DEPARTMENT OF AGRICULTURE

# Agricultural Best Management Practices Loan Program

Biennial Status Report 2023

02/01/2024

Minnesota Department of Agriculture
AgBMP Loan Program – Richard Gruenes
625 Robert Street North
Saint Paul, MN 55155
Phone: 651-201-6618
AgBMP.Loans@state.mn.us
www.mda.state.mn.us

This report cost approximately $4,000 to prepare, including staff time, printing, and mailing expenses (MINN. STAT. 3.197).

# Contents

# Executive Summary

In 1994, the Minnesota Legislature enacted initiatives to provide long-term, sustained funding to resolve nonpoint source water pollution problems. One component of these initiatives was the Agricultural Best Management Practices (AgBMP) Loan Program, which was created to assist local governments in implementing local environmental plans, including their Comprehensive Local Water Plan (CLWP), Minnesota 319 Nonpoint Source Management Plan, and others. 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 and reduction 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.

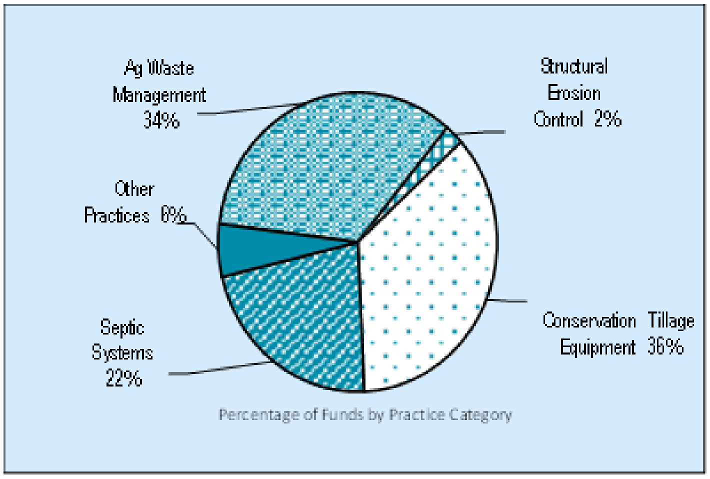
Individual counties, Soil and Water Conservation Districts, and joint power organizations representing multiple counties and districts may participate in the AgBMP Loan Program as local administrators; however, any local water manager may forward eligible practices to be implemented. Any financial institution or government unit capable of servicing loans, providing adequate security, and guaranteeing repayment may participate as lenders under the program.

The AgBMP Loan Program is available throughout Minnesota and to all landowners and farmers. It prevents water pollution and restores clean water by implementing proven water quality practices; it encourages environmental compliance for farmers and landowners by providing financial assistance at a reduced cost; makes farm operations more effective and efficient by allowing upgrades that reflect available technology and practices; and stimulates and supports many different facets of the rural Minnesota economy by the diversity of its eligible practices.

This report summarizes activities of the AgBMP Loan Program through June 30, 2023.

The program has received $86.5 million since 1995, primarily from Minnesota's Clean Water State Revolving Fund (SRF). AgBMP funds are available in all counties. Because of the revolving loan structure, the appropriations have been reused 3.58 times to finance 18,308 projects with total loans of $329.0 million. The total cost for all completed projects that include AgBMP Loan Program financing is estimated to be $494.2 million by leveraging another 472% from other sources. In biennium 2022–23, 1,087 projects were completed totaling $39.1 million in loans. Figure 1 shows a summary of loans in dollars by category issued since 1995.

**Figure 1. Percentage of funds loaned by practice category since 1995**




- 3,118 Agricultural Waste Management practices (34% of all practices) have been implemented throughout the state (168 in biennium). These practices include replacement or upgrading of manure holding basins; manure handling and incorporation equipment; and feedlot improvements such as diversions and filter strips to control feedlot runoff.
- 2,671 Structural Erosion Control practices (2% of all practices) have been funded (257 in biennium), including projects such as sediment control basins, waterways, terraces, diversions, buffer and filter strips, windbreaks, gully repair, and easements.
- 4,226 Conservation Tillage practices (36% of all practices) have been implemented (160 in biennium), including various types of seed bed preparation, planting, cultivation, and harvest implements that leave crop residues on the soil surface.
- 7,623 Sewage Treatment Systems (22% of all practices) have been repaired or replaced (345 in biennium).
- 670 Other practices (6% of all practices), including chemical and petroleum storage containment structures, chemical spray equipment, and drinking water improvements, such as well replacement, filtration equipment, and well sealing have also been funded (157 in biennium).

## Purpose

The purpose of the AgBMP Loan Program is to prevent, reduce, or improve water or air quality and address other local environmental concerns by assisting local government units (LGUs) with the implementation of their agricultural and rural components of their CLWPs, Total Maximum Daily Load (TMDL) Implementation Plans, Wellhead and Sole Source Aquifer Protection Plans, and other environmental planning documents.

The AgBMP Loan Program provides loans for projects:

- That prevent or reduce water pollution or as authorized by the funding source,
- That are approved by local governments (Soil and Water Conservation Districts, county governments, or joint power organizations), and
- For which a local lending institution (banks, credit unions, AgriBank, Regional Development Commissions, and counties acting as lenders) is willing to guarantee repayment to the Minnesota Department of Agriculture (MDA) and service the borrower's loan.

These local organizations will approve projects, oversee completion, and 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 traditional agricultural issues, the program has been intentionally designed to encompass non-agricultural pollution and other environmental issues in rural Minnesota, such as on-site and decentralized sewage treatment systems, drinking water standards, and riparian stabilization practices. The program has an adaptable framework to distribute loans for any eligible project from any funding source appropriated to the program to address exigent circumstances.

### Appropriations to the AgBMP Loan Program

The AgBMP Loan Program has received $61.3 million in SRF through the Minnesota Public Facilities Authority (PFA) and direct appropriations totaling $25.2 million from the State Legislature; $86.5 million in total. Through the AgBMP Loan Program revolving structure, these funds have resulted in over $329.0 million in total loans, whereas the appropriations have revolved approximately 3.58 times and have leveraged over $407 million dollars through all the appropriated funding.

# Counties' Request for Funding

The amount requested by counties in the 2023 application and report period once again greatly exceeded the funds available. The AgBMP Loan Program 2023 estimated loan capacity was $27 million while the total funding requested by counties exceeded $44.6 million. The submitted county requests were negotiated down to the lending capacity of the fund at the time due to limited available funding.

Based on the recent applications and other communications with the counties and the lenders, we believe the future demand for the program will continue to exceed the current lending capacity.

## Sustainable capacity for loans

The ability of the program to provide a reliable and sustainable source of funds to capitalize more loans depends on the repayment revenue of past loans. The repayment rate will vary depending on the mix of outstanding loans in the portfolio and their individual amortization schedules. The shorter the amortization schedule, the faster the rate of return and the more capacity for subsequent loans. Although the program calculates amortization schedules that set the minimum repayment amount, in practice, borrowers frequently pay more than the minimum required so the program encourages lenders to use a "sweep" account to repay all principal they have received from their borrowers, even when it is not due by contract.

During the last biennium, repayments averaged 13.9% of total appropriations per year. Using the observed repayment rate and the current appropriations, the program repayments will generate approximately $32.27 million per biennium ($16.14 million per year) with no additional appropriations. When demand exceeds this amount, projects will be delayed or declined until the demand drops to meet the lending capacity. However, with the current appropriations, the program cannot sustain current loan demand and anticipates significant decline in loan activity during the next biennium as local government requests exceed $44.6 million per year and loan repayments are estimated to be at $16.14 million per year, with an approximate shortfall of funding during the next biennium of over $57.2 million dollars without most counties actively marketing the program.

## County capacity for implementation

This program uses a revolving loan fund model and 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.

Counties issued $39.1 million in loans during the latest biennium. The improved national economy, rising conventional interest rates, and regulatory efforts for environmental compliance have fueled this increase. Despite increasing activity, the counties oversee this program with no administrative appropriations from the state. However, to support county efforts, the AgBMP Loan Program has streamlined the application process and is responsible for much of the program's accounting and reporting so that the counties can use their resources to identify water quality problems, work with landowners, and develop solutions. Typically, local administrators of this program (County Environmental Offices, Planning and Zoning, Soil and Water Conservation Districts) are paid by funding from the county government and with this program's simplified approach, counties can incorporate the program into their day-to-day operations with only minimal expense. It is reported by some local administrators that it costs about one hour to review and oversee a loan at an average cost of about $100 each.

The AgBMP Loan Program expects the annual activity level to continue to increase as the national economy rebounds and conventional interest rates increase.

In our last Biennium Report, our short-term goals were:

- Encourage program appropriations such that the sustainable lending capacity will meet the annual activity level of LGUs.
- Achieving an average annual activity level of $17 million per year.

## Cost of program administration

Federal regulations limit the administrative fees that can be charged for SRF-related programs; therefore, the cost of the AgBMP Loan Program's administration has been paid from General Fund and Clean Water Fund legislative appropriations to the MDA. During the last biennium, the MDA's total administrative cost for the program was approximately $502,665.58.

The administrative costs are pro-rated between General Fund appropriations and the Clean Water Fund appropriations, based on the number of loans issued from the Clean Water Fund as compared to all other funding sources. The actual ratio observed in the prior fiscal year is calculated at the close of the fiscal year and is applied the next fiscal year. The program does not adjust the prior year's assigned ratio after the close of the current fiscal year. The current ratio is approximately 24% Clean Water Fund with the balance from General Fund appropriations.

The program provides no administrative funds to LGUs or lenders. In addition, local governments cannot charge an "administration fee" for the program, though they can collect fees for services, such as site evaluation, mapping, technical assistance, and other fees authorized by statute.

The cost of administration by the MDA over the entire life of the loan can be evaluated by the cost per loan issued and by cost per $1,000 in loans issued. These measures include booking and servicing each loan request, such as disbursement to lenders, semi-annual billing to lenders, annual account verification, monthly status reports, assistance to counties, and all other direct program accounting. The average administrative cost for all loans issued during the last biennium was $221.63 per loan (the previous biennium was $253.97) or $17.19 per $1,000 of new loan issued. As noted in Table 1, these costs have increased this biennium because administrative expense is stable, while loan volume has decreased.

**Table 1. Current cost to administer the program.**

| Biennium | Administrative Costs | Loans Issued | Total $ Issued | Cost Per Loan | Costs Per $1,000 |
|---|---|---|---|---|---|
| 2023-24 | $502,665.58 | 1,087 | $39,138,737.61 | $462.43 | $12.84 |

*Note: Administrative expenses included in this calculation are: 2 full-time equivalent (FTE) program staff, 0.1 FTE supervisory staff, communications, technology, work-space cost allocation, motor pool usage, and training expenses.*

# Appendix A.

## 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 Minn. Stat. 17.117. In some cases, specific subsequent session laws have established priorities or expanded eligibilities for some appropriations to the program, such as targeting septic system replacement by the 1997 Session Law Chapter 246 Section 6, authorizing odor control financing in the 2000 Session Law Chapter 492 Section 10(3), and addressing drinking water standards in privately owned wells by the 2016 Session Law Chapter 189 Section 6 Subd 11a.(c).

The program was first authorized in 1994 with periodic amendments to address emerging issues. Since 1994 the program was amended to allow multiple landowners obtain individual loans to finance their respective financial responsibility for cooperative projects involving multiple individuals such as financing manure basins owned by partnerships, buffers encompassing entire drainage systems, and cluster septic systems with multiple connections. In addition, the statute allows the requirements or provisions of an appropriation source to take precedence over sections of Minn. Stat. 17.117. When the appropriation language does not include specific provisions or eligibilities, the provisions of Minn. Stat. 17.117 takes precedence. This allows the program to quickly comply with funding source changes or eligibilities and eliminates potential conflicts.

### 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 their impact. The CLWPs, prepared by the counties, provide the basis for much of the statewide water plan. The United States Environmental Protection Agency (U.S. EPA) approves this plan.

### Barataria-Terrebonne National Estuary (B-T NEP) 320 Comprehensive Conservation Management Plan

This plan provides guidance for SRF-funded practices implemented throughout the Mississippi River Watershed, including the southern two-thirds of Minnesota, which will mitigate water quality problems in the downstream Barataria-Terrebonne Estuary and the Gulf of Mexico. The U.S. EPA approves this plan. As of June 31, 2023, the AgBMP Loan Program has completed a total of 127 projects through this agreement where 21 of those projects or practices were within the FY21-2023 biennium.

### State Revolving Fund (SRF) operating agreement

The AgBMP Loan Program has received funds from Minnesota’s Clean Water SRF which is established as a permanent revolving fund under the federal Clean Water Act. The assets of the SRF, which include federal funds, state matching funds, loan repayments, and interest earnings, must be maintained in perpetuity and managed according to the terms of an operating agreement between the U.S. EPA and the State of Minnesota. 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 PFA is responsible under state law for managing the SRF. The PFA is governed by a board of six state agency commissioners, including the commissioner of the MDA. The PFA annually provides SRF funds to the MDA to administer as part of the AgBMP Loan Program. These funds and all subsequent loan repayments retain their identity as SRF funds and must be administered according to state and federal law governing the SRF. The relationship between the PFA and the MDA is defined by an 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 PFA prepares an IUP describing how all the funds in the SRF accounts will be used. The IUP is opened for public review and comment. Typically, the IUP identifies municipalities that are eligible to receive funds for wastewater treatment projects and any additional funds that will be made available to the agencies and departments implementing nonpoint pollution programs (such as the AgBMP Loan Program).

## Comprehensive Local Water Plan (CLWP)

All counties in Minnesota are required to prepare a CLWP, or an equivalent document, 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 (TDML) Implementation Plan

The U.S. EPA and the Minnesota Pollution Control Agency (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. A TMDL (Total Maximum Daily Load) is a calculation of the maximum amount of a pollutant that a water body can receive and still safely meet water quality standards.

## Other water planning document variations

Minnesota develops variations in the style and format of water plans as it continually strives to protect its water and target vulnerable resources. These additional planning resources and documents, regardless of how they are identified, provide guidance, and recommended best practices for water resource management. Some of these additional documents are Sole Source Aquifer Plans, Wellhead Protections Plans, Water Supply Plans, Watershed Management Plans, Clean Water Roadmap, Watershed Restoration and Protection Strategy (WRAPS), Groundwater Restoration and Protection Strategies (GRAPS), and One Watershed, One Plan.

## Contracts with participating Local Government Units (LGUs)

Each LGU has entered into a contractual agreement with the State of Minnesota to oversee and administer the AgBMP Loan Program within their jurisdiction.

### Contracts with participating local lenders

The AgBMP Loan Program has a network of over 250 lending institutions and local branch offices. Typically, one contract is issued to each participating institution which allows all local branches to participate as well. The contract formalizes the lender's responsibility to underwrite, service, and guarantee repayment of the loan back to the AgBMP Loan Program.

### Procedures and policies of the AgBMP Loan Program

This in an informal, internal guide that explains the workings and procedures of the AgBMP Loan Program. It has been developed primarily by compiling prior responses to email and other inquiries, thereby offering guidance for consistent responses to future inquiries.

## Allocation process to counties

*(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" and "LGU" are interchangeable and will refer to the local government unit implementing the AgBMP Loan Program, whether it is county government, the county Soil and Water Conservation District, or a joint powers organization consisting of a group of either county government or county Soil and Water Conservation Districts.*

*There may be slight differences between various reported totals when the calculations require additional information, but the information was not provided by the borrower or county. For example, if a farmer did not report acres under conservation tillage, it was not included in the calculations of total acres under conservation tillage, while it was included in total loans issued.)*

After 28 years of awarding funds to counties, most counties have built up their respective, MDA-held, individual revolving accounts. The principal in these accounts represent a dynamic balance between the total appropriations to the AgBMP Loan Program, the recent activity level of the LGU, and economic conditions including:

- The capacity of the program to provide funds to capitalize loans.
- The capacity of local LGUs to identify and develop projects.
- The capacity of landowners to take on debt.

The AgBMP Program has adapted its procedures to streamline and simplify movement of funds from county to county such that repayment revenue from past loans approximate recent average activity of the respective county.

However, if an LGU is unable to sustain a high activity level, the program has procedures to rescind unused funds and make them available to other LGUs. By achieving this maturity, flexibility, and cooperation with participating organizations, the importance of the annual allocation process has been significantly reduced such that most counties use past allocations for future projects and only request additional funds when needed and release the funds when left unused.

Despite the total appropriations to the program of over $86.5 million and the streamlined and relatively simple procedures to adjust allocations to individual LGUs; economic conditions, such as interest rates for competitive loan productions, price of farm inputs, sale price of commodity, and trade restrictions such as tariffs can overwhelm the capacity of the AgBMP loan demand beyond the program's sustainable loan capacity and can exhaust an LGU's available funds. When this happens, LGUs are forced to suspend activities and interrupt service to clientele until the next scheduled lender repayment cycle or additional appropriations are received.

To facilitate the perpetual revolving nature of this program, all contracts with the counties were modified in 2015 such that their contract has an award amount equal to all funds under the oversight of the respective county, whether as available principal for use or as an active loan with an outstanding loan balance. In this way, as monies are disbursed by the state or repaid by participating lenders, the total amount under the county's contract does not change. This eliminated annual contract budget amendments and has greatly simplified the program's administrative and accounting requirements.

The program retains the framework for competitive and non-competitive applications; however, during the last biennium, the automatic reassignment of repayments from participating lenders provided most funds to counties. For practical purposes, there has not been a need for a competitive application process in recent years.

Instead, depending on the number of requests from counties, the idle funds available for use, and past performance of the counties, AgBMP staff contacts selected counties with unused funds to negotiate a voluntarily release a portion of their allocation back to the Statewide Interim Allocation Pool authorized under Minnesota Statutes 17.117 6b(c), where it is then awarded to those counties that anticipate an increase in activity. The program is an example of cooperation among counties rather than competition.

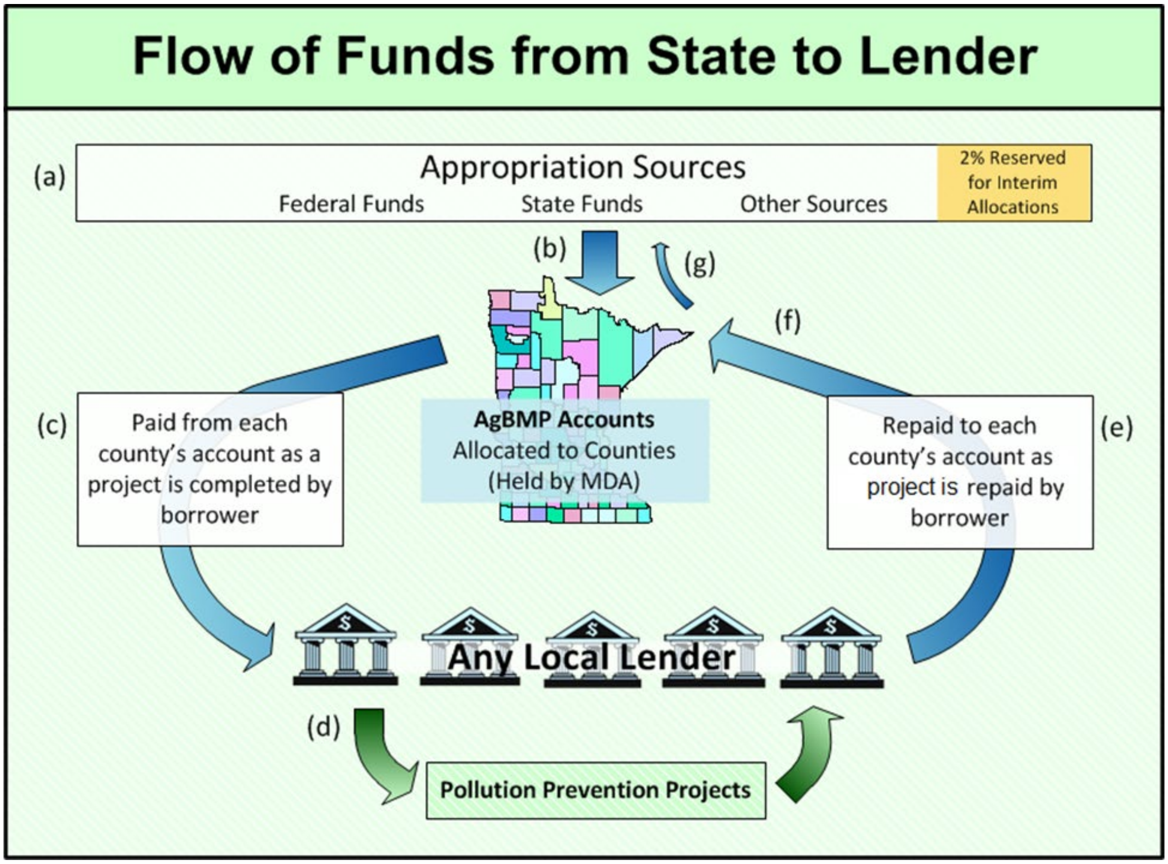
For details on the competitive application system, prior AgBMP biennium reports may be reviewed.

Counties are required to submit annual reports that summarize their past activities and propose a tentative budget for anticipated activities in the upcoming year. The counties may request additional funds in their annual report and these requests are reviewed as provided in statute. During the last application and reporting period, 30 counties increased their allocations (total increases of about $8.84 million), while 19 released a comparable amount back to the Statewide Interim Allocation Pool. There were 27 counties that did not change their allocation amount.

## Cash flow process

The process to finance a project through the AgBMP Loan Program is set up to ensure an ongoing funding source based on a county's use of these funds (Figure 2).

**Figure 2. Flow of funds from State to lender**




Steps in the process to finance a project through the AgBMP Loan Program:

a. The MDA account may receive appropriations from state, federal, other sources, or from LGUs that release part of their past allocations (g). Two percent of these funds may be reserved for interim allocations.

b. Depending on the amount of new funds and the demand for the funds, the annual application process or interim allocations are used to formally award these funds to the counties. The money is not sent directly to the counties, instead the funds are held by the AgBMP Loan Program in accounts designated for use by each participating county.

c. Local lenders may request funds for pollution prevention 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. Each April and October, lenders repay the loan principal back to the AgBMP Loan Program as the borrowers repay them. They retain interest earned as a fee for servicing and guaranteeing the loans.

f. The repaid funds are deposited into the AgBMP account for the county from which the repayment was received. The process then will perpetually repeat itself from (c) to (f) for as long as the county uses the funds.

g. If funds are not used, they may be voluntarily released or rescinded and made available to all counties (a).

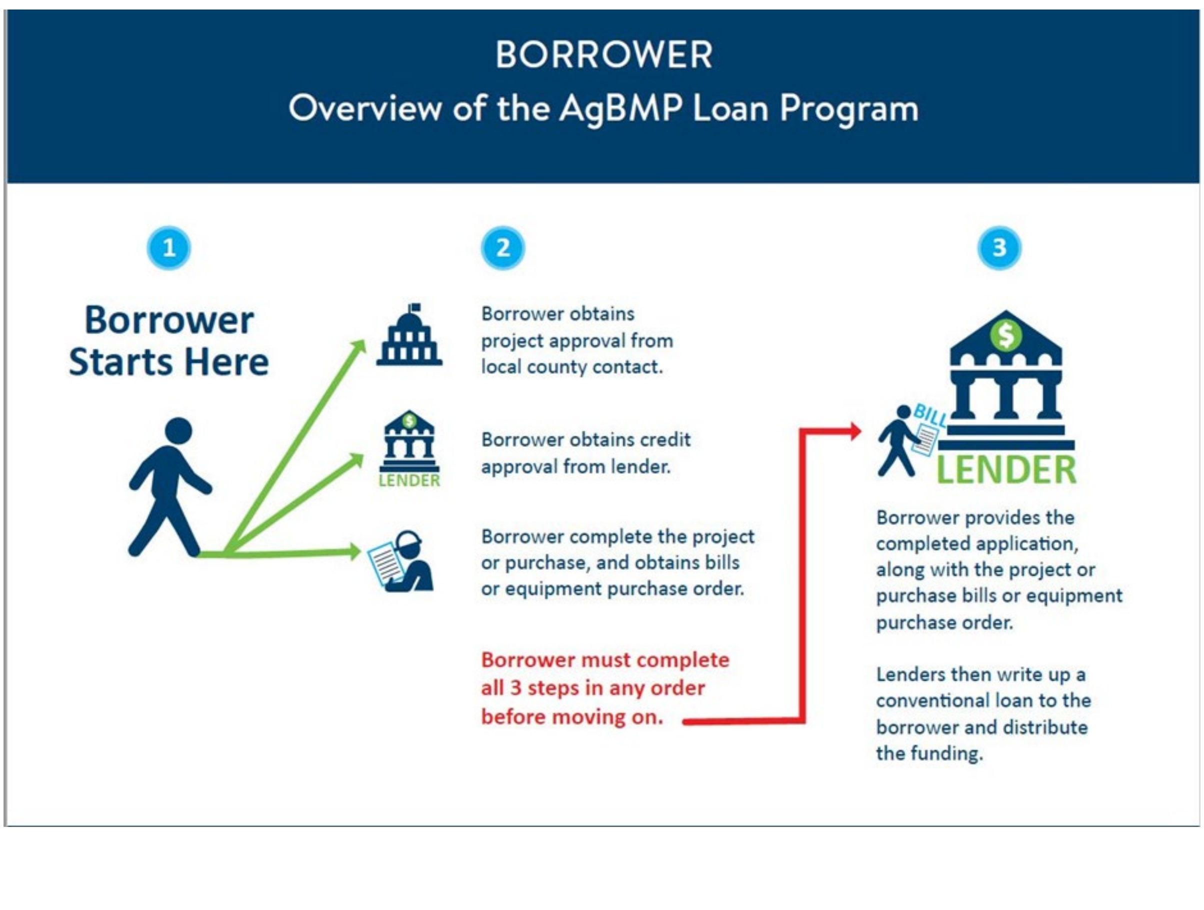
Under this system, as repayments are received, the money is reallocated back to the same county. This procedure creates a county revolving account that is held by the AgBMP Loan Program to which all participating lenders have access. In addition, if funds in a county's account are not used, it can be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

Another feature of this system is that, over time, the yearly total 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 from repayments (e) increases since more loans are being repaid. However, if a county's activity level decreases, the repayment revenue (f) from prior loans would not be fully used. If those repaid funds are not used within one year, they could 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 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.

## Project approval process

To the borrower, the approval process for an AgBMP Loan is relatively simple (Figure 3).

**Figure 3. Borrower overview of the AgBMP Loan Program**



Steps for the borrower when financing a project through the AgBMP Loan Program:

1. The Borrower identifies a problem, issue, or opportunity to reduce environmental impacts.
2. The Borrower obtains approval from the local county, a participating lender, and finds a qualified contractor or supplier. Although the program encourages borrowers to obtain the local county approval first, then the local lender, projects can be identified and approved in any order.
    - The local county approves the environmental benefits of the project and earmarks a budget.
    - The local lender is selected by the borrower for credit review and must be willing to service the loan. The lender will interact with the borrower just as with any other loan product offered by the lender.
    - The borrower may negotiate with designers, contractors, or supplier for the project, within the requirements and maximum amount approved by the county and the lender.
3. As project costs are incurred, the lender and the AgBMP Loan Program will transfer the funds behind the scenes without the borrower's involvement. The lender will work with the borrower using their internal procedures as if it was a conventional loan.

## Targeting and prioritization

The AgBMP Loan Program and its participating counties use the many environmental planning documents to guide their prioritization and targeting for funds implementing best management practices:

- At the statewide level, Minnesota's 319 Nonpoint Source Management Plan, the Barataria-Terrebonne National Estuary 320 Plan (B-T NEP) prioritizes and establishes broad water quality objectives, priorities, and goals. The Minnesota 319 plan is prepared by multiple Minnesota state and local agencies with oversight by the MPCA and is open for public comment. The B-T NEP is prepared by the Barataria-Terrebonne National Estuary with the advice of a Management Conference. Its membership includes representatives from industry and business, fisheries, agriculture, oil and gas, government agencies, individual citizens, landowners, civic organizations, hunters, scientists, engineers, environmentalists, economists, and urban planners and is open for public comment.
- At the local or county level, a local water planning process, which identifies water resources, prioritizes problems and establishes local goals and recommended solutions. This plan incorporates public involvement and in-depth review by many state agencies.
- At the local and state level, counties or state agencies prepare TMDL Implementation Plans, Watershed Restoration and Protection Strategy (WRAPS), Groundwater Restoration and Protection Strategies (GRAPS), One Watershed, One Plan, and similar planning documents evaluate and address specific water quality impairments. These plans are professionally prepared; reviewed by local, state, and federal agencies; and open for public comment.
- The AgBMP Loan Program can also be used to implement other environmental plans, such as protection of wellhead areas and sole source aquifers.

All projects funded by the AgBMP Loan Program must be approved by a county confirming that the project will implement a component of a recognized environmental plan or is otherwise eligible by statute or appropriation source.

Each participating county establishes its own internal procedures to target, prioritize, select, and implement the specific practices that carry out eligible components of local environmental plans. Eligibility is not restricted to farmers alone, nor are there programmatic borrower income, net worth, or income ratios limitations. If a project addresses a recommendation in a local environmental plan, it generally will be eligible for a loan through this program. However, lenders may establish their own underwriting criteria which may include income, net worth, ability to pay, or other financial limits.

The project approval process by counties varies greatly; however, most counties have chosen to delegate the authority to approval projects to local expert and technical staff without requiring individual board action. A few counties use a local review panel to evaluate and rank eligibility. With an established program as this, most counties approve prioritized eligible projects as they identify willing clients that meet local lending criteria.

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; CLWPs; Total Max Daily Load (TMDL) Implementation Plans; WRAPS; One Watershed, One Plan; and other environmental planning documents provide background and guidance to the local counties, but it is ultimately the county and a landowner that must transform those recommendations into real projects that are both effective to address water quality issues, economical, and of benefit to the landowner.

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 and if the borrower is unable to, the loan is guaranteed to the program by the lender issuing the loan. Therefore, other considerations significantly impact the landowner's decision to take on additional debt, such as state of the economy, agricultural prices, existing debt, and long-term personal goals. The lender also evaluates these parameters to assess the loan's risk since they are ultimately responsible for repayment. This program attempts to balance finding ideal environmental projects in the most sensitive areas with the practical and economic feasibility of finding ready and willing borrowers with the financial wherewithal to take on debt.

## Overview of Clean Water Fund (CWF) activity

In 2008, Minnesota's voters passed the Clean Water, Land and Legacy Amendment to the Minnesota Constitution to protect drinking water sources; to protect, enhance, and restore wetlands, prairies, forests, and fish, game, and wildlife habitat; to preserve arts and cultural heritage; to support parks and trails; and to protect, enhance, and restore lakes, rivers, streams, and groundwater.

The AgBMP Loan Program has received appropriations from the CWF to increase the program's loan capacity and provide partial administrative funding to meet increasing demand for loans.

Because the AgBMP Loan Program has a perpetual, revolving loan framework, this program will have continuing, environmental benefit far beyond their initial use.

### Allocations from Clean Water Fund

The AgBMP Loan program has received $14.5 million from the CWF in total. Approximately $14 million (96.4% of all appropriations) has been used to capitalize pass-through loans to implement best management practices recommended in local environmental plans (Table 2). The balance ($500,000) was used for MDA administrative expenses. A total of $33 million in loans have been issued from these funds. To date, the CWF allocations to this program have leveraged over $33.6 million in additional funds. These funds are allocated to counties using the same procedures as all other funds appropriated to the AgBMP Loan Program and may be awarded for projects anywhere in the state.

**Table 2. Clean Water Fund appropriations with total funding and amount available for pass-through loans.**

| Appropriation Citation | Total Appropriated | Available for Loans |
|---|---|---|
| 2009 Session Law Chap. 172 Art. 2 Sec 2e | $4,500,000.00 | $4,452,489.90 |
| 2011 1st Special Session Law Chap. 6 Art. 2 Sec 3(c) | $9,000,000.00 | $8,952,326.10 |
| 2013 Session Law Chap. 137 Art. 2 Sec 3(c) | $400,000.00 | $340,000.00 |
| 2015 Session Law Chap. 2 Art. 2 Sec 3(c) | $150,000.00 | $83,424.18 |
| 2017 Session Law Chap. 91 Art. 2 Sec 3 (c) | $150,000.00 | $59,793.44 |
| 2019 Session Law Chap. 2 Sec 3 (c) CWF | $150,000.00 | $59,625.58 |
| 2021 Session Law Chap. 1 Art. 2 Sec 3 (c) | $150,000.00 | $27,235.21 |
| **Total** | **$14,500,000.00** | **$13,974,894.41** |

### Estimated environmental benefits

The AgBMP Loan Program is very efficient and effective because it does not require extensive prior environmental review of proposed projects. Instead, the program uses the findings of research institutions such as universities, states, and federal agencies to determine the best management practices to reduce environmental impacts. The program will finance those proven recommended practices, subject to local county review of site-specific conditions.

Because eligible practices have already been proven effective, further research efforts to monitor on site environment changes are not required. Instead, estimated benefits are generated from environment models.

The following tables show the estimated annual reduction in pollutant load for the biennium activity and cumulative through the useful life of a practice. The biennium benefits represent only projects completed during the biennium while long term reductions include ag waste and septic practices completed in the last 30 years and conservation tillage practices completed in the past 10 years. (Note: Only those projects that had the requisite descriptive information were included in the calculations; therefore, the calculated values underestimate true benefits.)

**Table 3. Estimated benefits (nutrients managed) following installation of AgBMP-funded feedlot and manure handling equipment improvements.**

| Manure Management Projects | Total Projects Funded | Total Animal Units on Sites | Total Nitrogen tons/yr. | Total Phosphorus tons/yr. |
|---|---|---|---|---|
| Biennium Projects | 173 | 95,000 | 8,000 | 4,000 |
| All Projects | 2,755 | 1,247,000 | 106,000 | 55,000 |

*Source: University of Missouri Extension – MWPS-18, Manure Management Systems Series, Section 1, Manure Characteristics. (https://www.canr.msu.edu/uploads/files/ManureCharacteristicsMWPS-18_1.pdf)*

**Table 4. Estimated annual sediment load reductions following implementation of conservation tillage practices funded by the AgBMP Loan Program.**

| Conservation Tillage Projects | Total Projects Funded | Total Acres | Sediment Reduction tons/year |
|---|---|---|---|
| Completed During Biennium | 160 | 237,000 | 912,000 |
| Completed During Last 10 Years | 573 | 852,000 | 3,280,000 |

*Source: USDA Natural Resource Conservation Service, 1997 Natural Resources Inventory (https://www.mn.nrcs.usda.gov/technical/nri/findings/erosion_rates.htm)*

## Fiscal monitoring of the AgBMP Loan Program

The AgBMP Loan Program has a continual process of monitoring obligations to the program:

- Each fiscal year, the AgBMP Loan Program requires each local lender to complete an Annual Verification of Account Balance which reconciles the AgBMP Program's and local lenders' financial records of their obligations to the program. Each lender receives a standardized form shortly after July 1 of each year. The form summarizes all lender activity for the year including disbursements, repayments, and borrower loan terms as previously reported by the lender. The lender is notified of any discrepancy and then additional review of accounting records is undertaken.
- Semi-annual invoices are sent out each April and October, including:
    - A summary of the local lender's total obligation to the program,
    - All transactions for the past calendar year, and
    - A repayment schedule for all future payments.
- Repayments are monitored to insure collection in a timely manner. Lenders are reminded at 30-day intervals until payment is made. All lenders are current on their obligations to the AgBMP Loan Program as of June 30, 2023.
- All disbursements issued by the program require written approval by the local county administrator or their designee.
- Requests for disbursements must be signed by a local lender representative and show the amount requested and loan terms.
- All disbursements require independent documentation of incurred cost, such as a bill, invoice, or purchase agreement from the contractor, dealer, or supplier.
- Each disbursement request is reviewed by AgBMP staff and evaluated for:
    - Its appropriateness and relation to the approved practice,
    - Eligibility and appropriate funding,
    - Availability of funding to the county, and
    - Executed contracts with the county and the local lender.
- Whenever a transaction is made, the county and the local lender are immediately notified. In the notification they also receive:
    - An update to their existing current budget,
    - A summary of all transactions for the calendar year,
    - A summary of their total obligation to the program,
    - The remaining budget available, and
    - Scheduled repayments.
- Each county receives a newsletter highlighting timely program issues, an update of the overall budget, the total amount disbursed, the total amount remaining, and the total amount recently repaid.
- Each county is required in its annual report to:
    - verify any remaining balance to the current allocation and its intended use,
    - verify the use of all funds during the past calendar year,
    - report any previously unreported loan activity,
    - report the anticipated use of all anticipated repayments and revenues, and
    - estimated unmet needs for next calendar year.
- The U.S. EPA periodically reviews the program.

## Loan defaults

The AgBMP Loan Program does not disburse funds directly to borrowers, rather local participating lenders underwrite, issue, service, and guarantee repayment of the loans. They are authorized to charge the borrower up to 3% interest plus their usual and customary fees for their services. Because the lender guarantees the loan, the status of the underlying loans has no impact on the program, therefore the program does not require reporting of the borrower's status.

The AgBMP Loan Program requires participating lenders to provide security for their obligation to the program. Conventional lenders, such as banks and credit unions, guarantee repayment of all funds they receive from the program and pledge their assets as security toward repayments. This pledge 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 an *ad valorem* tax for the full amount of the funds obtained from the program, assign special assessments against the properties receiving the benefit, or can provide an assigned cash account or security equal to 20% of the balance due, up to $25,000.

No lenders have defaulted on their obligations to the AgBMP Loan Program.

## Participating lenders

The AgBMP Loan Program has over 250 participating lenders, plus local branch office located in nearly all counties of the state. However, regardless of the location of a lender, any lender may provide services in any county, at their discretion.

In recent years, more local governments, usually counties, have been joining the lending network. All rural landowners need a functional septic system but obtaining financing for them is often difficult because they are expensive to install (typically ranging from $12,000 to $30,000).

Conventional lenders have expressed hesitance to finance septic projects because they may be difficult to secure collateral, they hold a second position mortgage, or there is inadequate equity in the property.

However, the AgBMP Loan Program includes the option for local governments with taxing authority to act as lenders. Currently more than 40 counties have established this type of system for their landowners. Some counties have established procedures to encourage borrowers to approach the local lending institutions first but will step up to fulfill the lender role when dealing with septic systems as a service to their constituents, a public health issue, and protection of the environment.

Counties will issue a loan for a septic system and take a second position security for the loan itself. In addition, they will also create a special assessment onto the benefiting property, such that if there is default, the special assessment is eventually paid by the subsequent landowner, and thus repayment of the principal is guaranteed. Some counties will offer an assumable option to the subsequent landowner.

Depending on their internal procedures, the county may either independently bill the landowner for the loan payment or incorporate it into their tax system. Nevertheless, defaults have been few because borrowers are less likely to let property taxes go into arrears.