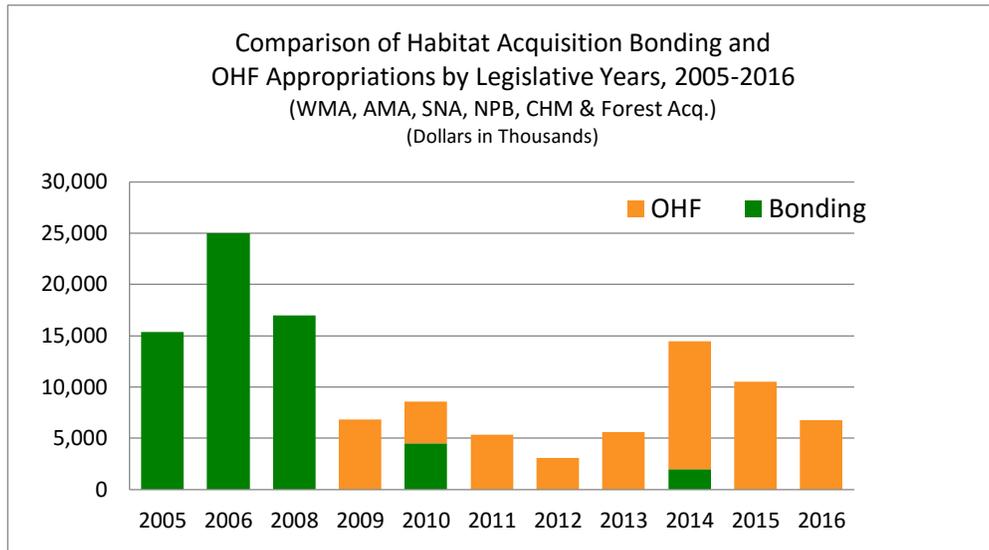
- The Wildlife Management Area and Aquatic Management Area programs were cut from \$9.5 M to zero
- The Native Prairie Bank program was cut from \$2 million to zero
- Scientific and Natural Areas were cut from \$1 million to zero
- The Critical Habitat Match Program was cut from \$2 million to zero
- The Reforestation program was cut from \$2 million to \$1 million

Despite the fact that the constitutional language of the Legacy Amendment states that the new funds must supplement and not substitute for traditional levels of funding, bond funds for habitat programs have declined significantly, raising strong concerns that Legacy Funds are being used to simply replace funds typically provided in bonding bills. *See Attachment D.*

Since 2008, bonding funding for the DNR's core habitat programs has virtually dried up, while funds from the Outdoor Heritage Fund have become the primary source of funding for these programs. *See Figure 4 (below) and Attachment E.*

¹⁹ This is the state's third CREP program; the prior two were entirely funded through bonding.

Figure 4



Source: MMB, 2016 Final Agency Capital Budget Requests,
Dept. of Natural Resources (Description of Previous Appropriations) (January 15, 2016).

A detailed history of bonding for DNR and BWSR is contained in *Attachment F*.

OPERATING BUDGET FOR FY2018-19

Minnesota's budget forecast for the FY2018-19 budget cycle showed a \$1.4 billion budget surplus. Governor Dayton proposes a total of \$1.2 billion in new general fund spending and \$55 million net revenue reductions, leaving a \$79 million surplus for the biennium.

Governor's budget includes general fund increases for conservation

In the Governor's proposed budget, conservation agencies receive various small general fund increases, some of which are continuations of one time spending from previous budget cycles and therefore do not actually increase current spending. In particular, the Governor includes a general fund increase for state parks and trails which makes permanent a one-time appropriation from 2016-17. In addition, there are general fund increases for:

- DNR Enforcement
- Various DNR Forestry programs
- Wetland Replacement and Wetland Regulation (BWSR)
- Conservation easement stewardship (Both DNR and BWSR)
- Cover crop demonstration projects (MDA)
- Pest and noxious weed response (MDA)
- Construction and demolition landfill work(MPCA)
- Maintenance of service increase to cover compensation and IT increases (all agencies)

See attachment G for a more detailed listing of the proposed increases.

Governor proposes fee increases

The Governor's budget includes proposed fee increases for a variety of state fees, including:

- Hunting and fishing licenses fees
- State park and trail fees
- Outdoor recreation fees, including snowmobile and ATV fees
- AIS surcharge fees on watercraft registration
- Water appropriation fees
- A new fee for collecting wild ginseng
- Pesticide waste surcharge fees
- Fees on pesticide treated seeds

See Attachment H for a more detailed description of the hunting and fishing fee increases.

Governor proposes buffer funding

In addition to proposed changes to agency budgets, the Governor includes in his tax proposal funding to implement the new stream buffer law. The tax proposal includes two components: 1) a new payment program for landowners required to convert tillable land to buffer land, and 2) a county aid program to assist counties with the cost of implementing and enforcing the buffer law.

Buffer Compensation

Under the Governor's proposal, landowners are eligible to enroll in the program if their land meets all of the following conditions:

- Classified as 2a agricultural land
- Adjacent to a body of water identified as requiring buffer
- No delinquent property taxes on the land
- Identified as compliant with the riparian protection and water quality practices required by statute.

To qualify for the program, landowners must submit an application by April 1, 2018. For each year thereafter, they must certify enrollment in the program by April 1. Eligible landowners would receive an annual payment of \$40 per acre for each tillable acre converted to buffer. Payments would be made for five years beginning with taxes payable in 2018. The estimated cost of the program is approximately \$6.5 million per year beginning in FY2019.²⁰

Buffer County Aid

The Governor recommends appropriating \$10 million per year in ongoing aid to help counties and watershed districts enforce and implement riparian protection and water quality practices. Each county's aid is based on its share of the total class 2a acres in the state, divided by 2; plus its share of the number of centerline miles of public watercourses and public drainage ditches (under Minnesota Statutes, Chapter 103E), divided by 2; multiplied by \$10 million.

The maximum aid to a county is \$200,000 and the minimum aid is \$45,000. The aid will be split between the county government and watershed districts based on the percentage of the county's area for which

²⁰ Governor's FY2018-19 Budget for Tax Aids and Credits, p. 13.

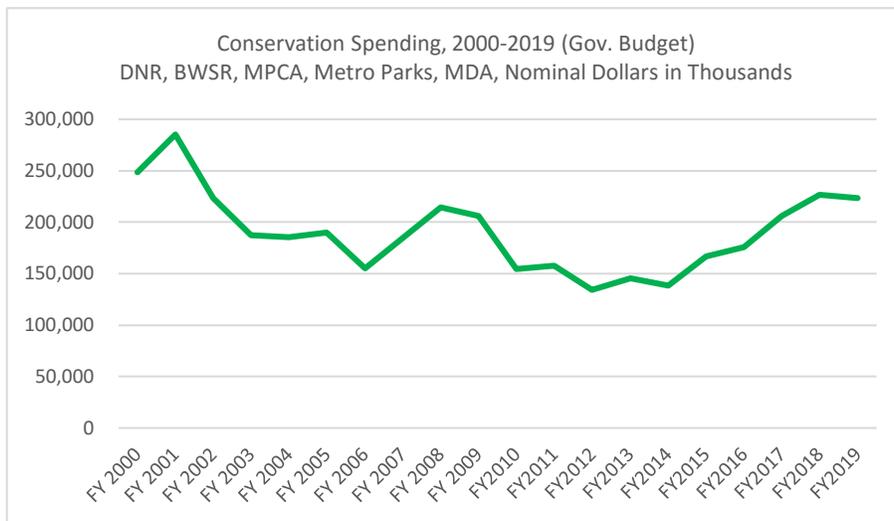
they have affirmed jurisdiction for enforcing and implementing the practices under M.S. 103F.48. For areas where neither the county nor the watershed district has jurisdiction, the aid will be given to the Board of Water and Soil Resources.²¹

General fund spending on conservation remains below 2001 levels

Under the Governor’s proposal, general fund spending on conservation agencies still remains below 1% of state spending: for 2018-2019, conservation general funds represent 0.98% of all state general fund spending.

Even without accounting for inflation, general fund spending on conservation agencies is less than it was in 2001. See Figure 5.

Figure 5



Source: MMB General Fund Balance Analyses – Detail (archived) and Jan. 26, 2017.

LEGACY AND LCCMR FUNDS

The Governor’s budget proposes allocation of the Parks & Trails Legacy Fund and the Clean Water Fund. The Outdoor Heritage Fund and Environment and Natural Resources Trust Fund are allocated, respectively, by the Lessard Sams Outdoor Heritage Fund and the Legislative-Citizen Council on Minnesota Resources (LCCMR), on an annual basis, and the Governor typically does not make recommendations regarding those allocations.

Clean Water Fund

For FY 2018-19, the Clean Water Council, a council of citizens, local government representatives, stakeholder representatives, and agency participants, held extensive public meetings to review Clean Water Fund proposals and made specific recommendations for the allocation of 2018-19 Clean Water Funds.

²¹ Ibid, p. 23.

However, the Governor's recommendations largely ignore these recommendations and instead reflect the recommendations of a committee of agency representatives (the Interagency Coordinating Team) which does not conduct public meetings. A comparison of the Clean Water Council Recommendations and the Governor's recommendations is attached. *See Attachment I.*

Parks and Trails Fund

The Governor recommends allocating the Parks and Trails Funds between the three parks systems according to a 40-40-20 split recommended by a working force appointed to reach consensus on the correct allocation of the funds. Under this formula, for FY 2018, the funds are allocated as follows:

- State Parks and Trails: \$16,741,000
- Metro Parks and Trails: \$16,741,000
- Greater Minnesota Regional Parks and Trails: \$8,370,000

In addition, \$521,000 is allocated for coordination between the three systems.

Recommendations

In the 2017 Legislative Session, the first priority for the Legislature should be completing the unfinished business from 2016. Specifically, we recommend that the Legislature:

- Provide \$167 million in bond funds to repair and upgrade aging water infrastructure as recommended by the Governor,
- Provide \$24.7 million in bond funds to clean up the St. Louis River,
- Provide \$30 million in bonding for CREP to achieve the full available federal match without the risk of "substitution,"
- Include bonding for habitat programs as requested by the DNR, and
- Pass a tax bill that includes aid for buffer implementation and clarification to the Sustainable Forest Incentive Act.

In addition, we recommend that the 2017 Legislature:

- Pass a budget for FY2018-2019 that ensures that Legacy Funds are supplementing – not substituting - traditional funding sources and not simply backfilling cuts from prior years,
- Respect the recommendations of citizen councils in the allocation Legacy and LCCMR funds,
- Set goals and timelines for actually achieving clean water and ensuring that state funds are making progress toward those goals.

Attachment A

MN Session Laws: Environment & Natural Resource Funding, Dedicated Funding, and Bonding

Legislative Sessions 1995-2016

Environment & Natural Resources Appropriations and Dedicated Funding		
Legislative Year	Session	Chapter
2016	Regular	Ch. 186 (LCCMR) Ch. 189 (Supp. Budget) Ch. 172 (Legacy)
2015	Regular 1 st Special Session	Ch. 76 (LCCMR) Ch. 3 (Legacy) Ch. 4 (Env. Finance)
2014	Regular	Ch. 312 Ch. 256 (Legacy) Ch. 226 (LCCMR) Ch. 150 (Tax Bill 1) Ch. 308(Tax Bill 2)
2013	Regular	Ch. 52 (LCCMR) Ch. 137 (Legacy) Ch. 114 (Env. Fin.)
2012	Regular Session 1 st Spec. Session	Ch. 264 (Legacy) Ch. 1 (Flood Disaster Relief)
2011	1 st Special Session	Ch. 2 (Env. Finance, LCCMR) Ch. 6 (Legacy)
2010	Regular 1 st Special Session	Ch. 215 (GF Budget Balancing) Ch. 361 (Legacy, Supp. Funding) Ch. 362 (LCCMR) Ch. 1 (2 nd Budget Balancing Bill)
2009	Regular	Ch. 37 (Env. Finance) Ch. 172 (Legacy Funds) Ch. 143 (LCCMR)
2008	Regular	Ch. 363
2007	Special	Ch. 2
2007	Regular	Ch. 57
2006	Regular	Ch. 282
2005	Special	Ch. 1 (S.F. 69)
2004	----	No Appropriation bill
2003	Regular	Ch. 128
2002	Regular	Ch. 220, Art. 8 Ch. 374, Art. 6
2001	Special	Ch. 2
2000	Regular	Ch. 488
1999	Regular	Ch. 231
1998	Regular	Ch. 401

1997	Regular	Ch. 216
1996	Regular	Ch. 407
1995	Regular	Ch. 220

Capital Investment (Bonding) Appropriations		
Legislative Year	Session	Chapter
2016	Regular	No bonding bill passed (HF 622 was proposed)
2015	1 st Spec. Session	Ch. 5
2014	Regular	Ch. 294 Ch. 295 (Cash)
2013	Regular	Ch. 136
2012	Regular 1 st Spec. Session	Ch. 293 Ch. 1 (Flood Disaster Relief)
2011	1 st Special Session	Ch. 12
2010	Regular 2 nd Special Session	Ch. 189 Ch. 1 (Disaster Relief)
2009	Regular	Ch. 93
2008	Regular	Ch. 152 (veto overridden)(transportation funding), 179 (partial veto), 365
2007	Special	Ch. 2
2007	Regular	HF 886 (Vetoed)
2006	Regular	Ch. 258
2005	Regular	Ch. 20 (H.F. 3)
2004	-----	No bonding bill
2003	Special	Ch. 20
2002	Regular	Ch. 393
2001	Special	Ch. 12
2000	Regular	Ch. 492, Ch. 463 (game & fish fee increase)
1999	Regular	Ch. 240
1998	Regular	Ch. 404
1997	Regular	Ch. 246
1996	Regular	Ch. 463
1995	Special	Ch. 2

Attachment B

Environment & Natural Resources Bonding Proposals

2016 and 2017 Legislative Sessions,
Dollars in Thousands

Agency	Governor 2016	Senate 5/4/2016	HF 622 As Intended	Governor 2017	Senate 2017 SF 210
DNR					
Asset Prevention	33,000	33,000	25,866	34,000	25,866
Building and Facilities	2,000	2,000	0	2,000	0
Flood Mitigation	3,500	20,000	11,555	6,500	11,555
Mille Lacs Fisheries	3,500	3,500	0	3,500	0
Dam Repair and Removal	7,000	10,000	9,000	7,000	9,000
Reforestation	2,000	2,300	1,000	2,000	1,000
Native Prairie Bank	2,000	0	0	2,000	0
Itasca Park Renovations	3,000	6,900	0	3,000	0
WMA/AMA	9,500	0	0	9,500	0
State Park Campground	1,000	1,000	0	1,000	0
State Parks and Trails	2,000	19,740	11,490	2,000	11,490
Fish Hatcheries	1,000	1,000	0	1,000	0
Scientific and Natural Areas	1,000	0	0	1,000	0
RIM Critical Habitat Match	2,000	1,500	0	2,000	0
West Leaf Lake Dam	0	50	0	0	0
Austin Waterways	0	600	0	0	0
Champlin Mill Pond	0	3,300	3,300	0	3,300
Dakota Co Byllesby Dam	0	6,000	0	0	0
Dakota MN River Regional Trail	0	2,500	0	0	0
Golden Valley Flood Damage	0	8,400	0	0	0
Itasca Co. Popple River Bridge	0	385	0	0	0
Lake Co. Prospectors ATV Trail	0	1,000	1,000	1,000	1,000
Rochester Chester Woods Trail	0	1,000	0	0	0
Mesabi Trail	0	1,697	0	0	0
Two Harbors Small Craft Facility	0	763	0	763	0
St. Paul Great River Passage	0	0	0	3,000	0
<i>Subtotal</i>	<i>0</i>	<i>13,245</i>	<i>1,000</i>	<i>4,763</i>	<i>1,000</i>
MPCA					

Cap Assistance	0	11,750	9,250	20,250	9,250
St. Louis River Area of Concern	12,705	12,705	12,705	25,400	12,705
WDE Landfill	12,000	0	650	11,350	650
Lake Redwood	0	6,900	7,800	0	7,800
<i>Subtotal</i>	<i>24,705</i>	<i>31,355</i>	<i>30,405</i>	<i>57,000</i>	<i>30,405</i>
BWSR					
RIM Reserve (CREP)	30,000	1,500	10,000	30,000	10,000
Local Road Wetland Replacement	5,000	3,000	5,000	10,000	5,000
<i>Subtotal</i>	<i>35,000</i>	<i>4,500</i>	<i>15,000</i>	<i>40,000</i>	<i>15,000</i>
Metro Parks	10,000	10,000	5,000	10,000	5,000
PFA					
EPA Drinking/Wastewater Matching Funds	25,000	25,000	17,000	25,000	17,000
WIF	80,000	80,000	70,000	80,000	70,000
Point Source Implementation Grants	62,000	62,000	46,500	62,000	46,500
Big Lake Sewer			1,200		1,200
Dennison Lift Station and Sewer			726	726	726
East Grand Forks Sewer Interconnect			5,300		5,300
Kooshiching Co Island View Sewer			2,000		2,000
Oronoco Study – GF			500		500
Lilydale Stormwater – GF			140	140	140
<i>Subtotal</i>	<i>167,000</i>	<i>167,000</i>	<i>143,366</i>	<i>167,866</i>	<i>143,366</i>
<i>Total</i>	<i>236,705</i>	<i>212,855</i>	<i>193,771</i>	<i>274,866</i>	<i>193,771</i>

Source: Senate Tracking Sheets

Attachment C

Bonding History for Conservation & Environment, 1998-2016 (*2016 Not Enacted)																						
(Dollars in Thousands)																						
Legislative Session	1998	1999, Ch. 240	2000, Ch. 492	2001, 1st Sp. Sess. Ch. 12	2002 (Post Veto)*, Ch. 393	2003, Sp. Sess. Ch. 20	2005, Ch. 20	2006, Ch. 258	2007 Sp. Session, Ch. 2, Art. 1	2008 Ch. 1521(Ch. 179)(Post Veto), Ch. 365	2009 Ch. 93 (Post Veto)	2010, Ch. 189 Post Veto	2010, Ch. 12nd Spec. Session	2011 Spec. Session, Ch. 12	2012, Ch. 293	2012 1st Spec. Session, Ch. 136	2013, Ch. 136 & 295	2014 Ch. 294 & 295	2015 1st Spec. Session, Ch. 5	*2016 HF 622, Art. 1 and 2	2017 Gov Rec	
Net GO Bonds	483,538	139,070	467,145	98,205	549,058	189,281	885,892	948,637	30,255	822,480	217,765	686,287	36,790	454,578	496,483	26,695	154,115	804,745	162,879	1,302,887	995,201	1,500,779
GF App. Bond																						
Cash	501,890	440	186,907	0	-342	0	0	1,000	65,034	14,432	10,653	0	38,416	0	0	71,850	0	198,748	13,600	86,000	46,500	122,500
GF Capital Budget	985,428	139,510	654,052	98,205	548,716	189,281	885,892	949,637	95,289	836,912	228,418	686,287	75,206	454,578	496,483	98,545	154,115	1,003,493	205,479	1,399,940	1,361,850	1,640,067
User Financed	25,607	0	71,816	19,000	73,705	47,634	59,088	50,343	1,000	56,912	35,000	18,056	0	33,862	100,375	0	22,680	39,104	10,648	35,000	59,162	75,629
ED/Max School																		5,491	0	36,688	14,070	0
MHF Apr. Bonds	0	10,440	100,100	0	45,000	510,510	0	0	20,020	0	12,905	73,945	5,000	43,000	0	54980	0	44,563	157260	0	145,968	40,040
Transp. Bonds	1,200	0	0	0	0	0	0	0	31,000	48,200	0	22,800	0	0	0	14,000	0	0	0	40,000	0	0
Other																						
Total Capital Budget*	#####	149,950	825,968	117,205	667,421	747,425	944,980	999,980	147,309	942,054	276,323	801,088	80,206	531,440	596,858	167,525	176,795	1,172,651	373,387	1,521,887	1,581,050	1,765,938
Agency																						
DNR	130,251	18,968	73,177	2,000	69,450	13,755	72,145	100,704	6,700	123,805	54,800	98,581	14,000	103,450	46,500	20,924	20,000	78,480	28,704	72,500	63,211	76,500
MPCA/OEA	3,500	3,000	2,200	20,500	11,150	0	14,000	17,300	0	2,500	0	13,775	0	7,550	2,000	0	0	2,625	11,026	24,705	30,405	57,000
BWSR	19,800	2,375	23,300	53,487	0	6,400	27,862	7,200	4,000	30,475	2,500	2,500	13,000	22,614	12,000	12,500	0	8,000	16,300	35,000	15,000	40,000
PFA W/F	15,300	20,500	18,319			15,000	29,900	23,300		15,300		27,000	500	20,000	15,000	6,000	0	18,333	10,000	80,000	70,000	80,000
PFA Fed Match	18,901	2,200	12,893		16,000		14,380	38,800	10,000	30,000		30,000		8,500			8,000	12,000	0	25,000	17,000	25,000
Funds							2,000	5,000		2,000		0								62,000	46,500	62,000
PSIG							3,310			0		0								0	0	0
CWP/CWL			2,000				14,664	11,500		17,454		13,500		5,000	4,586			0	17,068	0	10,000	5,000
Met Council																						
Local water projects																						
Wastewater																						
Sm. Comm.																						
Wastewater										1,500												
AIS Research U of M																						
AGBMP/ISTS	9,000																					
Total																						
Conservation & Env.	196,752	47,043	132,889	75,987	96,600	35,155	174,951	207,114	17,200	223,084	57,300	185,356	27,500	158,614	88,586	39,424	28,000	155,165	66,030	309,205	247,116	350,500
Conservation as % of GF Capital Budget	20.0%	33.7%	20.3%	77.4%	17.6%	18.6%	19.7%	21.8%	18.1%	26.6%	25.1%	27.0%	36.6%	34.9%	17.8%	40.0%	18.2%	15.5%	32.1%	22.1%	18.1%	21.4%
PCA User Financed Conservation Bonds										25,000												

*Not including reauthorizations. Source: Legislative Tracking Sheets, Governor's 2017 Capital Recommendations (Summary)

Attachment D

DNR Habitat Programs and BWSR Reinvest in Minnesota (RIM) Easements Bonding History by Legislative Session												
1997 - 2016												
Legislative Session	1997-1998	1999-2000	2001-2002(1)	2003-2005 (2)	2006	2007-2008	2009-2010(3)	2011-2012	2014-2014	2015-2016 (4)		
Wildlife Mgt. Areas, Aquatic Mgt. Areas/RIM Wildlife	3,000,000	1,000,000	500,000	11,050,000	17,000,000	6,000,000	1,000,000	0	0	0		
Native Prairie Bank/Scientific and Natural Areas	3,000,000	1,500,000	3,500,000	4,300,000	3,000,000	5,000,000	4,500,000	0	0	0		
State Forest Land/Forests for Future	800,000	0	500,000	1,500,000	8,000,000	3,000,000	500,000	0	0	0		
Reinvest in Minnesota (RIM) Critical Habitat Match	7,000,000	750,000	1,000,000	2,000,000	0	3,000,000	3,000,000	0	2,000,000	0		
Natural Area Grants/Local Initiative Grants	12,000,000	1,500,000	0	1,600,000	2,500,000	0	0	0	0	0		
BWSR RIM Easements/CREP/WRP Programs	15,000,000	21,500,000	53,487,000	24,000,000	0	25,000,000	10,500,000	27,500,000	6,000,000	4,700		
Total	40,800,000	26,250,000	58,987,000	44,450,000	30,500,000	42,000,000	19,500,000	27,500,000	8,000,000	4,700		
(1) \$6.5 M vetoed by Governor in 2002.												
(2) No bonding in 2004; the 2005 bill was essentially the 2004 major bonding bill.												
(3) \$4.5 M vetoed by Governor.												
(4) No bonding bill passed in 2016.												

Source: Legislative Tracking Sheets.

Attachment E

Comparison of Habitat Bonding and OHF Appropriations by Legislative Year, 2005-2016													
WMA, AMA, SNA, Native Prairie Bank, RIM Critical Habitat Match (Dollars in Thousands)													
	2005	2006	2008	2009	2010	2011	2012	2013	2014	2015	2016		
WMA/AMA	10,600	14,000	6,000	0	1,000	0	0	0	0	0	0		
AMA/RIM Fisheries				0	0	0	0	0	0	0	0		
SNA, Prairie Bank	1,300	3,000	5,000	0	0	0	0	0	0	0	0		
Critical Habitat Match	2,000	0	3,000	0	3,000	0	0	0	2,000	0	0		
Forest Acq.	1,500	8,000	3,000	0	500	0	0	0	0	0	0		
Total	15,400	25,000	17,000	0	4,500	0	0	0	2,000	0	0		
OHF WMA/AMA	0	0	0	6,813	2,764	2,861	2,900	3,940	6,975	2,808	1,625		
OHF NPB	0	0	0	0	650	577	184	849	2,310	3,865	2,541		
OHF SNA	0	0	0	0	650	577	184	849	3,210	3,865	1,625		
Forest Land Acq.	0	0	0	0	0	1,205	0	0	0	0	1,000		
Total	0	0	0	6,813	4,064	5,220	3,084	5,638	12,495	10,538	6,791		
Bonding Totals	15,400	25,000	17,000	0	4,500	0	0	0	2,000	0	0		
OHF Totals	0	0	0	6,813	4,064	5,330	3,084	5,638	12,495	10,538	6,791		

Source: MMB, 2016 Final Agency Capital Budget Requests, Dept. of Natural Resources (Description of Previous Appropriations)(January 15, 2016).

Attachment F

Legislative Session	Bonding History: DNR, BWSR, Metro Parks, 1997-2017 (Gov Rec)																	
	1997	1998, Ch. 404	1999, Ch. 240	2000, Ch. 492	2001, 1st Sp. Sess., Ch. 12	2002 (Post Veto)*, Ch. 393	2003, Sp. Sess., Ch. 20	2005, Ch. 20	2006, Ch. 258	2007, Sp. Sess., Ch. 2, Art. 1	2008 Ch. 152/Ch. 1791 (Post Veto), Ch. 365	2009, Ch. 93 (Post Veto)	2010, Post Vets., Ch. 1 2nd	2011, Spec. Session, Ch. 12	2013, 1st Spec. Session, Ch. 1 & 2	2014 Ch. 294 & 295	2017, 1st Spec. Session, Ch. 5	
DNR Total	4,000	130,251	18,968	73,027	2,000	69,450	13,755	72,145	100,704	6,700	123,805	54,800	112,581	103,450	67,424	20,000	76,480	72,500
Asset Preservation	0	0	0	2,000	0	2,600	0	2,000	2,000	0	1,000	1,000	1,000	17,000	0	0	10,000	0
Building/Office Rehab/ADA, etc.	0	7,391	0	5,250	0	3,000	0	300	0	0	0	0	2,500	9,250	0	0	2,000	0
Flood Hazard Mitigation/Ring Dikes/Flood Damage	4,000	30,000	18,968	14,300	2,000	30,000	4,405	27,000	25,000	6,700	33,900	53,800	74,000	50,000	48,855	20,000	12,000	28,704
Dam Repair/Removal	0	1,300	0	1,200	0	650	1,050	2,000	2,250	0	2,000	0	5,000	16,000	3,000	0	6,500	0
Forest Roads and Bridges	0	2,000	0	1,000	0	1,200	0	300	1,000	0	0	0	1,000	4,800	2,000	0	0	0
Well Sealing/Groundwater Monitoring	0	0	0	0	0	600	0	0	0	0	500	0	0	600	0	0	0	0
Fisheries/Fishing Piers/Hatcheries	0	3,000	0	0	0	0	0	4,750	6,000	0	2,150	0	0	0	0	0	2,000	0
Reforestation	0	0	0	0	0	0	0	3,000	4,000	0	3,000	0	3,000	0	4,569	0	2,963	0
All other (nature centers, zoos, local projects)	0	18,475	0	24,610	0	3,325	2,300	8,000	8,000	0	2,903	0	3,000	0	3,000	0	8,000	0
Other Subtotal	4,000	62,166	18,968	48,360	2,000	38,050	8,780	41,650	48,250	6,700	45,453	54,800	89,500	97,650	61,424	20,000	43,463	28,704
State Parks and Rec Areas	0	17,035	0	6,917	0	23,500	1,000	4,300	9,000	0	42,687	0	10,609	5,800	6,000	0	14,750	0
Trails	0	15,250	0	6,900	0	900	475	8,795	13,954	0	16,173	0	7,972	0	0	0	17,767	0
Metro Parks	0	9,000	0	5,600	0	6,000	0	0	0	0	0	0	0	0	0	0	0	0
Greater MN Parks	0	0	0	500	0	0	0	0	0	0	1,492	0	0	0	0	0	500	0
Parks Subtotal	0	41,285	0	19,917	0	30,400	1,475	13,095	22,954	0	60,352	0	18,581	5,800	6,000	0	33,017	0
Forest Land Acq. (incl. easements)	0	800	0	0	0	500	0	1,500	8,000	0	3,000	0	500	0	0	0	0	0
Stream Protection and Restoration	0	1,000	0	0	0	0	500	500	2,000	0	1,000	0	0	0	0	0	0	0
WMA/WMA Acquisition	0	3,000	0	1,000	0	500	0	10,600	14,000	0	6,000	0	1,000	0	0	0	0	0
SNA/Prairie Bank Acquisition	0	3,000	0	1,500	0	3,500	3,000	1,300	3,000	0	5,000	0	4,500	0	0	0	0	0
RIM Critical Habitat Match	0	7,000	0	750	0	1,000	0	2,000	0	0	3,000	0	3,000	0	0	0	2,000	0
Local Grants/Metro Greenways	0	12,000	0	1,500	0	0	0	1,500	2,500	0	0	0	0	0	0	0	0	0
Habitat Subtotal	0	26,800	0	4,750	0	5,500	3,500	17,400	29,500	0	18,000	0	9,000	4,000	0	0	2,000	0
(Total Check DNR Bonding)	4,000	130,251	18,968	73,027	2,000	73,950	13,755	72,145	100,704	6,700	123,805	54,800	117,081	103,450	67,424	20,000	76,480	72,500
Biennial Totals (2005 bonding included in 03-04)	#####	91,995	18,968	73,027	2,000	75,950	85,900	100,704	130,505	#####	#####	#####	170,874	98,480	#####	#####	#####	#####
BWSR	0	19,800	2,375	23,800	53,487	0	6,400	27,862	7,900	4,000	30,475	2,500	15,500	22,614	24,500	0	8,000	16,300
RIM Reserve/CREP	0	15,000	0	21,500	51,487	2,000	1,000	27,362	0	0	25,000	500	10,000	20,000	7,500	0	6,000	4,700
Local Roads Wetland Bank	0	2,750	0	2,300	2,000	0	2,700	4,200	0	0	0	2,500	0	6,000	0	0	2,000	0
Cost Share Grants	0	2,050	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10,600
Other (incl. flood mitigation/damage)	0	0	2,375	0	0	0	2,700	500	3,700	4,000	1,275	2,000	3,000	2,614	11,000	0	0	1,000
(Total Check BWSR Bonding)	0	19,800	2,375	23,800	53,487	2,000	6,400	27,862	7,900	4,000	30,475	2,500	15,500	22,614	24,500	0	8,000	16,300
Metro Parks (Met Council Bonding)	0	0	0	0	0	0	0	14,664	22,862	0	15,945	0	10,500	5,000	4,586	0	25,248	0

Attachment G

Governor's Budget for FY 2018-19 Proposed Changes in General Funds and Proposed Fee Increases Conservation Agency Highlights

(Page references are to pages in the Governor's Recommendations for each agency)

<https://www.mn.gov/mmb/budget/currentbud/gov18-19/governors-recommendations.jsp>

Dept. of Natural Resources (DNR)

General Fund Increases

- **Enforcement increase.** \$2.785 million general fund each year for natural resource law enforcement services (p. 42)
- **Reforestation increase.** Increases reforestation funds by \$2.5 M per year. Half is a general fund increase; half is an increase from the forest management investment account (does not increase revenue into that account) (p. 48)
- **Sustainable forest harvest study.** \$500,000 one time general funds to evaluate if the state can increase forest harvest from 800,000 to one million cords per year (p. 50)
- **Forestry data system.** General fund increase of \$2 million per year in 18-89 and \$1 million thereafter for upgraded forest data system. (p. 52)
- **SFIA increases.** Increases general fund appropriations for SFIA payments and administrative costs by roughly \$4.7 million per year beginning 2019. (54)
- **Pineland Aquifer Study.** \$1.5 million in one time general funds in FY 2018 - 19 to study large-scale land conversion effects on resources including drinking water, surface water, and plant and animal species related to recent activity in the Pineland Sands Aquifer (p. 59)
- **Mississippi River Critical Corridor Area.** \$760,000 in 18-19 and \$310,000 in 20-21 in general funds for work related to the Mississippi corridor. (p. 63)
- **Conservation easement staffing.** \$125,000 per year from General Funds for staff to monitor conservation easements. (p. 70)
- **Maintenance of Service.** \$7.827 million in FY 2018 and \$14.309 in FY 2019 and thereafter in general funds to maintain the current level of service delivery. This includes increases for current projected compensation and MNIT rates for DNR, as well as expected additional increases in compensation and employer paid pension costs (p. 26)
- **Web Monitoring.** \$1 million year ongoing general funds for web upgrades. (p. 72)

Proposed Fee Increases

- **Parks & Trail and Outdoor Recreation Fee Increases.** This proposal also recommends \$3.4 million in increases for parks and trails from the Natural Resources Fund, which is funded by state park and other recreation fee increases. The fee increases generate \$6.8 million in FY 2018 and increase slightly each year, the proposal is to use \$3.4 million of this for state parks. These funds are also matched by increases in General Funds: \$9.3 million in the FY2018-19 biennium, which includes making permanent \$5.6 million in one-time funding from the FY16-17 biennium. The ongoing general fee increase is \$5 M per year. The fee increases are as follows:

Natural Resources Fund	Previous Fee Increase	Proposed Annual Increase	Estimated Revenue Increases			
			FY18	FY19	FY20	FY21
State Park Account	2003	\$1/daily; \$5/annual	1,100	1,335	1,550	1,750
Water Recreation Account	2006	\$1-15/craft, depending on size	3,000	4,000	4,000	4,000
Cross-Country Ski Account	2010	\$2/daily; \$5/annual	75	75	75	75
Snowmobile Account	2005	\$10/year	2,000	2,000	2,000	2,000
ATV Account	2005	\$5/year	650	1,300	1,300	1,300
Total			6,825	8,710	8,925	9,125

- **Fishing and Hunting License Fee Increase.** The Governor proposes increasing hunting and fishing license fees for various license types raising projected revenues by \$9.1 million per year in order to bring the Game and Fish Fund into balance. There is no existing or proposed general fund contribution to DNR's habitat work. (p. 36)
- **Ginseng Fee.** Modest fee for collecting wild ginseng. Generates \$65,000 per year (p. 46)
- **Water Appropriation Fee Increase.** Increases water appropriation fees by \$650,000 annually (deposited in water management account) (p. 55)
- **AIS surcharge increase.** increase in the Aquatic Invasive Species (AIS) surcharge on the watercraft license from \$5 to \$12 generating roughly \$1.7 M per year. The watercraft license is renewed every three years. This would also increase the appropriation for the Division of Ecological and Water Resources from the Invasive Species Account by \$558,000 and make available up to \$500,000 for applied research grants for the University of Minnesota (U of M) AIS Research Center and other research institutions. The funds will be used for inspection efforts and research; will not be used for treatment grants (p. 57)
- **Hydropower water use fees.** \$90,000 in increased fees to ensure that unpermitted hydro power users are paying permit fees. (p. 65)

Increased allocations from existing dedicated funds

- **Nongame and rare species increase.** \$1.4 million per year from existing revenues in the Heritage Enhancement Account (lottery in lieu) (p. 61)
- **Gas Tax revenue.** Allocates increased revenue to the DRN due to the Governor's proposed gas tax increase. (p. 75.)

Minnesota Pollution Control Agency (MPCA)

- **C & D Landfill needs.** \$1.0 million in FY18-FY19 from the General Fund for current threats to groundwater posed by construction and demolition (C&D) debris in unlined landfills and to expand the reuse of demolition materials to reduce the need for these landfills in the future. Will fund grants to public and private owners of these landfills. (p. 16)
- **Contaminated Sites.** The Governor recommends an appropriation of \$675,000 in FY18 and FY19 from the Remediation Fund, and \$800,000 in FY18 and FY19 from the Petroleum Fund to the MPCA's Land Program. This initiative will address needed identification and cleanup of contaminated sites and the prevention of leaking underground storage tanks. (P. 12)

- **Air Program.** \$150,000 in FY 2018 and \$303,000 in FY 2019 from the Environmental Fund to the MPCA's Air Program to maintain service levels to industrial and municipal regulated parties (p. 18)
- **EQB Funding.** \$375,000 ongoing appropriation from the General Fund to the Environmental Quality Board (EQB) to sustain and augment Environmental Review (ER) efficiency improvements and to develop a local government outreach and training program. (p. 19)
- **Online assistance.** \$400,000 in FY18 and \$400,000 in FY19 from the Environmental Fund to the MPCA's Environmental Assistance and Cross Media budget program for developing online applications and reports. (P. 10)
- **Maintenance of Service.** \$2.3 million from general fund and \$2.6 million thereafter; \$2.5 million from other funds, increasing to \$3.9 million from other funds in future years for compensation and MNIT costs to maintain present service delivery and performance levels. (p. 14)

Board of Water and Soil Resources (BWSR)

- **Wetland Regulation.** \$300,000 in FY18, \$200,000 in FY19, and \$125,000 in FY20 from General Fund for initiatives to enhance and improve the effectiveness and efficiency of Minnesota's wetland regulatory programs, including U.S. Clean Water Act Section 404 Assumption (p. 8)
- **Local Road Wetland Replacement.** \$5.13 million one-time appropriation from the General Fund to address a current deficit of wetland credits in the Local Road Wetland Replacement Program (LRWRP) (p. 11)
- **Easement Stewardship.** \$125,000 per year from the general fund for annual easement stewardship activities on RIM reserve easements that do not currently have a stewardship endowment (p. 15)
- **Maintenance of Service.** \$508,000 in FY18 and \$674,000 in FY19 and ongoing to cover agency compensation cost and lease increases, MNIT cost increases, funding the performance assessment statutory mandate and one-time funding for retirements in order to maintain the current level of service delivery for the Board of Water and Soil Resources (p. 13)

Minnesota Dept. of Agriculture (MDA)

- **Pesticide waste fee increase.** Fee increase on the pesticide waste surcharge paid by firms distributing pesticides. This increase will raise \$850,000 per year (deposited in the Agricultural Fund) to cover rising disposal and collection costs for waste pesticides (p. 10)
- **Cover Crops.** \$2 million one-time General Fund appropriation for a new program to fund demonstration projects that show the feasibility of using alternative crops to implement continuous cover in areas of Minnesota with ground and surface water concerns (p. 12)
- **Pesticide fee increase.** \$500,000 in ongoing general funds for a Pollinator Protection Account to increase the protection of pollinators from potential negative impacts from pesticides. The account will also receive \$250,000 annually from fee revenue on pesticide treated seeds and on pesticides toxic to pollinators. The pollinator protection account will be used to evaluate and support research on economic thresholds, develop an educational campaign on the use of pesticides, and develop stewardship materials (p. 14)
- **Pest Response.** \$500,000 per year ongoing general fund increase for rapid monitoring of new pests and plant diseases. In 2015 and 2016 the Minnesota Terrestrial Invasive Plants and Pests Center identified 39 plant pathogens and 40 insects that threaten the agricultural, horticultural,

forest, and/or natural systems of Minnesota. This gives the MDA funds to identify new pests and quickly implement containment strategies (p. 16)

- **Noxious Weeds.** \$300,000 annually in ongoing general funds for the Noxious Weed, Invasive Plant and Pollinator Protection Program which enforces the Noxious Weed Law and helps eradicate invasive species such Palmer amaranth. (p. 21)
- **Increased service.** \$750,000 per year in ongoing general funds to improve customer service at MDA (p. 25)
- **Maintenance of Service.** \$1.3 million ongoing general fund increase for operating funds to cover salary and rent increases (\$741,000 in 2018 and \$1.3 million thereafter) (p. 27)

Attachment H

Governor's 2017 Proposed Increases in Fishing and Hunting Fees

License type	Current	Proposed	% Increase	Estimated Additional Revenue (in millions)
Resident angling	\$22	\$25	14%	\$1.363
Resident combination angling	\$35	\$40	14%	\$0.951
Resident 24 hour angling license	\$10	\$12	20%	\$0.078
Resident 72 hour angling license	\$12	\$14	17%	\$0.026
Resident 3 year angling license	\$63	\$71	13%	\$0.009
Resident conservation angling	\$15	\$17	13%	\$0.037
Conservation combination angling	\$23	\$26	13%	\$0.016
Resident spearing	\$5	\$6	20%	\$0.019
Non-resident individual angling	\$45	\$51	13%	\$0.366
Non-resident family angling	\$60	\$68	13%	\$0.231
Non-resident 24 hour angling	\$12	\$14	17%	\$0.099
Non-resident 7-day individual	\$38	\$43	13%	\$0.314
Non-resident 14-day family	\$48	\$54	13%	\$0.126
Non-resident 72 hour	\$32	\$36	13%	\$0.159
Non-resident spearing	\$15	\$17	13%	\$0.001
Require shelter license for all wheel houses	\$15	\$15	0%	\$1.000
Fisheries-related new revenue - Total				\$4.795
Camp Ripley deer hunt	\$12	\$14	17%	\$0.010
Resident deer	\$30	\$34	13%	\$2.052
Resident bonus deer	\$15	\$17	13%	\$0.177
Non-resident deer	\$165	\$185	12%	\$0.285
Non-resident bonus deer	\$80	\$90	13%	\$0.005
Deer lottery application fee	N/A	\$4	100%	\$0.307
Deer hunting-related new revenue - Total				\$2.836
Resident ind. Sports	\$38	\$45	18%	\$0.610
Resident Super sports	\$93	\$108	16%	\$0.020
Resident comb. Sports	\$52	\$61	17%	\$0.662
Resident comb. Super sports	\$117	\$136	16%	\$0.014
Other fishing/hunting-related new revenue -total				\$1.306
w/o off-site weigh-in, 50 or less boats	\$60	\$70	17%	\$0.002
w/o off-site weigh-in, 50+ boats	\$200	\$225	13%	\$0.003
off-site weigh-in, 50 or less boats	\$250	\$280	12%	\$0.000
off-site weigh-in, 50+ boats	\$500	\$560	12%	\$0.000
Ice fishing 150+ participants	\$120	\$135	13%	\$0.001
Fishing Tournaments				\$0.006
Lifetime License(s)*	Various			\$0.234

Attachment I

Clean Water Fund Allocations, Comparison of Clean Water Council and Governor Recs, FY 2018-19

Agency	Program Name	FY18-19 CWC Recommendations (9/19/16)	Agency (ICT) FY18-19 CFW Recs (6/24/16)	FY18-19 Governor Recommendations (1/24/17)
BWSR	One Watershed One Plan Planning (Water Management Transition)	4,200,000	4,200,000	4,200,200
BWSR	Critical Shoreland Protection-Permanent Conservation Easements	2,500,000	2,000,000	2,000,000
BWSR	Targeted Wellhead/Drinking Water Protection	3,500,000	3,500,000	3,500,000
BWSR	Easements	12,000,000	12,000,000	12,000,000
BWSR	(CREP)	3,000,000	18,000,000	18,000,000
BWSR	Buffer and Soil Erosion Law Implementation	6,800,000	6,800,000	6,800,000
BWSR	Conservation Drainage Management and Assistance	1,500,000	1,500,000	1,500,000
BWSR	Tillage and Erosion Transects	850,000	850,000	850,000
BWSR	Surface and Drinking Water Protection/Restoration Grants (Projects and Practices)	29,500,000	24,500,000	24,500,000
BWSR	Grants to Watersheds with Multiyear Plans (Targeted Watershed Program)/1 Watershed 1 Plan Implementation	12,000,000	12,000,000	11,000,000
BWSR	Accelerated Implementation	12,000,000	12,000,000	8,000,000
BWSR	Community Partners Clean Water Program	0	1,000,000	0
BWSR	Water Legacy Grants Program	2,000,000	-	0
BWSR	Measures, Results and Accountability	1,900,000	1,900,000	1,900,000
BWSR	Technical Evaluation	168,000	168,000	168,000
		<i>4,068,000</i>	<i>3,068,000</i>	<i>2,068,000</i>
DNR	Stream Flow Monitoring	4,000,000	4,000,000	3,900,000
DNR	Lake IBI assessment	2,600,000	2,600,000	2,500,000

DNR	Fish Contamination Assessment	270,000	420,000	270,000
DNR	Watershed Restoration and Protection Strategies	3,970,000	3,970,000	3,970,000
DNR	Aquifer Monitoring for Water Supply Planning	3,400,000	4,050,000	3,750,000
DNR	Nonpoint Source Restoration and Protection Activities	2,000,000	2,000,000	2,000,000
DNR	Buffer Map Maintenance	200,000	850,000	200,000
DNR	Color Infrared Imagery Analysis	650,000		-
DNR	Applied Research and Tools	1,350,000	1,700,000	1,700,000
DNR	County Geologic Atlases	250,000	250,000	250,000
DNR	Aquatic Management Area	2,000,000		-
DNR	Forests for the Future	2,000,000		-
		<i>6,450,000</i>	<i>2,800,000</i>	<i>18,540,000</i>
LCC	Legislative Coordinating Commission Website	15,000	0	-
MDA	Monitoring for Pesticides in Surface Water and Groundwater	700,000	700,000	700,000
MDA	Nitrate in Groundwater	4,171,000	4,171,000	4,171,000
MDA	Pesticide Testing of Private Wells	2,000,000	2,000,000	2,000,000
MDA	Irrigation Water Quality Protection	220,000	220,000	220,000
MDA	AgBMP Load Program	150,000	150,000	150,000
MDA	MN Agricultural Water Quality Certification Program	5,000,000	5,500,000	5,500,000
MDA	Technical Assistance	2,250,000	2,550,000	5,500,000
MDA	Academic Research/Evaluation	1,575,000	1,575,000	1,325,000
MDA	Research Inventory Database	100,000	100,000	100,000
MDA	Forever Green Agriculture Initiative	2,000,000	1,000,000	900,000
MDA	Vegetative Cover and Soil Health	250,000	350,000	150,000
		<i>18,416,000</i>	<i>18,316,000</i>	<i>17,616,000</i>
MDH	Private Well Water Supply Protection	800,000	800,000	800,000

MDH	Well Sealing Cost Share	500,000	500,000	500,000
MDH	Drinking Water Contaminants of Emerging Concern Program	2,200,000	2,500,000	2,200,000
MDH	Groundwater Virus Monitoring Plan	200,000	200,000	200,000
MDH	Source Water Protection	5,595,000	5,595,000	5,555,000
MDH	Groundwater Restoration and Protection Strategies	400,000	400,000	400,000
MDH	Drinking Water Protection	300,000		0
MDH	Statewide Recreational Water Testing Portal	0	400,000	0
		<i>300,000</i>	<i>400,000</i>	<i>0</i>
Met Council	Metropolitan Area Water Supply Sustainability Support	2,000,000	2,000,000	2,000,000
Met Council	Water Demand Reduction Grant Program Pilot	500,000	1,000,000	870,000
		<i>2,500,000</i>	<i>3,000,000</i>	<i>2,870,000</i>
MPCA	Continue river and lake monitoring & assessment efforts to meet the 10-year cycle and determine pollutant loads	16,550,000	17,196,000	16,550,000
MPCA	Groundwater Assessment	2,363,000	2,527,000	2,363,000
MPCA	Watershed Restoration and Protection Strategies (includes TMDL development)	20,290,000	21,463,000	20,463,000
MPCA	Great Lakes Restoration Project	1,500,000	1,675,000	1,675,000
MPCA	Enhanced County Inspections/SSTS Corrective Actions	7,245,000	7,800,000	7,800,000
MPCA	Wastewater/Stormwater (NPDES) TMDL Implementation	1,800,000	1,957,000	1,957,000
MPCA	Accelerated Implementation of Municipal Stormwater (MS4) Permit Requirements	557,000	557,000	557,000
MPCA	Watershed Research and Database Development	2,310,000	2,310,000	2,310,000
MPCA	Clean Water Council Budget	100,000	100,000	100,000

MPCA	National Park Water Quality Protection Program	2,000,000	0	0
		<i>4,410,000</i>	<i>2,410,000</i>	<i>2,410,000</i>
PFA	Point Source Implementation Grants	18,000,000	18,000,000	17,250,000
PFA	Small Community Wastewater Treatment Program	250,000	250,000	0
		<i>18,250,000</i>	<i>18,250,000</i>	<i>17,250,000</i>
UMN	County Geologic Atlases	250,000	0	-
UMN	Stormwater BMP Performance Evaluation and Technology Transfer	1,500,000	0	-
UMN	Clean Water Return on Investment Pilot	265,000		-
		<i>20,265,000</i>	<i>18,250,000</i>	<i>17,250,000</i>