MINNESOTA DEPARTMENT OF AGRICULTURE

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Agricultural Best Management Practices Loan Program Biennial Status Report

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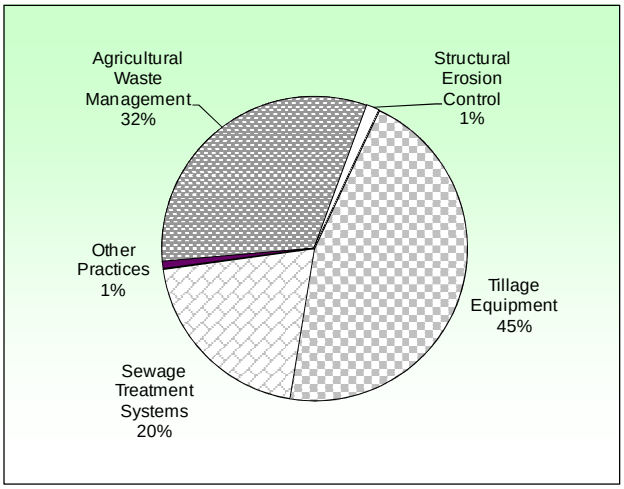
EXECUTIVE SUMMARY

In 1994 the Minnesota Legislature enacted initiatives to provide long term, sustained funding to resolve nonpoint source water pollution problems. One section of this initiative was the Agricultural Best Management Practices (AgBMP) Loan Program, created to assist local governments implement agricultural and rural components of their Comprehensive Local Water Plan and now includes efforts related to Total Maximum Daily Load Implementation Plans as well. This program provides low interest loans (typically 3%) through local governments and financial institutions to farmers, agriculture supply businesses, rural landowners, and water quality cooperatives. These loans are for pollution prevention practices that are recommended in an area's water and environmental plans. The program uses a perpetual revolving loan account structure where repayments from prior loans are continually reused to fund new loans.

Individual counties, Soil and Water Conservation Districts, and joint power organizations representing multiple counties may participate in the AgBMP Loan Program as local administrators. Financial institutions providing adequate security and repayment guarantees may participate as lenders under the program.

This report summarizes activities of the AgBMP Loan Program through June 30, 2009. The program has been appropriated $59.2 million since 1995. These funds have been awarded or used in all of the state's counties and have financed 9,600 projects with total loans of $137.0 million. The total cost for all completed projects that includes AgBMP Loan Program financing is estimated to be $210.7 million. In fiscal year (FY) 2009, 693 projects were completed totaling $13.9 million in loans. The figure below shows a summary of the amount of loans issued since 1995.



- 1,890 Agricultural Waste Management practices have been implemented throughout the state, 111 in FY 2009. These systems included replacement or upgrading of manure holding basins, pits or tanks; manure handling, spreading or incorporation equipment; and feedlot improvements such as clean water diversions around feedlots or berms and chutes to contain and direct contaminated runoff into the holding basins.
- 224 Structural Erosion Control practices have been funded, (5 in FY 2009) including projects such as sediment control basins, waterways, terraces, diversions, buffer and filter strips, shoreline and stream bank rip-rapping, cattle exclusions, windbreaks, and gully repair.
- 3,204 Conservation Tillage practices (219 in FY 2009) have been implemented, funding various types of seed bed preparation, planting, cultivation, and harvest implements that leave crop residues on the soil surface.
- 4,218 Sewage Treatment Systems on farms and rural properties (348 in FY 2009) have been repaired or replaced through this program.
- 64 Other Practices (10 in FY 2009), including well sealing, chemical and petroleum storage containment structures, and chemical spray equipment have been funded through the program.

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PURPOSE

The purpose of the Agricultural Best Management Practices (AgBMP) Loan Program is to prevent pollution, improve water quality, and address other local environmental concerns by assisting local government units (LGU) to implement agricultural and rural components of their Comprehensive Local Water Plans (CLWP), Total Maximum Daily Load (TMDL) Implementation Plans, and other environmental planning documents. The AgBMP Loan Program provides funds through local governments (Soil and Water Conservation Districts, county government, or joint power organizations) and local lending institutions (banks, credit unions, AgriBank, Regional Development Commissions, and counties acting as lenders). These organizations will approve projects, oversee completion, issue and service low interest loans to farmers, agriculture supply businesses, rural landowners, and water quality cooperatives that implement best management practices (BMP) recommended in local water or other environmental plans. Although the primary purpose of the program is focused on agricultural issues, the program has been intentionally designed to encompass non-agricultural pollution issues in rural Minnesota, such as on-site and decentralized sewage treatment systems, and riparian stabilization practices. This program is an adaptable framework to distribute loans for environmental remediation, regardless of the source of the appropriations.

STATUTORY AUTHORITY, OPERATING PLANS, AND AGREEMENTS

The AgBMP Loan Program is implemented by statute, planning documents, and agreements.

Minnesota Statutes 17.117: The authorizing legislation for the AgBMP Loan Program is under MN § 17.117. In some cases specific subsequent session laws have established priorities for some appropriations to the program, such as targeting septic system replacement by 1997 Session Law Chap. 246 Sec. 6.

The program was first authorized in 1994 with minor procedural amendments in 1995 and 1996. In 2001, legislative amendments allowed the expansion of the lending network, permitting more than one lender to serve an area. Changes in 2005 and 2007 increased the loan limits to $100,000, set a maximum of ten year loan terms, and addressed several procedural issues.

Minnesota 319 Nonpoint Source Management Plan: This plan describes how the state and local governments will address nonpoint source pollution problems such as those financed by the AgBMP Loan Program. It identifies the nonpoint source problems throughout the state, establishes priorities, and recommends potential actions to mitigate impacts. The Comprehensive Local Water Plans, prepared by the counties, provide the basis for much of the statewide water plan.

Operating Agreement: Minnesota's State Revolving Fund (SRF) makes available federal funds to the AgBMP Loan Program. The relationship between the US Environmental Protection Agency (EPA) and Minnesota concerning the SRF is defined in the Operating Agreement. The Operating Agreement is an on-going agreement that is reviewed and amended periodically. It outlines the basic requirements for the SRF program, procedures for overall operation, fund transfers, and reporting.

Interagency Agreement: The Minnesota Public Facilities Authority (PFA) oversees the SRF and the transfer of those funds to the AgBMP Loan Program. The relationship between the PFA and the Minnesota Department of Agriculture (MDA) is defined by the Interagency Agreement. A new agreement authorizing the transfer and use of funds from the PFA to the MDA is prepared each time funds from the SRF are appropriated. This agreement defines the amount of funds available, how they may be used, and requires appropriate accounting and reporting.

Intended Use Plan (IUP): Each year the Minnesota Pollution Control Agency (MPCA) and PFA prepare the Intended Use Plan describing how all the funds in the SRF accounts will be used. It describes the proposed use and distribution of the SRF Capitalization Grant from the EPA as well as any funds that are anticipated to become available within the next year through repayments, rescissions, and interest income. The IUP is opened for public review and comment. Typically the IUP identifies

municipalities that will receive funds for waste treatment works; anticipated amount of bond sales, any additional funds that will be made available to the agencies and departments implementing nonpoint pollution programs (such as the AgBMP Loan Program), and a general description of all programs and eligible projects.

Comprehensive Local Water Plan (CLWP): All counties in Minnesota are required to prepare a CLWP that includes water resource inventories, public meetings, and comment periods. These plans identify specific local water resources, describe problems affecting the water resources, and recommend action plans to reduce water pollution. The AgBMP Loan Program provides funds to implement the recommended activities of these plans.

Total Maximum Daily Load Implementation Plan (TMDL): The US EPA and the MPCA have created a process to identify waters that are adversely impaired and prepare a plan to restore those waters to their intended use. A TMDL Implementation Plan proposes limits to the factors that cause the impairment, recommends specific remedial practices, and identifies areas where the suggested practices would be most effective, thus reversing the impacts. The MDA has prioritized TMDL remediation efforts by specifically assigning appropriations from the Clean Water Legacy Account and Clean Water Fund only to areas with MPCA approved implementation plans. (All other funding sources are available statewide.)

ALLOCATION PROCESS TO COUNTIES

A. ANNUAL ALLOCATION

(For the purpose of this report, the term allocation refers to the award of funds by the AgBMP Loan Program to a local government unit, while the term appropriation refers to the award of funds by the state legislature or the Public Facilities Authority to the MDA. Through the remainder of this report, the term county will refer to the local government unit implementing the AgBMP Loan Program, whether county government, the county Soil and Water Conservation District or a joint powers organization consisting of a group of either county government or Soil and Water Conservation Districts.)

The AgBMP Loan Program uses a single combined annual application and reporting process to award funds to counties. Each participating county applies for an ***annual allocation*** that is available to them for one calendar year. In addition to their annual allocation request for new funds to increase the corpus of the county's revolving account, the application includes an ***annual report*** of how previously awarded revolving funds were used during the past year and how they intend to use the local revolving funds during the next year. Counties may retain all funds for as long as they use the funds; however, funds that are reported unused are rescinded and made to other counties. Through this process of annual allocations and rescissions, the revolving corpus of each county grows or shrinks to meet their annual average activity level.

The funds awarded in the county's annual allocation can potentially come from various sources including:

- Recent and new appropriations to the AgBMP Loan Program such as from the legislature or the PFA.
- Funds already committed to projects by the county but carried over from the previous year's allocation.
- Funds that have been repaid by participating lenders to the AgBMP Loan Program from previously completed projects for the respective county.

B. INTERIM ALLOCATIONS

Counties may also request at other times of the year an ***interim allocation*** of additional funds under certain conditions. These additional funds may be awarded when:

1. A county has exhausted its current annual allocation and all available revolving funds, or the borrower is unable to obtain a loan through a lender holding a local revolving account;
2. A proposed project is ready to proceed and costs will be incurred within three months; and

3. The AgBMP Loan Program has unallocated funds available in the statewide interim allocation pool.

The Commissioner is authorized by statute (Minn. Stat. §17.117 subd. 6b.(c)) to reserve up to two percent of the total AgBMP appropriations for these interim allocations.

C. CASH FLOW PROCESS

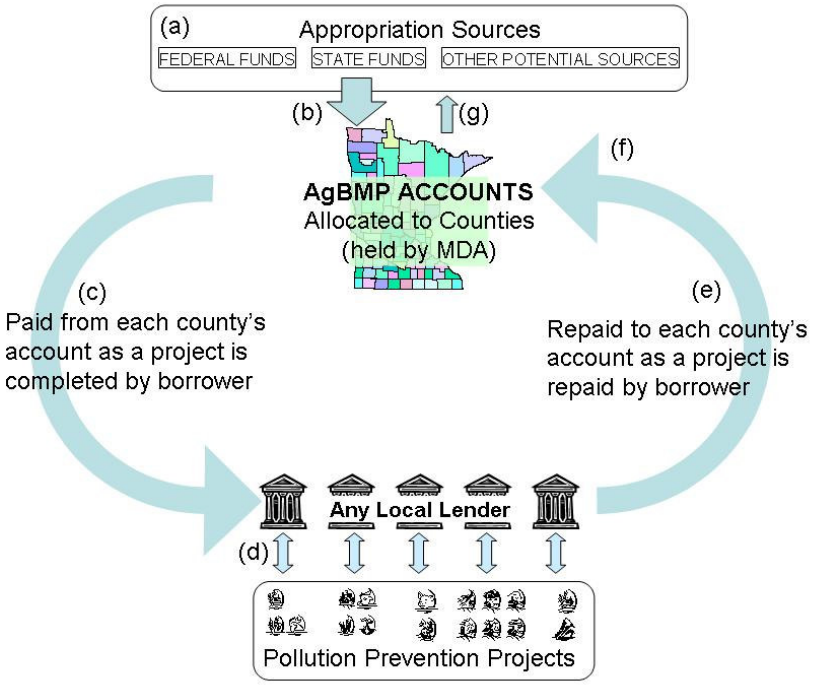
Figure 1 shows a flow chart of the funds through the AgBMP Loan Program. The process to finance a project follows these steps (letters correspond to items on Figure 1):

a. The MDA may receive appropriations from state and federal sources.
b. Through the annual application process or interim allocations, these funds are allocated to counties. The money is not sent directly to the counties, instead the funds are held by the AgBMP Loan Program in accounts designated for the use of each participating county.
c. Lenders may request funds for projects that have been approved by counties.
d. Lenders then issue loans to the borrowers and the borrowers repay the loans to the lenders.
e. Lenders repay funds to the MDA as the borrowers repay them.
f. The repaid funds are deposited into the AgBMP account for the county from which the repayment was received. The process then will perpetually repeats itself from (c) to (f) for as long as the county uses the funds.
g. If funds are not used, they are rescinded and made available to all counties.

Under this system, as repayments are received, the money will be reallocated back to the same county. This procedure creates a county revolving account that is held by the AgBMP Loan Program to which multiple lenders have access. In addition, if funds in a county's account are not used, it can be rescinded or released in accordance with the contract.

Another feature of this system is that over time, the amount of repayments received and reallocated back to the county will approximate the average annual spending level of the county. If a county receives additional allocations through the annual application process or interim allocations (a), the corpus of their account increases (b); thus the account's revenue (e) increases since more loans are being repaid. However, if a county's activity level decreases, the repayment revenue (e) from prior loans would not be fully used. If those repaid funds are not used within one year, they would be rescinded (g), thus reducing future repayment revenue to match the new activity level. This results in a stable, reliable funding source, commensurate with the county's capacity to implement projects. The program has found that this annual adjustment of the allocations is frequent enough to assure reasonable use of the funds yet gives the counties adequate time to solicit, design, and implement practices.

Figure 1. AgBMP Loan Program funding flow chart.



Under the original 1995 legislation, once funds were sent from the MDA to the county, repayments from the original projects were retained by the county in local banks and could be re-loaned for additional projects for up to ten years before repayment to the MDA began. However, this system was ended in 2005 and is now represented in Figure 1 by the repayment by lenders (e and f) to the County AgBMP Accounts held by the MDA (b). Additional details on the original cash flow system can be found in prior AgBMP biennial reports.

D. COMPETITIVE APPLICATION PROCESS

Beginning in the fall of each year, the AgBMP Loan Program announces the application period for the program, affording the counties several months to prepare and submit applications. The MDA holds several (usually five) workshops each year to assist counties in completing their applications. The application allows local governments to describe their local funding needs in relation to their Comprehensive Local Water Plan, legislative criteria, and the program's purpose. Competitive applications are reviewed in accordance with statutory criteria by a review committee representing multiple agencies.

The Review Committee is established and its membership defined under Minn. Stat. § 17.117 subd. 9 and 103F.761 subd. 2(B). This committee is composed of representatives from the Departments of Agriculture, Health, and Natural Resources; MPCA; Board of Water and Soil Resources (BSWR); Association of Minnesota Soil and Water Conservation Districts; Association of Minnesota Counties; US Natural Resource Conservation Service (NRCS); and Farm Services Agency. Their evaluation is based on nine statutory requirements and other criteria established by the committee, including past performance. This committee submits to the Commissioner of Agriculture their recommendations for the allocation to each applicant. The committee strives to provide significant funding to the best applications, yet has made a commitment to provide a reasonable minimum funding level to all applicant counties whenever practical.

In addition, because this review committee represents other state and federal agencies that also offer funds for conservation and environmental practices, the awards for the AgBMP Loan Program are made with consideration to cooperate, coordinate, and leverage funds from other agencies and other programs such as the Clean Water Legacy Program and the federal Environmental Quality Incentive Program. Many members of the AgBMP Loan Program review committee also participate in a multiple agency

work group to evaluate other Clean Water Fund requests, thus providing greater coordination of AgBMP Loan Program funding with other state agencies and their successful applicants.

The county may submit either of two types of applications:

- **Competitive applications requesting up to $300,000.** These competitive applications must address each of the statutory criteria in detail. This type of application must be specific in terms of practices, water resources, and high priority water quality problems. Each application is individually ranked and scored by the review committee. Since 2004 there have been only one or two successful competitive applications each year because of limited new appropriations to the program.
- **Basic applications requesting less than $100,000**. These non-competitive applications propose a number of general practices that address local water quality problems and local water priorities but the applications do not provide the level of details required for the competitive applications. Because basic applications from the various counties request a relatively small amount of funds for similar practices with similar results, all basic applications are ranked the same in the review process. When basic allocations are awarded, all applicants receive the same amount, based on the number of counties in the organization. These awards have varied between $29,000 and $75,000 per county, depending on annual program appropriations. Basic application requests have not been funded since 2005 because of limited new appropriations to the program.

This two-tier application process in coordination with the flexibility of the interim allocations has allowed those counties with aggressive water quality protection programs to receive significant funding, while reducing the administrative requirements for counties seeking only a base level of funding.

E. INTERIM ALLOCATION PROCESS

When the amount of new appropriations from state and federal sources to the program is small compared to the demand and the number of counties requesting funds, the interim allocation process authorized under the 2001 legislation has been used with great success and satisfaction by local governments. The Interim Allocation Process only funds pending projects that are ready to proceed within the next three months. Because interim allocations are awarded based on actual projects that are ready to proceed, these awards are seldom idle and all funds are almost always fully expended. Counties have accepted this process as a fair means to distribute funds. For the most part, counties monitor their repayment revenues and schedule projects accordingly. However, when unanticipated projects develop the Interim Allocation Process provides a flexible procedure to provide financing.

A waiting list of unfunded, pending projects is maintained when the Interim Allocation pool is exhausted. These projects are funded as monies become available.

F. TARGETING AND PRIORITIZATION

The AgBMP Loan Program uses three levels of prioritization and targeting of funds for implementing best management practices:

- At the statewide level, Minnesota's 319 Nonpoint Source Management Plan prioritizes and establishes broad objectives.
- At the local or county level, a local water planning process develops the CLWP, which identifies water resources, prioritizes problems, and establishes local goals and solutions.
- The MDA targets all Clean Water Legacy and Clean Water Funds to implement MPCA approved Total Maximum Daily Load Implementation Plans.

All projects funded by the AgBMP Loan Program must implement a component of at least one of these plans.

At the local government level, each county establishes its own targeting and prioritization system for selecting and implementing the specific practices that carry out agricultural and rural components of the CLWP. In most situations, the counties actively seek the participation of farmers and landowners who will:

- Implement specific types of practices to address priority water quality problems anywhere within their jurisdiction, for example, any feedlot upgrade anywhere in the county.
- Implement any eligible practices within targeted, priority water resource areas, for example, conservation tillage practices within ½ mile of a sediment impaired water.

Farmers and landowners proposing projects in lesser-priority areas will also be considered for loans if funds are available.

The project approval process by counties varies greatly; however most counties typically have a review panel to evaluate eligibility of high cost projects including technical feasibility, project priority, and the amount of funds to be made available to proposed projects. For low cost projects, such as on-site sewage treatment systems, a staff member is usually authorized to approve projects without board action.

This program accepts the established water planning process and framework already in place and does not create other priorities or targeting methods for the counties. This program has successfully implemented thousands of practices because it is the local government's responsibility to identify their local priorities, develop effective local solutions, and solicit willing landowners to implement those solutions. Documents such as the Minnesota 319 Nonpoint Management Plan, Local Comprehensive Water Plans, Total Maximum Daily Load Implementation Plans, and other environmental planning documents provide background and guidance to the local counties, but it is ultimately the county and a landowner that must implement recommendations into real projects that are both effective and economical.

When trying to create specific priorities or requirements for the projects financed through this program, it is important to recognize that this program provides only low interest loans, not grants. The funds must always be repaid by the borrower. Therefore, any project funded by the program is ultimately paid for in full by the landowner and non-environmental considerations significantly impact the landowner's decision, such as state of the economy, agricultural prices, existing debt, and long-term family goals. This program attempts to balance finding ideal environmental projects with the practical and economic feasibility of specific sites and individual borrowers that are ready and willing to proceed at the time. In the long run, the cost to the state for any practice financed by the AgBMP Loan Program, whether it has great environmental benefits or only modest benefits, is little more than the cost of administration and oversight of the program by the MDA.

REQUESTED FUNDING AND SCOPE OF WORK

A. PAST REQUESTS

Each year, funding requests from counties have exceeded available funds. To reduce this disparity, the AgBMP Loan Program has implemented the following steps to insure that counties utilize their available resources first and that any amount requested is reasonable:

- All revolving funds must be incorporated into the proposed work plan.
- Applications for new annual allocations are limited to unmet needs of their proposed work plan.
- Funds previously allocated and committed to approved projects may be carried over into the next allocation year. Uncommitted funds are rescinded.
- Applications are limited to either $100,000 or $300,000.

In the 2009 applications, 78 local governments proposed work plans totaling $30.1 million. Revolving funds would provide $18.4 million toward meeting their needs, while their unmet need was $11.7 million. This suggests that the total appropriation to the AgBMP Loan Program and its congruent repayment revenue does not yet fully meet annual needs anticipated by the counties. Most counties submit applications that emphasize agricultural impacts. Implementing conservation tillage practices composed 39% of the requests; upgrading agricultural waste management practices contributed 34% of the requests.

B. APPROPRIATIONS TO THE AGBMP LOAN PROGRAM

The AgBMP Loan Program has received $48 million from federal sources through the PFA and direct appropriations totaling $8.3 million from the State Legislature.

The spending authority of the AgBMP Loan Program is $140.0 million. The program is currently funded at 42% of the spending authority.

Table 1 shows the amount appropriated to the AgBMP Loan Program from state and federal sources.

Table 1. Appropriation to the AgBMP Loan Program.

Fiscal Year of Appropriation	Appropriation Citation	Amount Appropriated
09/01/1995	Public Facilities Authority	$10,000,000.00
07/01/1996	Public Facilities Authority	$10,000,000.00
07/01/1997	1997 Session Law Chap. 246 Sec. 6	$4,000,000.00
07/01/1997	Public Facilities Authority	$7,159,494.00
07/01/1998	1998 Session Law Chap. 404 Sec. 9(8)	$9,000,000.00
07/01/1999	Public Facilities Authority	$3,840,506.00
07/01/2000	2000 Session Law Chap. 492 Sec. 10(3)	$1,000,000.00
07/01/2000	Public Facilities Authority	$1,000,000.00
07/01/2001	Public Facilities Authority	$1,000,000.00
07/01/2002	Public Facilities Authority	$1,000,000.00
07/01/2003	Public Facilities Authority	$1,000,000.00
05/10/2004	Public Facilities Authority	$2,000,000.00
04/01/2006	Public Facilities Authority	$1,000,000.00
06/30/2006	2006 Session Law Chap. 282 Art. 10 Sec 4(a)	$1,000,000.00
04/26/2007	Public Facilities Authority	$1,200,000.00
05/04/2007	2007 Session Law Chap. 45 Art. 1 Subd 3	$2,000,000.00
04/25/2008	Public Facilities Authority	$1,200,000.00
04/01/2009	Public Facilities Authority	$1,500,000.00
04/28/2009	2007 Session Law Chap. 45 Art. 1 Subd 3	$300,000.00
	TOTAL	$59,200,000.00

C. IMPAIRED WATERS ACTIVITIES

Counties estimate an average of 50% of all their funds (about $6.7 million) are used for projects that address impaired waters. Since the start of the program, approximately 6,500 projects with loans totaling $93 million were completed within the watersheds of MPCA approved TMDL Implementation Plans (though not all projects specifically addressed the identified impairment).

D. BORROWER AND COST-SHARE COORDINATION

The AgBMP Loan Program can finance the total project cost, up to $100,000 including expenses such as fees, permits, engineering, construction, implements, materials, supplies, land, landscaping, and site restoration. Table 2 shows a summary of the average reported total project cost, average AgBMP loan amount, and the percentage that AgBMP loans contribute toward the total cost of projects funded through the AgBMP Loan Program, based on the invoices submitted to the MDA for disbursement for the last five years. The AgBMP Loan Program provides, on average, financing for 60% of the total cost of projects, while the borrowers generally establish significant equity (40%) at the project's outset from personal resources, cost-share programs, equipment trades, or other financial resources.

Table 2. Summary of average loan amount, total project cost, and percentage of project paid from non-AgBMP funds for the last five years.

Category	Average Total Project Cost	Average AgBMP Loan Amount	Contribution of AgBMP Funds to Total Practice Cost
Agricultural Waste Management	$58,200	$27,500	47%
Structural Erosion Control	$25,700	$11,400	44%
Conservation Tillage Equipment	$39,500	$24,800	63%
Septic Systems [1]	$8,500	$7,900	93%
Other Practices	$38,400	$21,400	56%
Overall Average	$29,600	$17,900	60%

[1] ***Capitalization of local accounts under MN § 115.57 was excluded from the average loan amount calculation.***

State and federal cost-share programs provide grant assistance (cost-share grants are not repaid; AgBMP loans must be repaid) to farmers and landowners for implementing specific types of practices that benefit the environment. State cost-share funds are typically passed through the BWSR. The NRCS oversees federal cost-share funds. Like the AgBMP Loan Program, county Soil and Water Conservation Districts usually coordinate with both cost-share programs. In addition, the State has also provided technical engineering assistance through the BWSR's Nonpoint Engineering Assistance Program for funding design of best management practices. Because all these programs are locally administered and often housed in the same local government office, there is great cooperation and coordination between the state and federal programs, the funding sources, and technical assistance to effectively and efficiently implement practices.

State and federal cost-share programs have differing limitations. State cost-share is permitted to finance up to 75% of the total cost of constructed practices with a maximum grant of $50,000 per project, while federal cost-share is now up to 50% of the project cost with no maximum grant limit. State cost-share grants to feedlot operations are also limited to facilities with less than 500 animal units. Federal cost-share grants are not limited by the size of the operation.

The AgBMP Loan Program has no percentage limitation or matching requirement because it is a loan (though many lenders require some equity). The program is limited to facilities with less than 1,000 animal units if state funds are used, or facilities that do not possess a National Pollution Discharge Elimination System (NPDES) permit if federal funds are used. In addition the AgBMP Loan Program also funds many things not eligible under state and federal cost share, such as conservation tillage equipment and upgrading of septic systems.

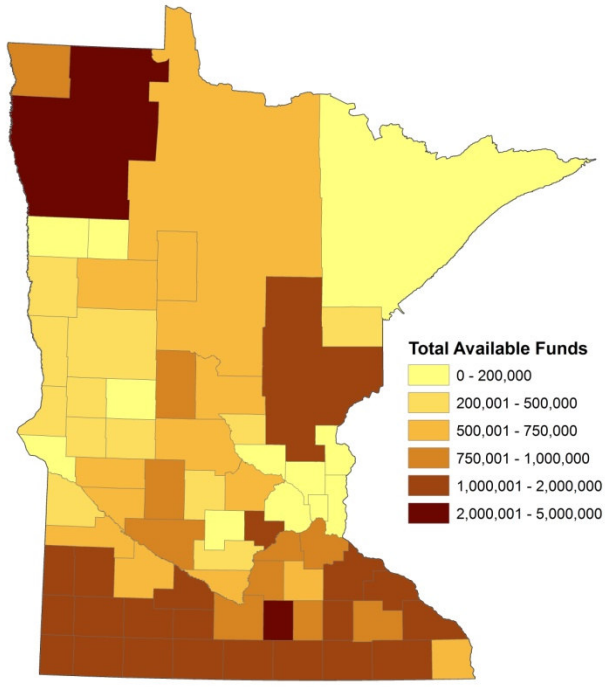
It is the local government that coordinates AgBMP loans and cost-share funds, not state level agency administration. These local government organizations provide the strategic service of evaluating projects, determining eligibility for potential funding sources, establishing priorities, and submitting the appropriate applications, proposals and plans to assist the farmer to obtain financial assistance while achieving environmental objectives of the Comprehensive Local Water Plan. Despite having several funding sources for various water quality practices, farmers or rural landowners typically need only to contact the local Soil and Water Conservation District or county environmental office to access most of the available funding sources. In addition, local governments review the submitted project costs to prevent multiple financing of the same expenses through multiple funding sources.

CURRENT STATUS

The values presented in the following descriptions are based on combined disbursement requests paid by the MDA for all funds administered by the AgBMP Loan Program prior to 6/30/2009. *This includes the federal SRF funding and other state funds.*

A. ALL YEARS COMBINED

Figure 2. Cumulative amount of AgBMP funds allocated to counties, 1995-2009.



The AgBMP Loan Program has disbursed $69.5 million to local governments under past allocations since 1995. Because of the revolving nature of the program, total disbursements exceed the total appropriations of $59.2 million.

Through June 30, 2009, 9,600 practices totaling $137.0 million in loans have been completed through this program. The program currently issues an average of $400,000 in loans each month. Appendix A shows a summary of the allocations to each county through this program. During the last five years the average number of projects completed per year was 757 with an average annual total loan amount issued at $13.6 million. There were 693 loans valued at $13.9 million completed during the last fiscal year. Table 3 shows the total number and amount of loans issued by fiscal year for the last ten years.

Table 3. Summary of the number and amount of loans issued by fiscal year for the last ten years ending 6/30/2009.

Fiscal Year	Number of Loans	Total Loan Amount
1999	590	$6,352,983
2000	767	$8,593,896
2001	755	$7,492,922
2002	621	$8,754,775
2003	927	$11,856,906
2004	649	$8,606,450
2005	783	$12,711,546
2006	642	$11,780,141
2007	948	$15,889,381
2008	718	$13,473,279
2009	693	$13,908,087

Over 9,600 projects have been completed and located in nearly all counties in Minnesota, Figure 3. There were 693 projects completed during 2009. Although there are practices implemented throughout the state, most are in traditional farm areas.

The program permits loans to farmers, agriculture supply businesses, rural landowners, and water quality cooperatives. The majority of the loans are issued to farmers and farm suppliers; though almost half the septic system loans are issued to non-farm landowners. Table 4 summarizes farm and non-farm participation in the program by these categories as reported by the county.

Table 5 shows the percentage of all loans by category, based on number and total amount of loans issued.

Figure 3. Location of all AgBMP projects.

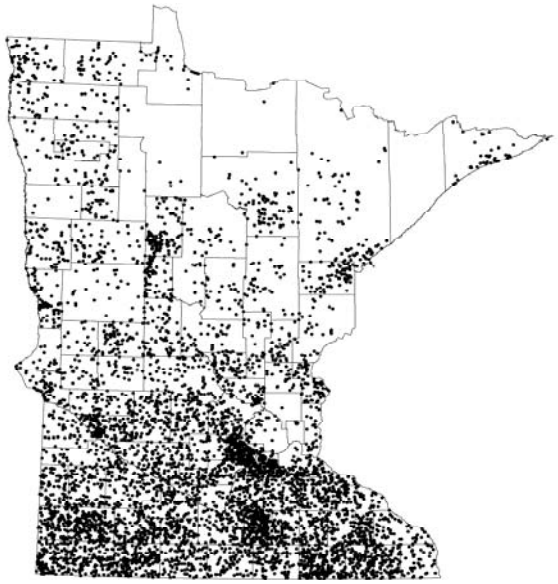


Table 4.Summary of farm/non-farm participants in the AgBMP Loan Program.

Category	Farm	Non-Farm	Not Identified
Agricultural Waste Management	1,890	0	0
Structural Erosion Control	194	23	7
Cons. Tillage Equipment	3,204	0	0
Septic Systems	1,614	1,609	995
Other Practices	46	4	14
Total	6,948	1,636	1,016

Table 5.Percentage of loans issued by number and total dollar amount.

Category	Percent of Loans Issued	
	% by Number of Loans	% by Amount of Loans
Agricultural Waste Management	20%	32%
Structural Erosion Control	2%	1%
Cons. Tillage Equipment	33%	45%
Septic Systems	44%	20%
Other Practices	<1%	1%

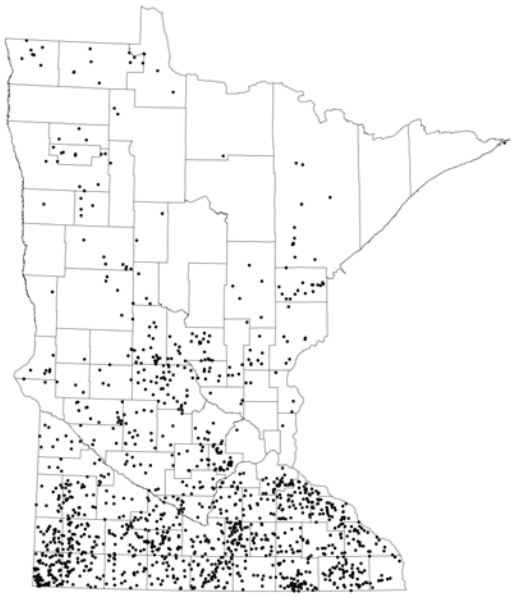
B. COMPLETED PROJECTS BY CATEGORY

1. Agricultural Waste Management Systems

During the last fiscal year there were 111 agricultural waste management loans completed. The five year average is 141 per year. Since 1995, there have been 1,890 agricultural waste loans issued to complete approximately 2,270 animal waste management projects throughout the state, Figure 4. These loans implemented one or more practices including the replacement or upgrading of manure holding basins, pits, or tanks (610); manure handling, spreading, or incorporation equipment (1,440); and other manure management practices such as feedlot improvements, clean water diversions, berms and chutes, and rotational grazing (220).

The average size of livestock operations receiving loans is 405 animal units. The size of farms using this program for agricultural waste projects is summarized in Figure 5. Legislation limits loans to facilities with less than 1,000 animal units. Loans have been issued to all types of livestock operations fairly evenly, Table 6. The average reported total cost of these projects has been $58,200.

Figure 4. Location of agricultural waste management projects, as of 6/30/2009.



In 2009, counties reported that 251 feedlots were brought into full compliance and that they are actively working with a total of 1,342 feedlot operators to resolve potential problems.

The counties estimated about 8,400 operators had adequate manure management plans.

Figure 5. Number and size of farms receiving AgBMP Loans for agricultural waste management.

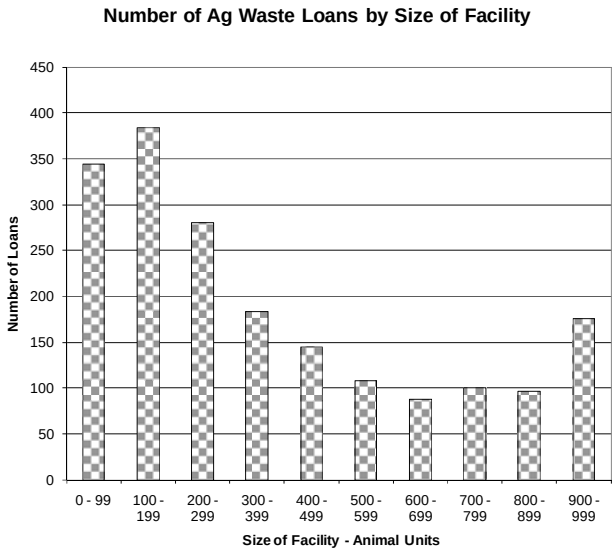
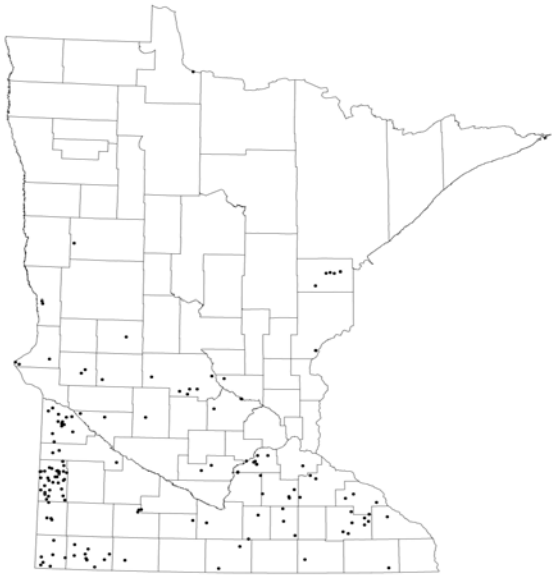


Table 1. Percentage of loans issued to various types of animal production operations.

Type of Operation	Percentage
Pork	26%
Dairy	25%
Cattle	24%
Other or Not Reported	26%

Figure 6. Location and number of structural erosion control projects as of 6/30/2009.



2. Structural Erosion Control Practices

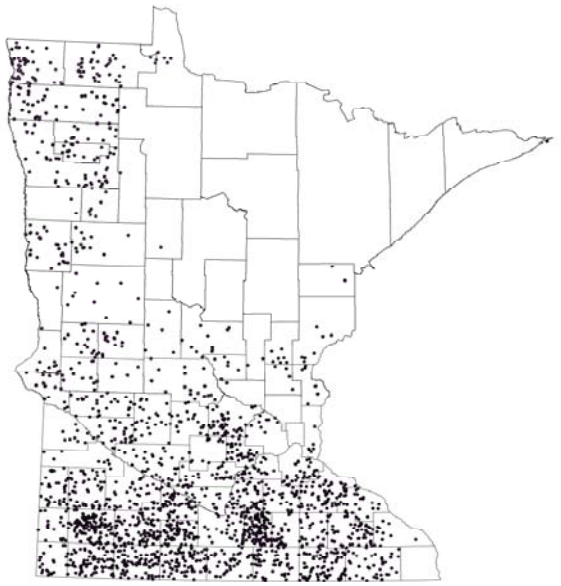
During the last fiscal year there were 5 structural erosion control practices completed. On average, eight projects have been completed each year over the past five years. Since 1995, the number of structural erosion control practices that have been funded is 224 (see Figure 6). The average total cost for this category of projects was $25,700, with $11,400 as the loan portion. It is more difficult to find landowners willing to implement these practices because they are not usually required by regulations, provide little financial return to the landowner, and can reduce crop production acreage. For example, making a 32-foot wide grassed waterway has direct costs for construction, removes that land from production, and will require periodic maintenance. For the most part, structural erosion control practices are implemented only when cost-share funds are a major component of the project.

Counties have estimated that there are more than 17,000 sites that could be improved with structural erosion control projects.

3. Conservation Tillage Practices

The category of conservation tillage practices has been one of the program's most frequently used with 3,204 practices implemented since 1995, Figure 7. During the last fiscal year there were 219 loans issued. The five year average for this type of loan is 275 per year. The average size farm using an AgBMP loan to purchase conservation tillage equipment is 1,028 acres. The size of farms using this program for conservation tillage equipment is summarized in Figure 8. The equipment funded is generally specialized field tillage, planting, cultivation, or harvest implements that result in crop residues covering 15% to 30% of the ground when measured after planting. The average loan for tillage equipment is $24,800, while the average total cost for this equipment is $39,500. The equipment funded through this program is being used on approximately 3.3 million acres; however, counties reported that 6.6 million acres still need to implement conservation tillage practices.

Figure 7. Location and number of conservation tillage practices, as of 6/30/2009.



In many areas of the state, sedimentation to rivers and lakes is the highest priority water quality problem. In these areas, counties report that conservation tillage is the most cost effective means of reducing sediment, nutrient loading, and oxygen depletion in surface waters. Implementing conservation tillage practices on a single farm can effectively reduce runoff, erosion, and nutrient loss from hundreds of acres. The counties have reported that this low interest loan program has often been the decisive factor that has encouraged many farmers to implement or intensify these practices.

Figure 8. Number and acreage of farms receiving AgBMP loans for conservation tillage practices.

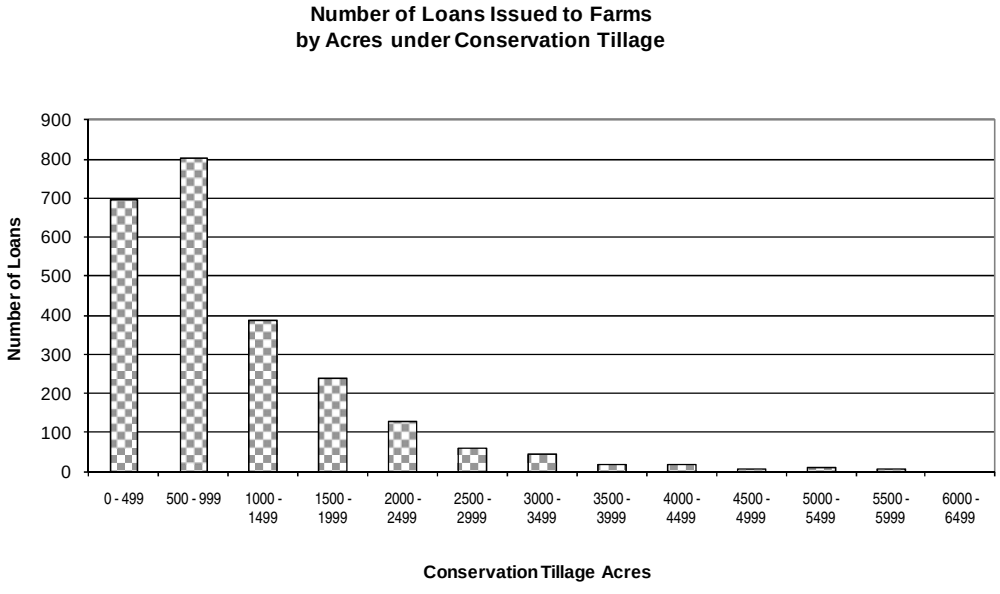
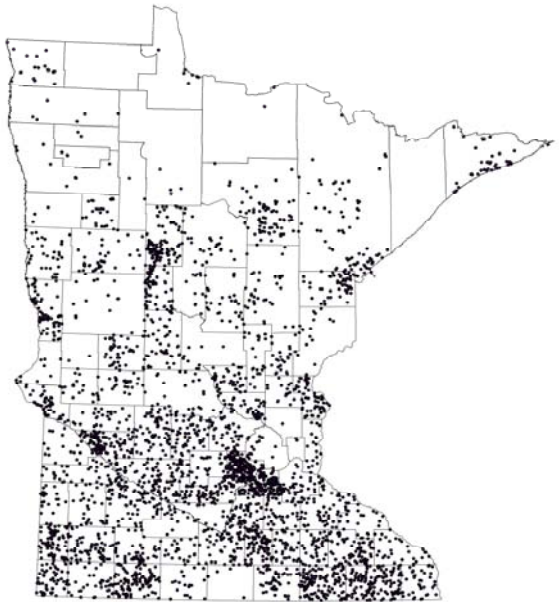


Figure 9. Location of repaired sewage systems financed with AgBMP funds, as of 6/30/2009.



4. Septic Systems

To date over 4,218 on-site sewage treatment system projects have been funded through this program, Figure 9. The average total cost of these projects has been $8,500. The number of septic systems repaired last year through this program was 348. The five year average is 326 projects per year. Repair of farm and rural septic systems is the most numerous, single category of projects, contributing 44% of all the projects by number. Replacing failing septic systems constitutes 20% of the funds disbursed by the program.

Although repairing septic systems is not a traditional agricultural best management practice, the AgBMP Loan Program can provide loans to correct these problems because of its flexible framework and adaptable structure:

- The AgBMP Loan Program has the cooperation of local water managers and local governments throughout the state, including those responsible for septic systems regulation.
- It has a large, expanding lending network of banks and other financial institutions willing to offer and service loans to finance septic systems.
- It has a substantial capitalized revolving pool that has the capacity to offer these loans including $4 million specifically appropriated for septic systems upgrades.

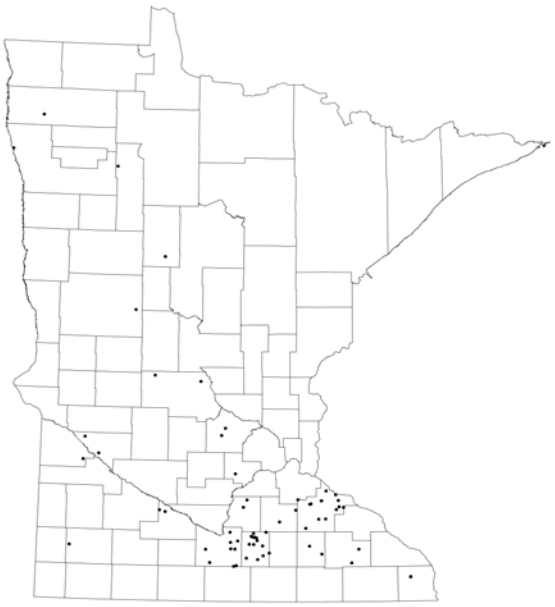
Septic system loans have been the one category where some county governments have taken on the role of lender, providing a low interest loan to constituents and providing the convenience of including septic system loan repayment as a special assessment on the landowner's tax statement. When this option is in place, the landowner typically makes a single house payment to the mortgage holder, and it is the mortgage holder, while servicing their own loan, that collects and forwards to the county the AgBMP loan repayment as well property taxes. In this way, the repayment is virtually transparent to the landowner and the risk for delinquent payment or default on the septic system loan is significantly reduced. The disadvantage is that the county government, and ultimately the local taxpayer, is at risk if the borrower defaults because AgBMP loans are subordinate to all preexisting lien holders. However, since the borrower must pay their entire tax bill as a whole, the risk is considerably reduced. There are 16 counties that have executed participation agreements to act as lenders. Counties have complete discretion in deciding whether to act as lenders.

5. Other Projects

The *Other* category includes all practices that are not included in the first four practice categories. There have been:

- 20 practices related to improved application equipment for pesticides and fertilizers
- 7 practices were associated with well sealing and relocation,
- 4 practices related to variable rate technologies
- 2 addressed chemical containment systems
- 1 ring dike in northwestern Minnesota
- 1 conversion of row crops to permanent ground cover

Figure 10. Location of Other practices financed with AgBMP funds, as of 6/30/2009.



STATUS OF LOCAL REVOLVING ACCOUNTS

A requirement of the AgBMP Loan Program prior to the 2001 legislation was the capitalization of revolving accounts held by a single designated Local Lender (under "designated lender" contracts) in each of the participating counties. Once the money had been transferred to the designated Local Lender, the county could continue to reuse the funds locally for additional practices as loans are repaid throughout the first ten years of the term of the loan from the MDA to the county. After year ten, the county had another ten years to complete repayment of the loan back to the state. Counties with the contracts under the original 1995 legislation continue to use this local revolving loan feature, though no new funds have been added to these contracts since 2005. These original contracts will be fully repaid and closed in 2026. Since the start of the program, the locally revolving accounts under the designated lender contracts have been used for 4,584 projects, for a total cost of $67.5 million.

New contracts executed under the 2001 legislation establish a revolving account held by the AgBMP Loan Program for the participating county. Funds are disbursed to any participating lender (under "multiple lender" contracts) as costs are incurred by the landowner. Repayments under these contracts begin one after the loans are issued. These new "multiple lender" contracts will remain valid for as long as counties or lenders choose to participate in the program. To date, approximately 1,200 loans totaling $2.3 million have been funded under the multiple lender system.

The overall status, capacity, and characteristics of the revolving accounts is summarized in Table 7. As of June 30, 2009, approximately 88% of appropriations was in use as measured by the Total Outstanding Loan Balances. The pace of loans issued, the "turn-over" rate, for the past year compared to total appropriations to the program was 23%.

Table 7. AgBMP Fund Account Characteristics.

Fund Capacity Characteristic		
Total Appropriations	$59.2 million	
Total Loans Issued	$137.0 million	
Total Outstanding Loan Balance	$51.9 million	88%
Total Cost of Projects	$211.0 million	
Total Cash on Hand	$ 7.3 million	88%
Estimated Annual Repayment Revenue	$ 6.9 million	12%
Pace of Loans Issued During 2009	$13.9 million	23%
Revolving Factor $\left(\frac{Total\ Loans}{Total\ Appropriations}\right)$	2.3	
Debt to Equity Ratio $\left(\frac{Total\ Appropriations}{Total\ Project\ Costs}\right)$		43%

The counties' aggregate 2009 proposed spending plan for their locally revolving loan account is shown in Table 8. Counties are required to manage their revolving funds in coordination with their requests for new annual allocations provided by the MDA. Despite their ambitious spending plans, counties are not able to complete all the projects proposed. Landowners may change their minds before construction begins, economic and agricultural conditions might change, start dates may be delayed, or anticipated projects just may not materialize. However, as shown in Table 3, actual loans issued in 2009 was $13.9 million. In recent years, many counties frequently exhausted their local revolving accounts and delayed implementation of projects until repayments could replenish the accounts. Using the established annual application and reporting process previously described, funds are gradually moved from counties with unused funds to counties with pending projects. However, it is not considered prudent to manage the local accounts with a near $0.00 balance because a low cash balance forces counties to sporadically suspend operations while waiting for repayments. Instead counties are encouraged to undertake a consistent work load such that they are able to maintain a reasonable working cash balance sufficient to immediately fund practices as they are solicited and identified.

Table 8. Proposed use of locally held revolving funds for 2009.

Category	Proposed Number of Loans with Revolving Funds	Estimated Maximum 12-Month Loan Capacity of Local Revolving Funds
Agricultural waste Management	196	$6,297,586
Structural Erosion Control	84	$593,039
Conservation Tillage	307	$7,688,512
Septic Treatment System	737	$3,688,808
Other	20	$100,414
Total Proposed Usage	**1,344**	**$18,368,359**

COUNTY CAPACITY FOR IMPLEMENTATION

This program uses a revolving loan fund model. It assumes that appropriations to the program will continue until it has reached a principal balance such that the repayments from outstanding loans will equal the annual cost of pollution prevention projects implemented.

Between the effects of increased activity levels, from 600 projects per year to more than 800 projects per year, and the escalating cost of projects, counties have now averaged $13.6 million annually for the last five years, $13.9 million in FY 2009.

Recently there have been several significant changes that explain the increased demand for AgBMP Loans:

- The legislature changed the AgBMP Loan Program, simplifying the loan approval process and expanding the lending network, allowing more lenders to offer more loans to a more diverse clientele.
- The state and local agencies have taken a more aggressive approach to require compliance of feedlots to regulations and local ordinances by 2010 as required under Minn. Rules 7020.
- Many counties are establishing on-site sewage treatment system inventories, inspection programs, or adopting point of sale compliance requirements. In addition, the state is modifying Minn. Rules 7080 regulating on-site sewage treatment systems.
- Public waters are being assessed, designated as impaired when appropriate, and Total Maximum Daily Load Implementation Plans are being developed to resolve these impairments.

The AgBMP Loan Program expects the annual activity level to continue to increase as new lenders become more familiar with the administrative processes, and the environmental remediation efforts under the TMDL and Clean Water Fund programs are intensified. With these changes in circumstances, we remain unsure of the absolute maximum capacity of local governments to implement projects; however, our short term goals for the next five years include:

- Annual new appropriations of about $3 million per year for eligible activities to implement local water plans and prevent or reduce water pollution
- Designate $2 million per year for implementation of TMDL Implementation Plans
- Increase the total capitalization of the AgBMP Loan Program to about $85 million
- Achieve a five year average annual activity level of $15 million per year

These short-term goals will be reevaluated annually and modified as appropriate.

LOAN DEFAULTS

The AgBMP Loan Program requires participating lenders to provide security for all loans. Conventional lenders, such as banks and credit unions, guarantee repayment of all funds they receive from the program and pledge their liquid assets as security toward repayments. The program also requires banks to maintain the Federal Deposit Insurance Corporation Rules § 325 - 4% Tier 1 leverage ratio to assure

availability of liquid assets; credit unions are required to maintain the National Credit Union Administration's (NCAU) requirement of a minimum 7% Net Worth to Total Assets ratio as calculated under NCUA Rules & Regulations Part 702 Prompt Corrective Action; and AgriBank is required to maintain 7% Net Worth to Total Assets ratio.

County and other organizations with taxing authority may provide a General Obligation Note for the full amount of the funds obtained from the program or can provide an assigned cash account or security equal to 20% of the balance due, up to $25,000.

The funds issued to the borrower are guaranteed to the MDA by the local lender; therefore the program does not require any security from the borrower directly, though the lender may require collateral as appropriate.

To date, less than 10 borrowers have defaulted on AgBMP loans, as reported by local lenders. Despite the borrowers' default, all lenders have continued to make repayment to the AgBMP Loan Program in accordance with their repayment schedules and no lenders are in default to the program.

Local participating lenders reported zero loans written off during FY 2009.

APPENDIX A. TOTAL ALLOCATIONS TO COUNTIES BY AGBMP LOAN PROGRAM

Table 9. Summary of allocations to local government units in the AgBMP Loan Program.

Local Government Unit	Number of Loans	1. Total Amount of Loans ($)	2. Total Allocations ($)	3. Revolving Factor	4. Debt/Equity Ratio
Aitkin	39	481,279	246,950	1.9	51%
Anoka	1	15,405	15,405	1.0	97%
Becker	43	677,482	570,904	1.2	45%
Benton	56	695,392	359,697	1.9	30%
Big Stone	82	647,253	92,593	7.0	11%
Blue Earth	160	1,922,063	815,670	2.4	29%
Brown	137	2,235,356	1,101,558	2.0	35%
Carlton	89	737,567	322,473	2.3	30%
Carver	258	3,606,471	1,819,403	2.0	38%
Chippewa	140	1,226,964	664,162	1.8	46%
Clay	57	904,039	494,139	1.8	31%
Cook	35	380,300	105,218	3.6	24%
Cottonwood	218	3,920,357	1,829,866	2.1	27%
Dakota	143	2,173,755	895,486	2.4	27%
Dodge	95	1,790,334	1,072,787	1.7	43%
Douglas	67	589,080	110,167	5.3	13%
Faribault	123	2,683,719	1,127,723	2.4	26%
Fillmore	272	3,690,416	1,997,640	1.8	33%
Freeborn	168	3,073,162	1,571,076	2.0	38%
Goodhue	236	4,384,795	1,880,467	2.3	34%
Grant	10	291,250	462,590	0.6	129%
Hennepin	28	454,875	156,514	2.9	29%
Houston	97	847,065	524,860	1.6	34%
Hubbard	154	784,215	519,548	1.5	59%
Itasca	77	556,954	176,910	3.1	31%
Jackson	296	3,534,103	1,443,405	2.4	22%
Kandiyohi	122	1,315,841	850,853	1.5	26%
Kittson	138	3,064,644	864,047	3.5	18%
Lac qui Parle	89	1,001,651	440,870	2.3	27%
Le Sueur	160	2,062,044	806,796	2.6	25%
Lincoln	193	2,457,001	1,024,994	2.4	31%
Lyon	130	2,434,755	1,553,991	1.6	36%
McLeod	41	551,615	179,871	3.1	26%
Mahnomen	46	389,382	170,697	2.3	34%
Martin	203	3,492,528	1,043,885	3.3	21%
Meeker	85	838,997	344,720	2.4	27%
Morrison	48	868,099	678,344	1.3	42%
Mower	359	4,633,553	1,769,698	2.6	25%
Murray	278	4,451,865	1,831,101	2.4	23%
Nicollet	59	846,100	647,585	1.3	50%
Nobles	222	3,553,951	1,206,850	2.9	22%
Norman	2	54,125	33,114	1.6	61%
Olmsted	167	2,015,719	873,950	2.3	29%
Ottertail	17	310,646	232,304	1.3	38%
Pennington	13	372,880	79,812	4.7	11%

Pipestone	143	1,749,136	1,044,002	1.7	44%
Pope	61	386,470	347,973	1.1	72%
Red Lake	8	169,680	74,024	2.3	35%
Redwood	119	1,430,358	508,856	2.8	31%
Renville	193	2,080,469	755,044	2.8	28%
Rice	118	1,422,877	637,753	2.2	29%
Rock	311	4,041,327	1,655,067	2.4	31%
Saint Louis	70	1,146,901	503,900	2.3	44%
Scott	231	2,217,286	873,243	2.5	26%
Sherburne	46	320,467	191,760	1.7	43%
Sibley	137	1,616,816	497,768	3.2	28%
Stearns	96	1,455,075	741,134	2.0	25%
Steele	117	1,944,855	852,495	2.3	29%
Stevens	39	325,433	223,092	1.5	35%
Swift	94	1,213,081	555,489	2.2	18%
Todd	95	1,157,530	877,280	1.3	36%
Traverse	38	666,471	329,519	2.0	39%
Wabasha	174	2,658,697	1,364,861	1.9	32%
Waseca	307	4,872,485	2,261,382	2.2	33%
Washington	28	405,606	174,694	2.3	32%
Watonwan	244	3,622,499	1,662,968	2.2	28%
Wilkin	90	657,287	201,824	3.3	27%
Winona	99	1,878,241	1,051,124	1.8	28%
Wright	123	1,673,389	598,730	2.8	25%
Yellow Medicine	113	1,030,582	655,783	1.6	33%
IMPACK - 5 JPB	238	2,534,595	1,069,688	2.4	29%
North Central JPB	146	1,180,779	707,436	1.7	57%
Northwestern JPB	264	7,642,993	3,789,613	2.0	28%
CCLNS JPB# 3	30	331,002	168,142	2.0	33%
-	0	-	-	0.0	0%
-	0	-	-	0.0	0%

1. Total Loan Amount: Sum of all loans issued by LGU since program start.
2. Total Allocation: Current total of all AgBMP Loan Program funds available to LGU including cash on hand and outstanding loan balances.
3. Revolving Factor: A measure of how many times the funds have been used as calculated by $\left(\frac{Total\ Loan\ Amount}{Total\ Allocation}\right)$. The greater the number the more times the funds have been used or revolved.
4. Debt to Equity Ratio: A combined measure of how fast funds are revolved and how well other funds are coordinated or contribute to the cost of projects, very similar to a leverage ratio. This ratio show the Total Allocation for the LGU compared to the total cost to implement all projects and is calculated as $\left(\frac{Total\ Allocation}{Total\ Cost}\right)$. A low percent suggests that continuous revolving use of the funds and good coordination with other financing such as cost share or borrower resources.

APPENDIX B. PARTIAL LIST OF PRACTICES FUNDED BY THE AGBMP LOAN PROGRAM

ABANDON FEEDLOTS AND MANURE BASINS
AG CHEMICAL METERS AND SPRAY EQUIPMENT
AG WASTE HANDLING EQUIPMENT
AG WASTE COLLECTION SYSTEM
AG WASTE FILTER STRIP
AG WASTE PUMP AND TRANSFER STATION
AG WASTE STORAGE BASINS
AGCHEM 854 SPRAYER
AGCO WHITE PLANTER 8180
ALLOWAY STALK SHREDDER
B&H HIGH RESIDUE CULTIVATOR
B&H RIDGE PLANTER
BALZER 8500 SPREADER WITH INJECTORS
BLU-JET STRIP TILL EQUIPMENT
BOBCAT 5300 SKIDSTEER
BRILLION DISC RIPPER LCS7-2
BRILLION LAND COMMANDER
BRILLION SOIL SAVER
CALUMET V 3250 MANURE SPREADER
CASE 430 SKIDSTEER
CASE IH 5400 NO-TILL DRILL
CASE IH 9300 RIDGE TILL EQUIPMENT
CASE IH TIGERMATE II
CAT TL3-930 RIPPER
CHANDLER MANURE SPREADER
COMPOSTING BUILDING
CONCORD 4010 GRAIN DRILL
CONCRETE FEEDLOT FLOOR AND GUTTER
CONCRETE MANURE PIT AND SLATTED FLOOR
DAWN NO-TILL PLANTER
FARGO 4060 AIR SEEDER
FEEDLOT RELOCATION
FEEDLOT SEDIMENTATION BASINS
FERTIL-GATION EQUIPMENT
FLEXCOIL 5000 PLANTER
GEHL 5635 SKIDSTEER
GEOTEXTILE AND LINERS FOR BASINS
GLENCOE SOIL SAVER
GRADE STABILIZATION
GREAT PLAINS NO-TILL DRILL
HINIKER STRIP TILL EQUIPMENT
HOOP BARN MANURE SYSTEM
HOULE 7300 SPREADER WITH INCORPORATION
HYDRA MANURE SPRAY EQUIPMENT
JD 1690 NO-TILL DRILL
JD 2210 HIGH TRASH CULTIVATOR
JD 693 HIGH RESIDUE CORN HEAD
KINSE 3600 PLANTER
KNIGHT TRANSFER PUMP AND SPREADER
KRAUSE 6331 TILLAGE MACHINE
MANURE AND SAND SETTLING BASIN
MANURE DRAG LINE, FLOW METER, HOSE REEL
MILKHOUSE WASTE SYSTEM
NUHL 6400 SPREADER AND LOADING EQUIPMENT
PURAFLOW WASTE WATER SYSTEM
REDBALL SPRAYER AND ATTACHMENTS
ROCK RIP-RAP AND GABIONS
ROOF AND GUTTERS TO PREVENT RUNOFF
ROTATIONAL GRAZING SYSTEMS
S130 BOBCAT SKIDSTEER
SALSFORD RTS 510 RESIDULE TOOL
SEDIMENT CONTROL BASIN AND DIVERSIONS
SHORELINE STABILIZATION AND PROTECTION
SLURRYSTORE MANURE SYSTEM
SOIL WARRIOR MINIMUM TILLAGE EQUIPMENT
SEPTIC TREATMENT - CLUSTER SYSTEMS
SEPTIC TREATMENT - HOLDING TANK, GRINDER, PUMP
SEPTIC TREATMENT - INDIVIDUAL SYSTEM
SEPTIC TREATMENT - LAND FOR DRAINFIELD
SEPTIC TREATMENT - CONNECTION TO SEWER SYSTEM
STORMWATER DIVERSION
SUMMERS 8T9446 CHISEL PLOW
SUNFLOWER 1434 CONSERVATION DISC
TERRACE AND TILING
TERRAGATOR
TURKEY LITTER SPREADING EQUIPMENT
VANDALE MANURE TANK WITH INJECTORS
WATERWAYS AND GRASSWAYS
WELL SEALING
WHITE 8106 NO-TILL PLANTER
WILRICH 5800 CHISEL PLOW
WILRICH 6600 SOIL SAVER
WILRICH 957 RIPPER
WISHICK 942 NO-TILL DISC
YETTER STRIP TILLAGE EQUIPMENT
ZONE TILL EQUIPMENT

APPENDIX C. GLOSSARY OF TERMS, INITIALS, AND ACRONYMS

AgBMP: Agricultural Best Management Practices. Practices traditionally associated with farm operations, such as proper use and storage of manure, contour farming, conservation tillage methods, terraces, grass ways, filter strips, and buffer strips.

Allocation: Funds awarded to counties or local governments for projects.

Applicant: The local government unit that applies for AgBMP funds and will be responsible for administration of the program locally.

Appropriation: Funds provided by the legislature or the PFA to the MDA.

BMP: Best Management Practices. Practices, techniques, and measures, that prevents or reduces pollution by using the most effective and practicable means of achieving water and air quality goals. Best management practices include, but are not limited to, official controls, structural and nonstructural controls, and operation and maintenance procedures.

Borrower: A farmer, rural landowner, farm supply business, or water quality cooperative that implements a project.

BWSR: Board of Water and Soil Resources. One of several state agencies that assist local governments to implement water and soil related environmental programs. It provides oversight to several state cost-share programs.

CLWP: Comprehensive Local Water Plan. The planning document prepared by local units of government to identify water resources issues, establish priorities and develop action plans to address issues.

Disbursement: Funds sent to a designated Local Lender to finance an approved project.

EPA: United States Environmental Protection Agency. The federal agency responsible for administration of the Clean Water Act and oversight of the SRF accounts.

JPB or JPO: Joint Powers Board or Organization. A formal group of Soil and Water Districts or counties formed to provide mutual benefits to the membership. JPOs may apply for AgBMP funds.

LGU: Local Government Unit. In this report, this refers to a county, a Soil and Water District, or a joint powers organization of these two government units that is responsible to locally implement the AgBMP Loan Program.

Local Lender: Any eligible financial institution that services the loan and provides a guarantee of repayment to the MDA for any loans provided.

MDA: Minnesota Department of Agriculture. The state department responsible for oversight of the local government units' implementation of the AgBMP Loan Program and their accounting of funds from the SRF and other appropriations.

MPCA: Minnesota Pollution Control Agency. The primary environmental protection agency in Minnesota.

NRCS: Natural Resource Conservation Service: This is an agency of the U.S. Department of Agriculture that offers help to individuals, groups, towns and other units of government to protect, develop and wisely use soil, water and other natural resources.

PFA: Public Facilities Authority. The state agency responsible for accounting and management of the SRF accounts.

SRF: State Revolving Fund. The primary source of AgBMP funds from the federal government.

SSTS: Subsurface Sewage Treatment System. On-site sewage systems that treat less than 10,000 gallons per day.

TMDL: Total Maximum Daily Load. This is a calculation of the maximum amount of a pollutant that a water body can receive and still safely meet water quality standards