

Agricultural Best Management Practices Loan Program

Biennial Status Report

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www.mda.state.mn.us

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Representing activity through June 30, 2011



Front Cover:

The front cover shows the Randal Hertzberg agricultural waste management project during construction and after completion. The principal component of this project was the installation of a manure storage pit. The total cost of the project was approximately \$150,000. It was financed through many cooperating programs:

- Federal funds - \$66,000
- Board of Water and Soil Resources Feedlot cost share grant - \$41,000
- North Fork Watershed District cost share grant - \$5,000
- AgBMP Loan Program loan - \$16,000
- North Fork Watershed District loan - \$21,000

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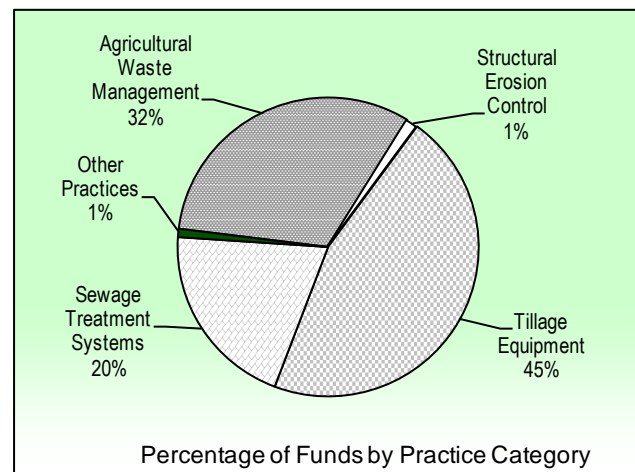
EXECUTIVE SUMMARY

In 1994 the Minnesota Legislature enacted initiatives to provide long term, sustained funding to resolve nonpoint source water pollution problems. One section of these initiatives was the Agricultural Best Management Practices (AgBMP) Loan Program which was created to assist local governments implement agricultural and rural components of their Comprehensive Local Water Plan, Total Maximum Daily Load Implementation Plans and other environmental plans. 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 and districts may participate in the AgBMP Loan Program as local administrators. Any financial institutions capable of servicing a loan and 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, 2011. The program has been received \$65.7 million since 1995, primarily from Minnesota's Clean Water State Revolving Fund. These funds have been awarded or used in all of the state's counties and have financed 10,666 projects with total loans of \$160.6 million. The total cost for all completed projects that include AgBMP Loan Program financing is estimated to be \$250.7 million. In fiscal year (FY) 2011, 493 projects were completed totaling \$11.0 million in loans. The figure below shows a summary of the amount of loans issued since 1995.

- 2,101 Agricultural Waste Management practices have been implemented throughout the state (98 in FY 2011). These systems include 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.
- 232 Structural Erosion Control practices have been funded (3 in FY 2011) 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.
- 3,512 Conservation Tillage practices (148 in FY 2011) have been implemented, including various types of seed bed preparation, planting, cultivation, and harvest implements that leave crop residues on the soil surface.
- 4,734 Sewage Treatment Systems on farms and rural properties (229 in FY 2011) have been repaired or replaced through this program.
- 87 Other Practices (15 in FY 2011), including well sealing, chemical and petroleum storage containment structures, and chemical spray equipment have been funded through the program.



The benefits of the program are:

- Prevent water pollution and restore clean water;
- environmental compliance for farmers and landowners;
- make farm operations more effective and efficient;
- stimulate and support the rural Minnesota economy; and
- serve all Minnesota constituents.

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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, Wellhead and Sole Source Aquifer Protection Plans and other environmental planning documents.

The AgBMP Loan Program provides loans for projects:

- that prevent water pollution,
- that are approved by local governments (Soil and Water Conservation Districts, county government, 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 MDA and service the loan to the borrower.

These local 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 has 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 and authorizing odor control financing in the 2000 Session Law Chap. 492 Sec. 10(3).

The program was first authorized in 1994 with minor procedural amendments in 1995 and 1996. In 2001, there were significant legislative amendments that 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 their impact. The Comprehensive Local Water Plans, prepared by the counties, provide the basis for much of the statewide water plan.

SRF Operating Agreement: The AgBMP Loan Program has received funds from Minnesota's Clean Water State Revolving Fund (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 US Environmental Protection Agency (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 Minnesota Public Facilities Authority (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 Minnesota Department of Agriculture (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 Intended Use Plan 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 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.)

Procedure and Policies of the AgBMP Loan Program: This is 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

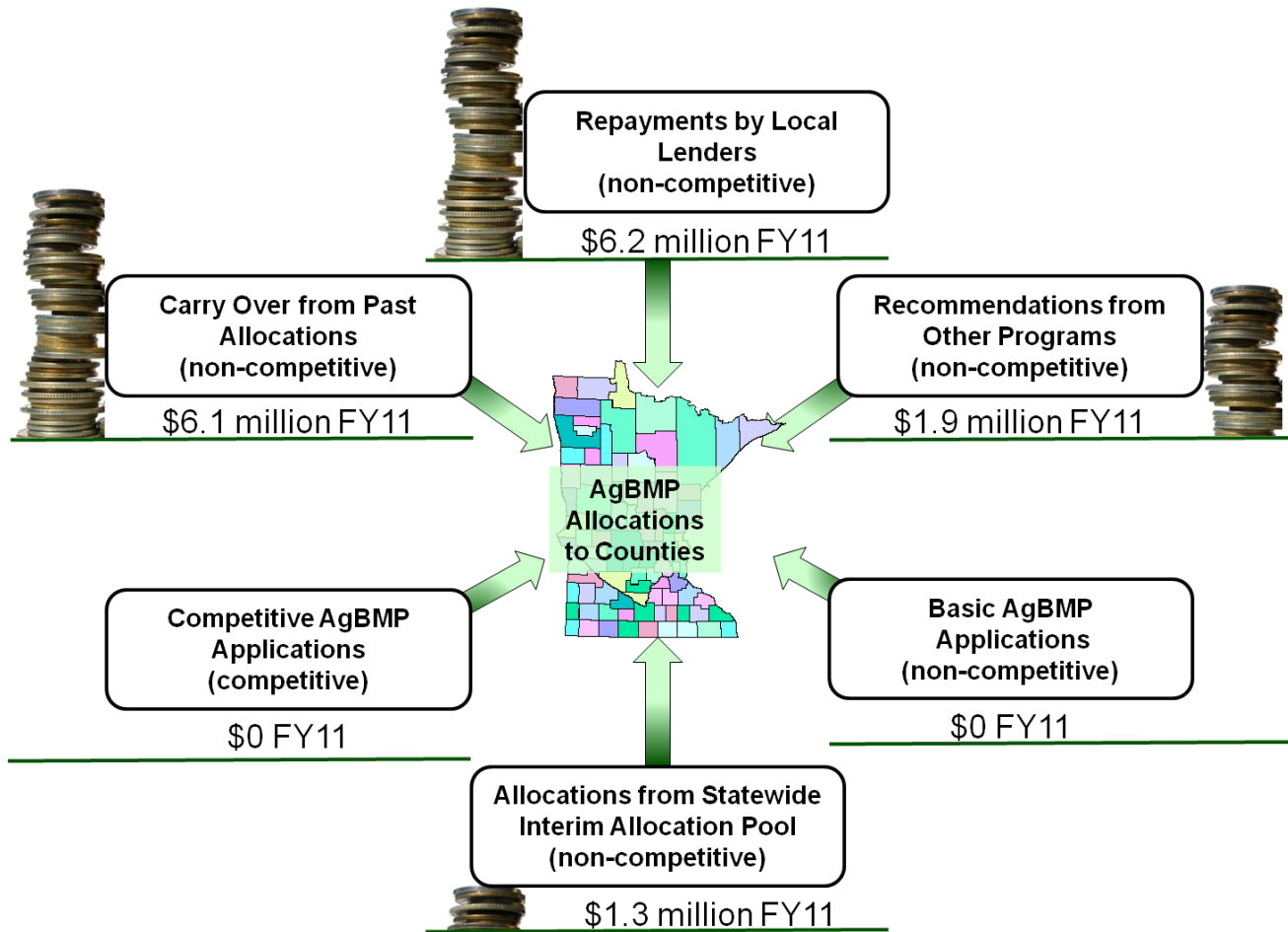
(For the purpose of this report, the term allocation refers to the award of funds by the AgBMP Loan Program to a local government unit, while the term appropriation refers to the award of funds by the state legislature or the Public Facilities Authority to the MDA. Through the remainder of this report, the term county 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 Soil and Water Conservation Districts.)

The funds awarded in the county's annual allocation can potentially come from multiple types of allocation processes (see Figure 1) including:

- Competitive Applications for recent appropriations to the AgBMP Loan Program (\$0 in FY11).
- Basic Applications for recent appropriations to the AgBMP Loan Program (\$0 in FY11).
- Funding recommendations from other groups coordinating with the AgBMP Loan Program to finance eligible projects (\$1.9 million in FY11).
- Funds already committed to projects by the county but carried over from their previous year's allocation (\$6.1 million in FY11).
- Funds that have been repaid by participating lenders to the AgBMP Loan Program from previously completed projects for the respective county (\$6.2 million in FY11).
- Funds awarded from the Statewide Interim Allocation Pool (\$1.3 million in FY11).

These allocations are awarded to the county and held in a perpetually revolving account earmarked for that county for as long as they are able to use it. Although this may seem to be a complicated system, it is structured to support multiple funding sources with differing requirements while insuring the available revolving financial resources are used first before new funds are requested. From a practical standpoint, the accounting behind the allocations is transparent to the county, lender, and borrower, while AgBMP staff is responsible to monitor allocations and issue awards that will optimize the use of the available funds.

Figure 1. Types of allocations made to counties



A. COMPETITIVE AWARDS, BASIC AWARDS, AND CARRYOVER

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. Through this application process a county may request new funds either competitively or non-competitively to increase the corpus of the county’s revolving account.

The application also includes an *annual report* of how previously awarded funds were used during the past year and how they intend to use the revolving funds during the next year. The county reports any funds committed to projects that have not yet been completed so that they may be carried over into the next calendar year. Counties may retain all funds for as long as they use or commit the funds; however, funds that are reported unused are rescinded and made available to all counties. Funds carried over do not change the corpus of the account while rescissions will reduce the revolving account balance.

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 stated intended use of funds as reported in this

document is for planning purposes and may be changed by the county as projects are specifically identified for implementation.

B. INTERIM ALLOCATIONS

High performing 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 of Agriculture 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.

Funds received as an interim allocation increases the corpus of the county's revolving account.

C. COORDINATION WITH OTHER FUNDING ORGANIZATIONS

The AgBMP Loan Program coordinates with the Board of Water and Soil Resources (BWSR), Department of Natural Resources (DNR), Department of Health (MDH), and Pollution Control Agency (MPCA) to review and coordinate financing for cost-share grants offered through the Clean Water, Land, and Legacy Amendment. Any AgBMP-eligible project that is awarded a cost-share grant from these coordinating agencies will also receive any requested AgBMP loan financing that is associated with the successful grant recipients. These coordination awards will be included as a component of the county's annual allocation without further program application or competition and will increase the corpus of the county's revolving account.

D. REPAYMENT FROM LOCAL LENDERS

Any repayments received from participating local lenders are reallocated to the same county and are included in their annual allocation. Repayments are available to the county upon request as soon as they are received. Funds not requested early are automatically added to next year's annual allocation.

Repayments do not increase the corpus of the county's revolving account.

ANNUAL APPLICATION AND REPORTING 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 AgBMP Loan Program holds several (usually five) workshops each year to assist counties and local lenders in completing their annual application and report. The application form allows local governments to describe their local funding needs in relation to their Comprehensive Local Water Plan, legislative criteria, and the program's purpose.

The annual application and reports are initially evaluated by AgBMP staff and each county's tentative allocation is calculated based on requirements of the AgBMP statutes, existing contracts, and past guidance of the Statutory Review Committee. 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 (BWSR); Association of Minnesota Soil and Water Conservation Districts; Association of Minnesota Counties; USDA Natural Resource Conservation Service (NRCS); and USDA Farm Services Agency. Their evaluation is based on nine statutory requirements and other criteria established by the committee, including past performance. The 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 of projects to be funded from other agencies and other funding sources such as the Clean Water Fund (one portion of the Clean Water, Land, and Legacy

Amendment), 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 grant requests, thus providing even greater coordination of AgBMP Loan Program funding with other state agencies and their successful applicants.

This committee reviews all competitive applications submitted by counties and other recommendations prepared by AgBMP staff. They evaluate requests for new funds, carry over from past awards, and reallocation of revolving payments and submit their recommendations to the Commissioner of Agriculture for the annual 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.

Multiple processes are in place for requesting additional funds to increase the corpus of the county's account; however, when the amount of recent appropriations to the AgBMP Loan Program are small, it has been found that some of these processes are not practical to implement when all 65 participating counties apply for the limited funds.

- **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 competitive applications have been discouraged because of limited new funding to the program (about \$1 million per year). Instead, the interim allocation process using the statewide allocation pool has been the most effective means to insure the use of newly appropriated funds.
- **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 detail 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; instead the interim allocation process has been used.
- **Interim Allocation Process.** Based on the experiences from 1995 to 2001, the Statutory Review Committee realized that when the amount of new appropriations to the program is small compared to the demand and the number of counties requesting funds, it is not efficient to distribute the funds through the competitive and basic applications where only a few counties might get most of the funds and the majority of the counties would get only a small award. Instead, they established a policy to use the interim allocation process authorized under the 2001 legislation. The interim allocation process only funds locally identified pending projects that are ready to proceed within the next three months. Because interim allocations are awarded based on existing projects that are ready to proceed on a first come basis, these awards are seldom idle and 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 additional financial resources.

A waiting list of unfunded, pending projects is maintained when the interim allocation pool is exhausted. These pending projects are funded first as monies become available. To date, no projects have been rejected due to lack of funding; however they may have had to wait for up to three months before adequate funds have become available.

This flexible three-tier application and allocation process 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.

CASH FLOW PROCESS

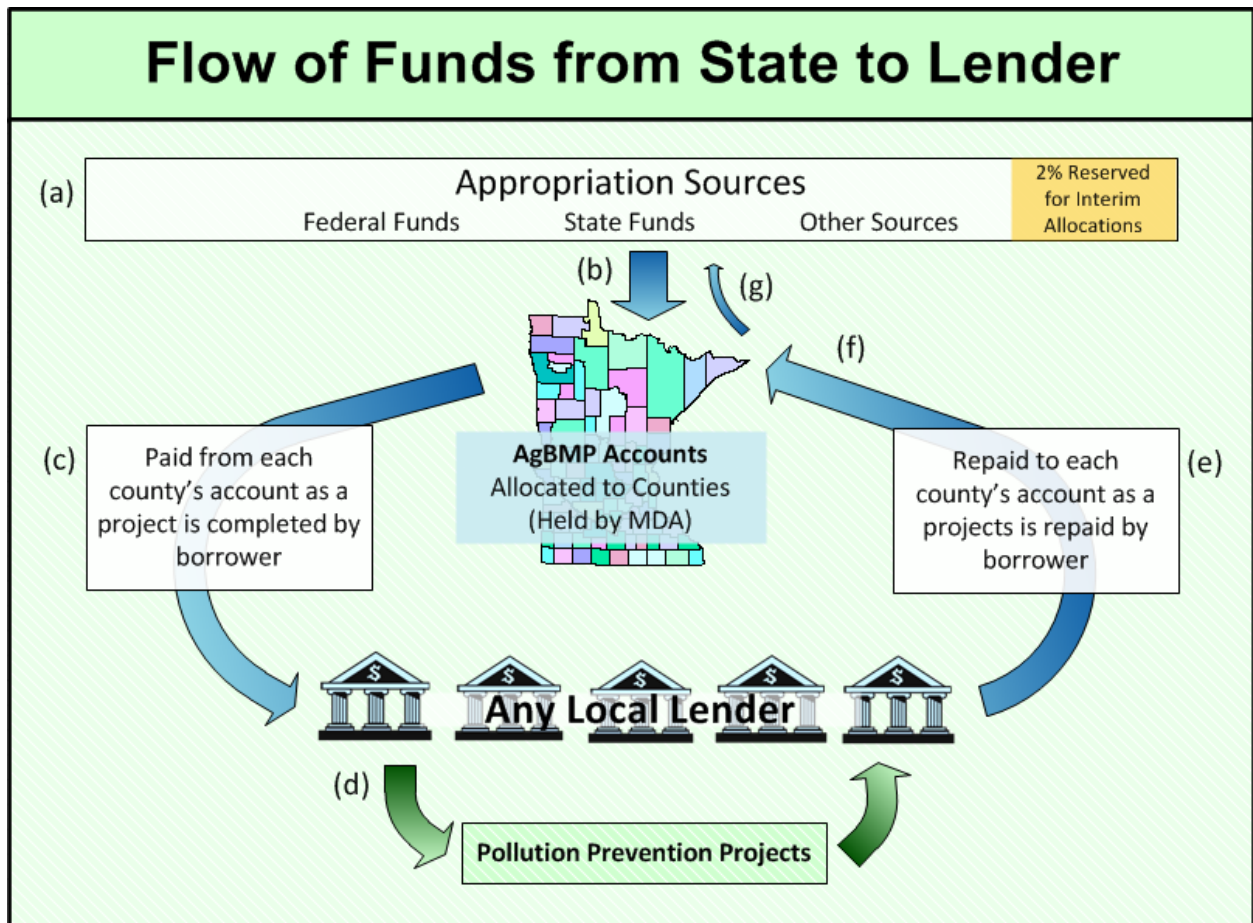
Figure 2 shows a flow chart of the funds through the AgBMP Loan Program. The process to finance a project follows these steps (letters correspond to items on Figure 2):

- a. The MDA account may receive appropriations from state, federal, other sources, or from rescissions of past allocations (g).
- b. Through the annual application process or interim allocations, these funds are allocated 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. 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 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 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 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 without the lenders having to make a payment.

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 (f) 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.

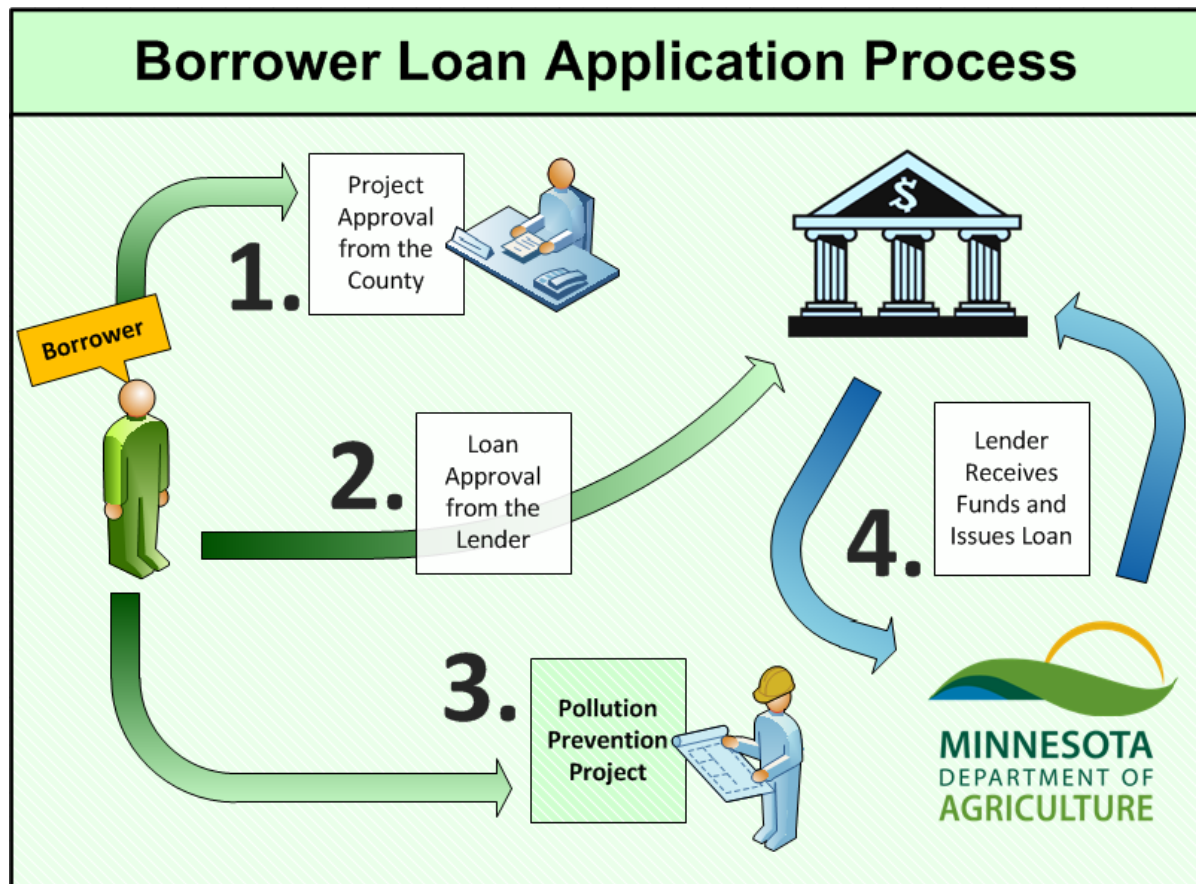
Figure 2. AgBMP Loan Program Revolving Cash Flow Chart



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 2 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.

PROJECT APPROVAL PROCESS

Figure 3. Steps of the borrower loan application process



To the borrower, the approval process for an AgBMP Loan is relatively simple.

1. The borrower obtains approval for the project by the local county based on the environmental benefits and the availability of funds.
2. Once approved by the county, the application is forwarded to the local lender selected by the borrower for credit review.
3. With the approval of a local lender willing to issue a loan, the borrower may negotiate with the contractor or supplier for the project, within the maximum amount approved by the county and the lender.
4. As project costs are incurred, the lender and the AgBMP Loan Program will transfer the funds behind the scenes without the borrower's involvement.

TARGETING AND PRIORITIZATION

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

- At the statewide level, Minnesota's 319 Nonpoint Source Management Plan prioritizes and establishes broad water quality objectives, priorities, and goals. This plan is prepared by multiple state and local agencies with oversight by the MPCA.
- 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. 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 which address specific water quality impairments. These plans are professionally prepared and are reviewed by local, state, and federal agencies.
- The AgBMP Loan Program targets all Clean Water, Land, and Legacy Amendment funds to implement MPCA approved TMDL Implementation Plans. All other funds are available anywhere in the state.

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

Each participating county establishes its own internal procedures to target, select, and implement 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 in the county.
- Implement any eligible practices within targeted, priority water resource areas, for example, conservation tillage practices within ½ mile of sediment impaired waters.

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 the 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; the loan is guaranteed to the program by the lender issuing the loan. Therefore non-environmental 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. 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. In the long run, the cost to the public 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. Table 12, page 28 shows an estimated average administration cost of \$10.60 per \$1,000 of loans issued.

REQUESTED FUNDING AND SCOPE OF WORK

A. PAST REQUESTS FOR FUNDING FROM COUNTIES

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 for new funds are limited to either \$100,000 or \$300,000.

In the 2011 applications, 65 local governments proposed work plans totaling \$27.5 million. Revolving funds provide \$17.6 million toward meeting their needs, while their unmet need was \$9.9 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 30% of the annual application requests; upgrading agricultural waste management practices contributed 35% of the requests.

B. APPROPRIATIONS TO THE AGBMP LOAN PROGRAM

The AgBMP Loan Program has received \$52.9 million in SRF funds through the PFA and direct appropriations totaling \$12.8 million from the State Legislature; \$65.7 million in total. These revolving funds have resulted in \$160.7 million in total loans.

Current statute authorizes the program to manage up to \$140.0 million in total appropriations. The program is currently funded at 47% of the spending authority.

Table 1 shows the amount appropriated to the AgBMP Loan Program from all 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
06/09/2009	Overpayment by Lender	\$0.17
10/01/2009	2009 Session Law Chap. 172 Art. 2 Sec 2(e)	\$1,800,000.00
03/01/2010	2009 Session Law Chap. 172 Art. 2 Sec 2(e)	\$200,000.00
03/01/2010	Public Facilities Authority	\$1,000,000.00
11/19/2010	2009 Session Law Chap. 172 Art. 2 Sec 2(e)	\$2,200,000.00
04/14/2011	Public Facilities Authority	\$1,000,000.00
06/23/2011	2009 Session Law Chap. 172 Art. 2 Sec 2(e)	\$252,489.90
	TOTAL	\$65,652,490.07

C. IMPAIRED WATERS ACTIVITIES

Counties estimate an average of **60%** of all their funds are used for projects that address waters currently on the MPCA 303(d) impaired waters list. However, as more waters are classified as impaired, the percentage of funds to address impairments will increase.

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. Borrowers are also limited to owing the program no more than \$100,000 at any time, though they might have multiple loans outstanding. Table 2 shows a summary of the average reported total project cost, average AgBMP loan amount, and the percentage that AgBMP loans contributes toward the total cost of the projects based on the invoices submitted to the AgBMP Loan Program for disbursement for the last five years. The AgBMP Loan Program provides, on average, financing for 61% of the total cost of projects, while the borrowers generally establish significant equity (39%) 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	\$62,500	\$30,600	49%
Structural Erosion Control	\$29,600	\$13,900	47%
Conservation Tillage Equipment	\$48,200	\$29,000	60%
Septic Systems ¹	\$9,300	\$8,600	92%
Other Practices	\$32,200	\$19,200	60%
Overall Average	\$32,200	\$19,500	61%

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. AgBMP loans are intended to coordinate with any state or federal cost-share grants, providing a low-interest loan option to finance landowner match requirements.

State general cost-share and Clean Water Funds for conservation on agricultural lands and associated water quality improvement are administered through the BWSR to various local government units, including Soil and Water Conservation Districts, Watershed Districts and Counties. The NRCS administers substantial federal cost-share funds for agricultural BMPs. County SWCDs often serve as integrators of the AgBMP Loan Program with state and federal cost-share programs. In addition, the State provides technical engineering assistance funding through the BWSR Nonpoint Engineering Assistance Program to eight joint powers of SWCDs for shared engineering of best management practices. Because all of these programs are locally administered and offices are often colocated, there is substantial cooperation and coordination between the state and federal programs, multiple funding sources, and technical assistance to effectively and efficiently implement practices.

State and federal cost-share programs have differing limitations. State general 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, state Clean Water Funds require a 25% non-state match, and federal cost-share provides a flat rate per practice implemented. For the purposes of these match requirements, the AgBMP loans are considered a cash contribution provided by the borrower.

State Clean Water Fund cost-share grants to feedlot operators are also limited to facilities with less than 500 animal units. Federal cost-share grants do not have a limit on the size of a feedlot operation, but include differing approval processes based on grant amount.

The AgBMP Loan Program has no limitation on the percentage of the total project cost financed or matching requirement (see Table 2), though many lenders require some borrower equity. The program is limited to feedlot 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 SRF funds are used. In addition, the AgBMP Loan Program funds many things not eligible under certain state and federal cost-share programs, such as conservation tillage equipment and upgrading of septic systems.

The participating local government units coordinate AgBMP loans with state and federal cost-share funds. These local government units provide the strategic service of evaluating projects, coordinating eligibility for potential funding sources, evaluating priorities, and submitting the appropriate applications, proposals and plans to assist the farmer to obtain financial assistance while achieving the environmental objectives of the programs and approved local water plans. 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, USDA - Natural Resources Conservation Service field office and/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 6/30/2011. This includes federal SRF funding and other state funds.

A. ALL YEARS COMBINED

Figure 4. Cumulative amount of AgBMP funds allocated to counties, 1995-2011

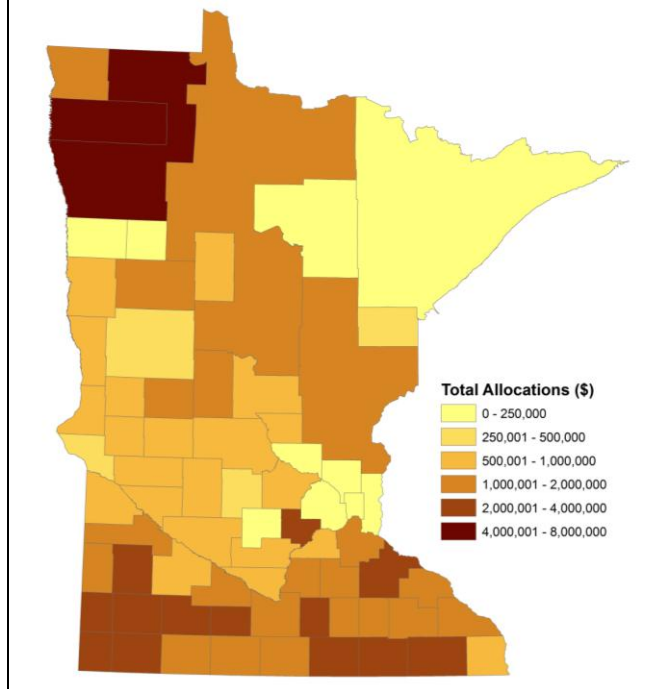


Figure 5 shows the total amount of loans issued. The top four counties are Northwestern Minnesota Joint Powers Board (\$10 million), Waseca (\$6.5 million), Watonwan (\$5.2 million) and Murray (\$5.1 million).

The AgBMP Loan Program has disbursed \$82.2 million to local participating lenders under past allocations since 1995. Because of the revolving nature of the program, total disbursements exceed the total appropriations of \$65.7 million.

Through June 30, 2011, 10,666 practices totaling \$160.6 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 685 with an average annual total loan amount issued at \$13.4 million. There were 493 loans valued at \$11.0 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.

Figure 5. Total Amount of All Loans Issued 1995-2011

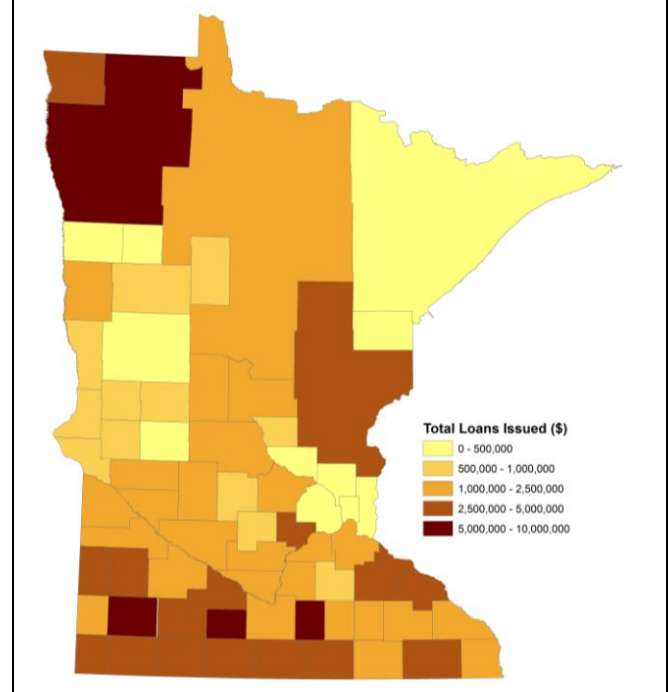


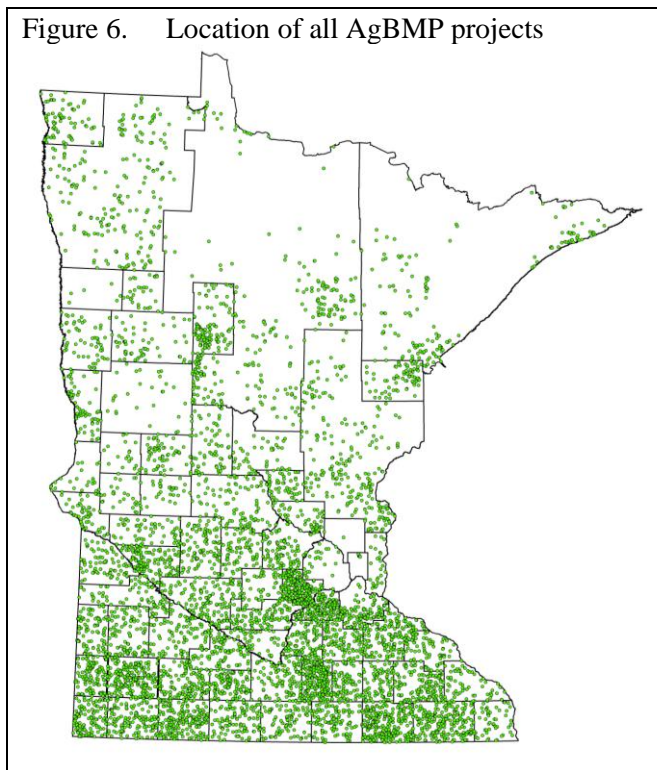
Table 3. Summary of the number and amount of loans issued by fiscal year for the last ten years ending 6/30/2011

Fiscal Year	Number of Loans	Total Loan Amount
2001	755	\$7,492,922
2002	621	\$8,754,775
2003	927	\$11,860,632
2004	649	\$8,606,450
2005	784	\$12,716,696
2006	642	\$11,780,141
2007	948	\$15,889,381
2008	718	\$13,473,279
2009	684	\$13,712,825
2010	581	\$12,526,601
2011	493	\$11,272,003

The impact of the overall economy in recent years is also reflected in program activity. There has been a decline in the number and amount of loans issued in 2010 and 2011 when compared to preceding years (see Table 3). Some factors that may be affecting the program activity include:

- General insecurity of the United States and global economic conditions such that people are unwilling to take on additional debt.
- Lenders encourage borrowers to use in-house conventional loan products at current competitive rates for financing.
- Manufacturers and dealers are providing in-house financing at lower interest rates (for example: 0% for five years) to stimulate sales.
- Reduction in administrative capacity by counties due to budget and staffing cuts.
- Increased production costs or reduced revenues in some sectors of the agriculture economy.
- Decreased volume of home sales which trigger septic system repairs.

Figure 6. Location of all AgBMP projects



Over 10,660 projects have been completed and are located in nearly all counties in Minnesota, (see Figure 6). There were 493 projects completed during 2011. 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.

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

Category	Farm	Non-Farm	Not Identified
Agricultural Waste Management	2,101	0	0
Structural Erosion Control	199	25	8
Cons. Tillage Equipment	3,512	0	0
Septic Systems	1,813	1,806	1115
Other Practices	63	10	14
Total	7,688	1,841	1,137

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

Category	Percent of Loans Issued	
	% by Number of Loans	% by Dollar 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%

ESTIMATED ENVIRONMENTAL BENEFITS

The AgBMP Loan Program is very efficient and effective because it does not require extensive environmental review of proposed projects. Instead, the program uses the findings of research institutions such as universities and state 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.

The disadvantage of this is that before and after water quality measurements and net change calculations cannot be made. Instead, the program uses the findings of the research institutions and the specific size (such as acres or animal units) of the project to estimate theoretic net benefits. Other agencies, such as the MPCA and the DNR, have established regular water quality monitoring of representative waters to estimate overall effectiveness of best management practices implementation by all water resource managers.

The following tables show estimated reductions for the FY10-11 biennium and cumulative loading following implementation of AgBMP practices.

Table 6. Estimated phosphorus and nitrate load reductions following installation of AgBMP funded feedlot and manure handling equipment improvements

Fiscal Years 2010 - 2011				Cumulative Total 1995 to 6/30/2011			
Number of Projects	Animal Units Managed	Total P Managed (tons)	Total N Managed (tons)	Number of Projects	Animal Units Managed	Total P Managed (tons)	Total N Managed (tons)
213	49,600	820	1,600	2,101	619,000	11,000	22,000

Source: University of Missouri Extension - MWPS-18, Manure Management Systems Series, Section 1, Manure Characteristics.

<http://extension.missouri.edu/explorepdf/envqual/eq0351table01.pdf>

Table 7. Estimated sediment load reductions following implementation of conservation tillage practices funded by the AgBMP Loan Program

Fiscal Years 2010 - 2011			Cumulative Total 1995 to 6/30/2011		
Number of Projects	Acres Of Tillage	Sediment Loss Reduction (tons)	Number of Projects	Acres of Tillage	Sediment Loss Reduction (tons)
309	75,000	360,000	3,511	2,500,000	11,900,000

Source: NRCS, 1997 Natural Resources Inventory

http://www.mn.nrcs.usda.gov/technical/nri/findings/erosion_rates.htm

Table 8. Estimated phosphorus and TSS load reductions following installation of AgBMP funded septic systems

Fiscal Years 2010 - 2011			Cumulative Total 1995 to 6/30/2011		
Number of Projects	P Load Reduction (lbs)	TSS Load Reduction (lbs)	Number of Projects	P Load Reduction (lbs)	TSS Load Reduction (lbs)
520	680	11,500	4,734	6,200	106,200

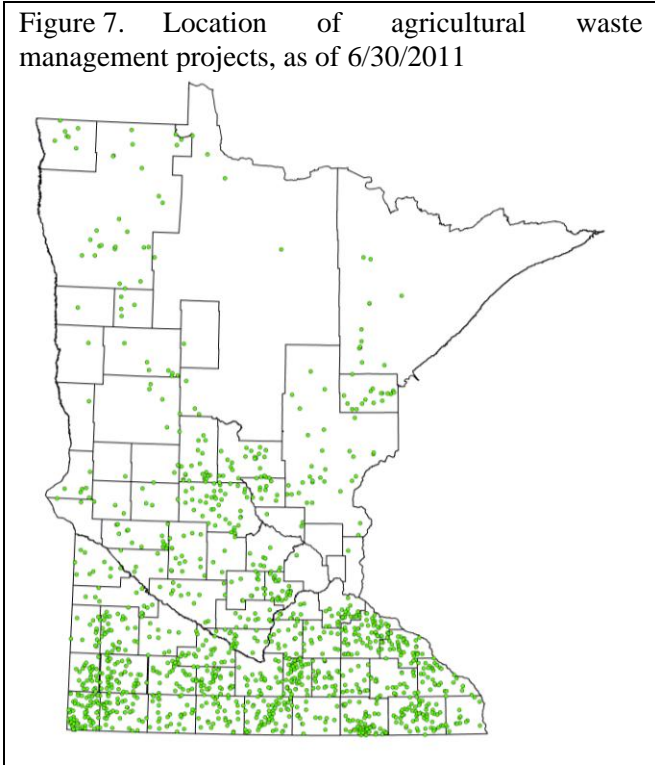
Source: The Minnesota Phosphorus Source Assessment Tool (PSAT)

<http://www.mnpi.umn.edu/psat.htm>

COMPLETED PROJECTS BY CATEGORY

1. Agricultural Waste Management Systems

Figure 7. Location of agricultural waste management projects, as of 6/30/2011



During the last fiscal year there were 98 agricultural waste management loans completed. The five year average is 123 per year. Since 1995, there have been 2,101 agricultural waste loans issued to complete approximately 760 animal waste management projects throughout the state, (see Figure 7). These loans implemented one or more practices including the replacement or upgrading of manure holding basins, pits, or tanks (10); manure handling, spreading, or incorporation equipment (530); and other manure management practices such as feedlot improvements, clean water diversions, berms and chutes, and rotational grazing (220).

Table 9. Percentage of loans issued to various types of animal production operations

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

The average size of livestock operations receiving loans is 414 animal units. The size of farms using this program for agricultural waste projects is summarized in Figure 8. Legislation limits loans to facilities with less than 1,000 animal units. Loans have been issued to all types of livestock operations fairly evenly (see Table 9). The average reported total cost of these projects has been \$62,500.

Figure 8. Number and size of farms receiving AgBMP loans for agricultural waste management

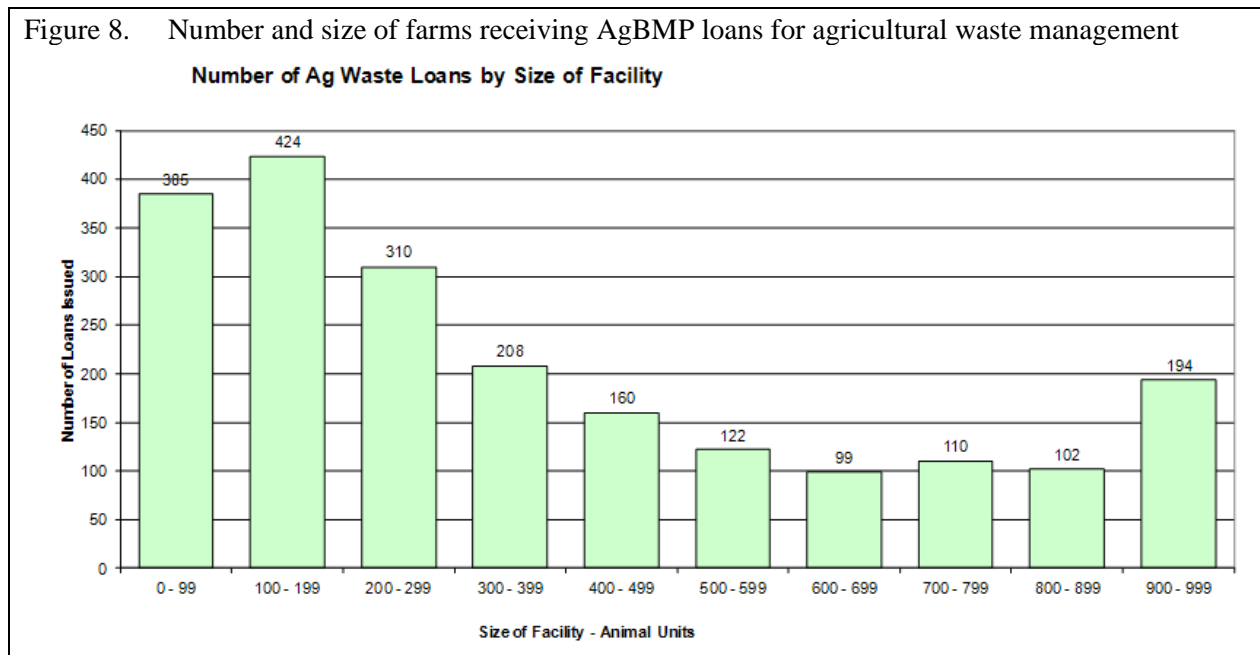


Figure 1. Typical manure storage pit under construction in Stearns County



Figure 2. Umbilical manure application equipment used in Carver County



Figure 3. Typical concrete slatted floor manure storage basin

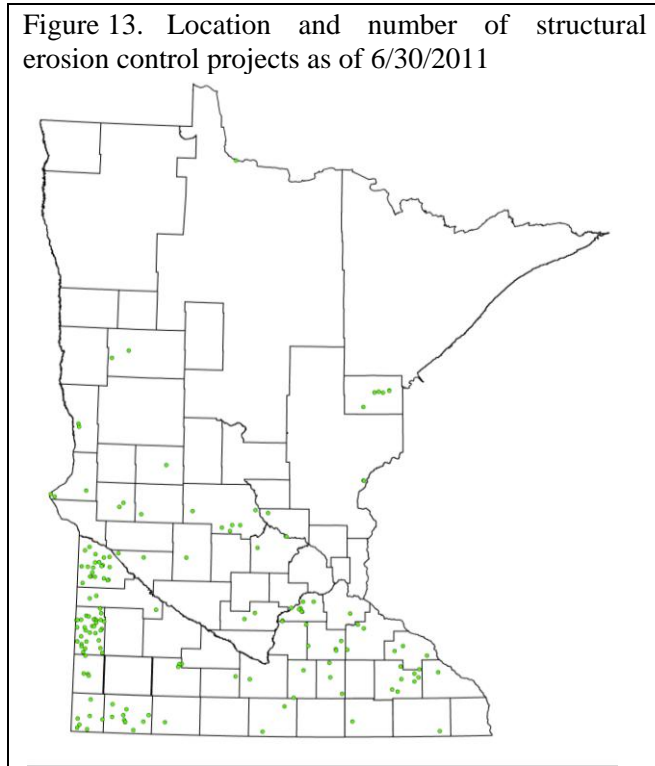


Figure 4. Typical scrape and haul manure management with skidsteer loader



2. Structural Erosion Control Practices

Figure 13. Location and number of structural erosion control projects as of 6/30/2011



During the last fiscal year there were 3 structural erosion control practices completed. Typically, 6 projects have been completed per year over the past five years. Since 1995, the number of structural erosion control practices that have been funded is 232 (see Figure 13). The average total cost for this category of projects was \$29,600, with \$13,900 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.

Figure 5. Erosion zone near farm site

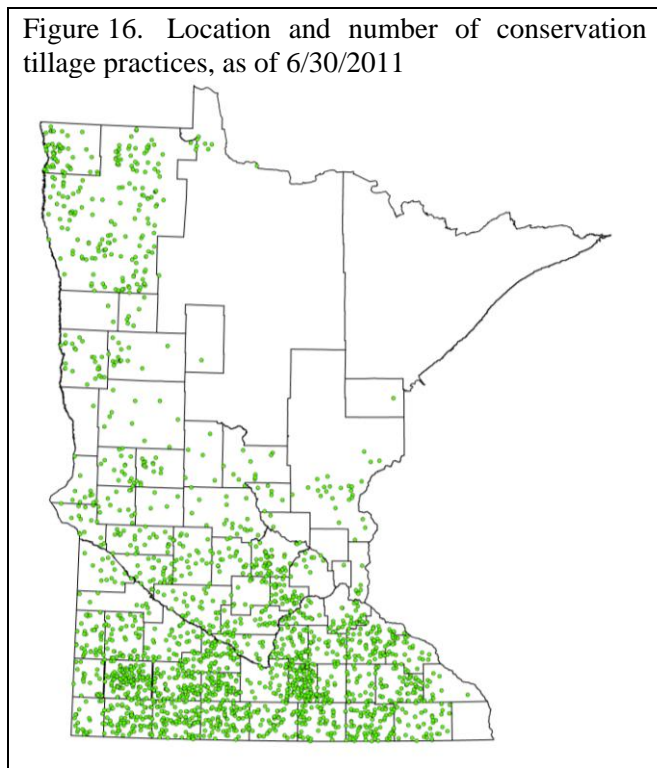


Figure 6. Sediment and water control basin in Lincoln County



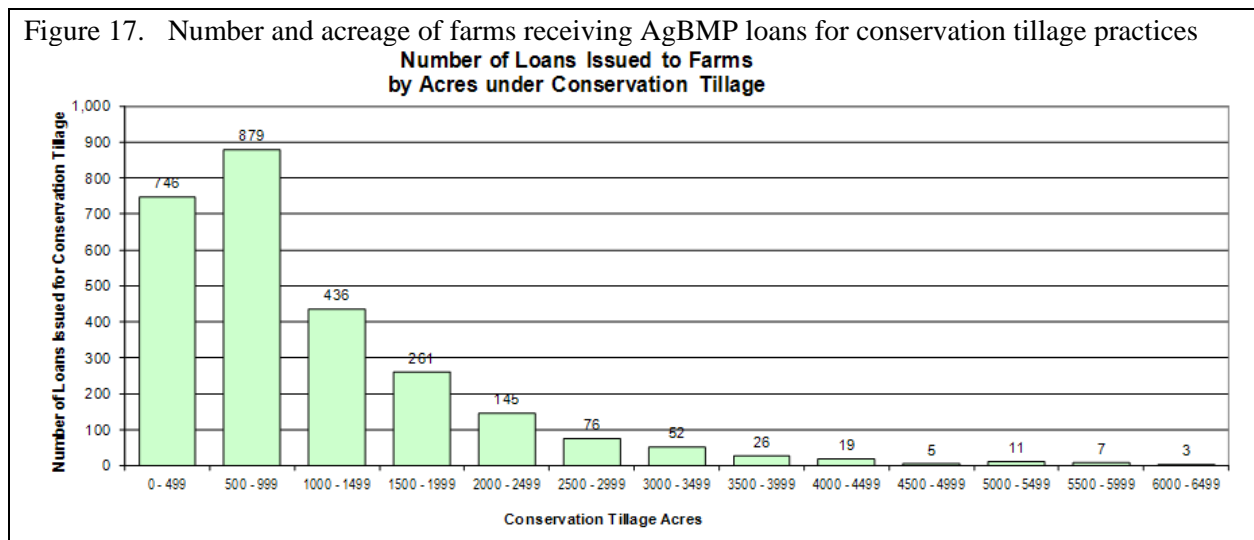
3. Conservation Tillage Practices

Figure 16. Location and number of conservation tillage practices, as of 6/30/2011



The category of conservation tillage practices has been one of the program’s most frequently used with 3,512 practices implemented since 1995, (see Figure 16). During the last fiscal year there were 148 loans issued. The five year average for this type of loan is 226 per year. The average size farm using an AgBMP loan to purchase conservation tillage equipment is 1,051 acres. The size of farms using this program for conservation tillage equipment is summarized in Figure 17. The equipment funded is generally specialized field tillage, planting, cultivation, or harvest implements that result in crop residues covering at least 15% after soybeans and 30% after corn of the ground when measured after planting. The average loan for tillage equipment is \$29,000, while the average total cost for this equipment is \$48,200. The equipment funded through this program is being used on approximately 3.7 million acres.

Figure 17. Number and acreage of farms receiving AgBMP loans for conservation tillage practices



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 7. Typical strip tillage equipment



Figure 8. Typical conservation disc



Figure 9. Typical appearance of field with conservation tillage practices

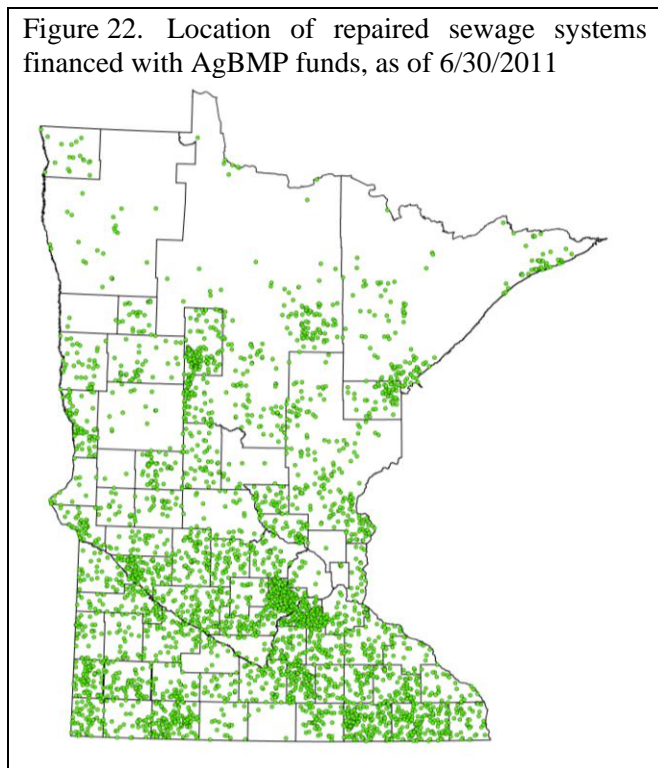


Figure 10. Adjacent fields with and without conservation tillage practices showing prevention of wind erosion



4. Septic Systems

Figure 22. Location of repaired sewage systems financed with AgBMP funds, as of 6/30/2011



To date over 4,734 on-site sewage treatment system projects have been funded through this program, (see Figure 22). The average total cost of these projects has been \$9,300. The number of septic systems repaired last year through this program was 229. The five year average is 320 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. Repairing or replacing non-compliant 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 substantially capitalized revolving pool that has the capacity to offer these loans, including \$4 million specifically appropriated for septic systems upgrades.

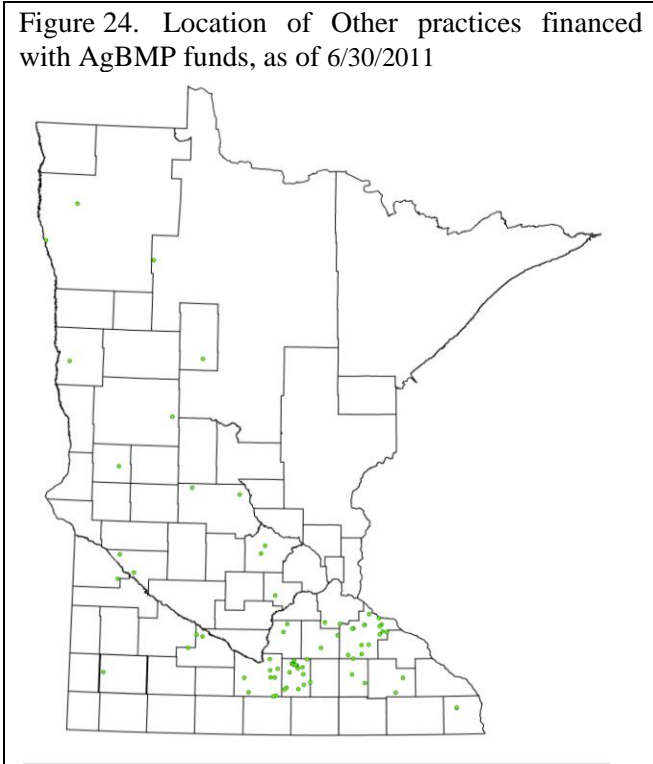
Septic system loans have been the one category where some county governments have taken on the role of lender, providing a low interest loan to constituents and providing the convenience of including septic system loan repayment as a special assessment on the landowner's tax statement. When this option 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 the AgBMP loan repayment as well as property taxes to the county. 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.

Figure 11. Typical septic system installation



5. Other Projects

Figure 24. Location of Other practices financed with AgBMP funds, as of 6/30/2011



The *Other* category includes all practices that are not included in the first four practice categories. A partial list of these practices include well replacement and sealing (35), variable rate technologies for application of seed, fertilizers, and chemicals (3), chemical sprayers (41), secondary containment for chemicals (3), and permanent ground cover conversion (2).

Figure 25. Abandoned well requiring sealing



Figure 26. Typical well with riser pipe, valve, and cover



STATUS OF LOCAL REVOLVING ACCOUNTS

A feature 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 without any further financial transactions between the AgBMP Program and the lender for the next ten years. After year ten, the county had another ten years to complete repayment of the loan back to the state. Counties with these 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 local revolving accounts under the designated lender contracts have been used for 5,106 projects, for a total cost of \$78.5 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 year 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, 1,657 loans totaling \$34.1 million have been funded under the multiple lender system.

The overall status, capacity, and characteristics of the revolving accounts are summarized in Table 10. As of June 30, 2011, approximately 80% of appropriations were in use as measured by the total outstanding loan balances. The annual pace of loans issued as a percentage of the program’s total appropriation, the “turn-over” rate, for the past year was 17%. For planning purposes, the counties use this value to estimate their future revenue stream.

Table 10. AgBMP fund account characteristics

Fund Capacity Characteristic	Amount	%
Total Appropriations	\$65.7 million	
Total Loans Issued	\$160.6 million	
Total Outstanding Loan Balance	\$52.2 million	80%
Total Cost of Projects	\$251.0 million	
Total Cash on Hand	\$ 13.5 million	21%
Estimated Annual Repayment Revenue	\$ 6.9 million	11%
Pace of Loans Issued During 2011	\$11.0 million	17%
Revolving Factor _____	2.4	
Debt to Equity Ratio _____		41%

The counties’ aggregate 2011 proposed spending plan for their locally revolving loan accounts is shown in Table 11. 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, some 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. As shown in Table 3, total loans issued in 2011 was \$11.3 million. In recent years, many counties frequently exhaust their local revolving accounts and delay 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 balance near \$0.00 because a low cash balance forces counties to sporadically suspend operations in a boom and bust cycle 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 11. Proposed use of locally held revolving funds for 2011

Category	Proposed Number of Loans with Revolving Funds	Estimated Maximum 12-Month Loan Capacity of Local Revolving Funds
Agricultural Waste Management	186	\$5,958,523
Structural Erosion Control	97	\$681,889
Conservation Tillage	256	\$6,414,773
Septic Treatment System	878	\$4,394,349
Other	37	\$186,232
Total Proposed Usage	1,454	\$17,635,766

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 \$13.4 million annually for the last five years, and \$11.3 million in FY 2011.

In recent years there have been pressures to increase 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.

Although these factors drive increased demand, the overall economy of the nation has concurrently depressed the demand. With unprecedented low prime market rates, high unemployment, and low prices in some agricultural sectors, the program has seen a \$1.2 million reduction in demand for both FY10 and FY11.

The AgBMP Loan Program expects the annual activity level to remain level until overall economic factors rebound. Our short term goals for the next five years include:

- Receiving annual appropriations of about \$3 to \$5 million per year for eligible activities to implement local water plans and prevent or reduce water pollution.
- Targeting at least \$2 million per year for implementation of TMDL Implementation Plans
- Increasing the total capitalization of the AgBMP Program to about \$85 million.
- Achieving a five year average annual activity level of \$15 million per year.

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

The program's long term goal is to slowly, but continually, grow the corpus of the account to \$140 million such that repayment revenues will generate about \$25 million annually for revolving loan activity.

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. Any identified significant discrepancy is resolved with the local lender.
- The semi-annual invoices sent out each April and October, included:
 - 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.
- These repayments are monitored to insure collection in a timely manner.
- All disbursements issued by the program require written approval by the county and a maximum approved budget amount. This is included on the program's standard loan application form.
- Requests for disbursements must be signed by a local lender and show the amount requested.
- 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, and
 - any remaining budget available.
- Approximately the first of each month, each county receives 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
 - estimate unmet needs for next calendar year.
- All outstanding balances held by the local lenders as shown in the AgBMP Loan Program records are independently reconciled by the MDA's finance section against the state's accounting system balances.
- The program as a whole is annually reviewed by the US EPA.

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. 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 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 AgBMP Loan Program by the local lender; therefore, the program does not require any security from the borrower directly, though the lender may require collateral as appropriate.

The AgBMP Loan Program does not require reporting of defaults by borrowers to lenders so it is unknown how many borrowers have defaulted on loans financed by the program.

Nevertheless, there have been no defaults from lenders to the AgBMP Loan Program.

The AgBMP Loan Program does give local lenders some flexibility to renegotiate the loans when borrowers are unable to meet their repayment obligations. This includes options to:

- Renegotiating the term of the loan to a maximum of 10 years;
- renegotiating the frequency of payment to meet the borrowers cash flow; or
- deferring up to one year of payments, then re-amortize the remaining loan balance over the remaining number of years.

COST OF PROGRAM ADMINISTRATION

Due to limitations on administrative fees charged for loans issued with SRF funds, the cost of program's administration has been paid by legislative appropriations to the MDA. During FY10-11 biennium, the total administrative cost for the program was about \$250,000 and covers all expenses to staffing the program. In September, 2010, a second full time employee was added to increase the administrative capacity and program security. Currently, administrative funds are being provided from both the general fund and from the Clean Water, Land, and Legacy Amendment funds. The cost of administration can be evaluated by the cost per loan issued and by cost per \$1,000 in loans issued as shown in Table 12. Though these measures implies the cost of booking each loan, in fact it is an average cost of all expenses for servicing the loan over the entire life of the loan, such as semi-annual billing, annual account verification, monthly status reports, and all other program accounting requirements. The average administrative cost for the program in FY10-11 was \$234.60 per loan or \$10.60 per \$1000 issued.

Table 12. Costs for administration of the AgBMP Loan Program

FY Year	Admin Costs	Loans Issued	Total \$ Issued	Cost Per Loan	Costs Per \$1000
2010	\$109,687	581	\$12,526,601	\$188.79	\$8.76
2011	\$142,039	492	\$11,214,205	\$288.70	\$12.67
Total	\$251,726	1,073	\$23,740,805	\$234.60	\$10.60

PROGRAM HIGHLIGHTS CONTRIBUTED BY PARTICIPATING COUNTIES

A. COOK

Many individual landowners and several lakes have benefited from this program. Individuals will often come in to the county land office concerned with how they will be able to afford to fix their septic system. The county reassures them that we are all working together to try and make sure their system is in compliance, that they understand harmful effects it can have on the water, and the need to repair the system. Many lake watersheds have had multiple systems repaired in their area, including Lake Superior, Devil's Track Lake, and Pike Lake. With the incentive of lower cost through the AgBMP Loan Program, many people have utilized the program and have come into compliance, reducing the amount of effluent, phosphorus, and other excessive nutrients entering the water.

Caribou Lake Association is another example of a lake encouraging use of best management practices to improve water quality. Caribou Lake in Cook County was part of the county's septic system inspection plan in 2008. Through this inventory, non-compliant systems were identified and targeted for repair. By 2011, the Caribou Lake Association announced that all systems were in compliance.

Caribou Lake has previously had lake studies completed on the lake. They have a baseline reading before all systems were in compliance. They have also developed a Lake Management Plan and have an AUAR for the lake. As they move forward, they will be able to record progress and data and determine if their water quality is improved due to their systems being in compliance and their BMPs.

B. FARIBAULT COUNTY

Figure 27. Ramped manure pit on Gary Yokiell Farm, Faribault County



Gary Yokiell of Faribault County is an organic farmer. He raises beef, row crops, and hay on the George Yokiell farm in Dunbar Township. As an organic farmer his choices for the management of nutrients and fertilizers is somewhat limited. In the fall of 2009, he decided he needed a better way of managing the manure from his beef herd and capturing the nutrients lost in the runoff from the feedlots. In this project, a ramped manure pit was installed to catch nearly all runoff and allow better nutrient removal from lots for use on his crops.

C. FILLMORE COUNTY

Making a Difference One Loan at a Time

A family farm in Fillmore County was concerned about runoff; their feeding site was located on the side of a hill and was vulnerable to runoff and erosion. Manure management was challenging and they needed to modernize their operation.

The family wanted to install new control structures that would reduce the loss of livestock manure from the farmstead and contribute to an efficient system of waste management. They had received federal and state cost-share assistance but still did not have adequate financing for the project. They talked with staff at their local Soil and Water Conservation District and secured approval for a 3% loan with a participating local lender to cover the remaining cost of the project.

The Ag BMP loan program made it possible for the family to abandon their old feeding site and construct a mono-slope total confinement cattle roof structure. This is a one-sided shed that prevents runoff and gives cattle shelter from precipitation, shade during the summer months and adequate ventilation throughout the year. This structure makes manure management much easier and brings the facility into compliance with state rules and regulations. Upgrading the livestock facility reduced the farm's environmental impact and will help keep the family farm operating for years to come.

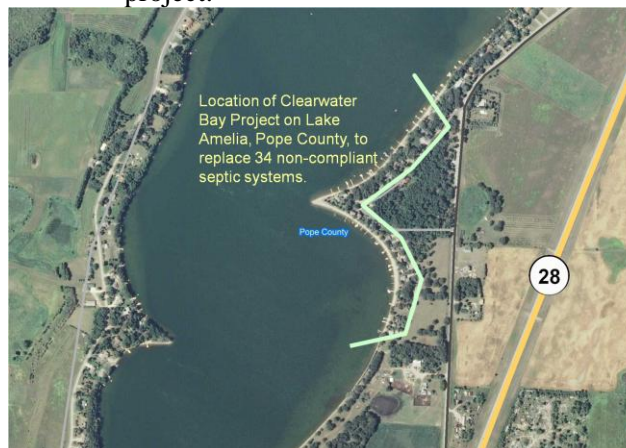
Figure 28. Mono-slope total confinement roof structure that controls feedlot runoff from Fillmore County farm



D. POPE COUNTY

This AgBMP Loan Program has provided loan funds for the Clearwater Bay Cluster Septic System Project on Lake Amelia in Pope County. In this \$600,000 project, the AgBMP will provide loans for up to 34 rural landowners that are required to upgrade their septic systems. Pope County is coordinating the project through their Land Management Department to acquire land, permits and funds for the communal drainfield, while each landowner will be responsible for their share of the cost of their property. The project was first conceived about five years ago and construction will start in 2011 with completion in 2012.

Figure 12. Lake Amelia septic system replacement project.



APPENDIX A. TOTAL ALLOCATIONS TO COUNTIES BY AGBMP LOAN PROGRAM

Table 13. 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	47	246950	237907	1.04	44%
Anoka	1	15405	7504	2.05	36%
Becker	58	984137	347646	2.83	20%
Benton	60	492069	408091	1.21	28%
Big Stone	90	451807	305961	1.48	30%
Blue Earth	189	975661	737040	1.32	22%
Brown	162	1345817	1024841	1.31	28%
CCLNS JPB# 3	33	179142	157330	1.14	28%
Carlton	100	372473	322473	1.16	28%
Carver	339	2534744	2419162	1.05	41%
Chippewa	148	492162	397529	1.24	25%
Chisago	1	7145	7145	1.00	0%
Clay	62	747034	593973	1.26	24%
Cook	53	594755	572943	1.04	81%
Cottonwood	245	1986698	1497000	1.33	18%
Dakota	159	1165038	815052	1.43	22%
Dodge	105	1293823	809564	1.60	30%
Douglas	79	674838	218570	3.09	21%
Faribault	145	1540817	1148947	1.34	21%
Fillmore	335	3461982	2198157	1.57	28%
Freeborn	207	2318042	1051419	2.20	21%
Goodhue	269	2317991	1846658	1.26	28%
Grant	19	672550	476232	1.41	68%
Hennepin	29	159300	105347	1.51	19%
Houston	111	682131	488581	1.40	26%
Hubbard	183	626660	429141	1.46	42%
IMPACK - 5 JPB	251	1740841	881614	1.97	24%
Itasca	80	176910	176151	1.00	30%
Jackson	350	1848233	1300282	1.42	16%
Kandiyohi	125	844173	688128	1.23	20%
Kittson	154	1241257	916801	1.35	16%
Lac qui Parle	94	630572	383621	1.64	22%
Le Sueur	179	873998	658059	1.33	18%
Lincoln	223	1461999	754130	1.94	19%
Lyon	152	2081163	1247458	1.67	25%
Mahnomen	47	196025	167904	1.17	34%
Martin	224	1289005	926455	1.39	15%
McLeod	43	190729	156866	1.22	22%
Meeker	94	357604	302532	1.18	23%
Morrison	58	700113	500300	1.40	20%
Mower	415	3059651	3023602	1.01	37%
Murray	313	2212051	1741095	1.27	19%
Nicollet	68	846464	503700	1.68	26%
Nobles	252	2174711	1217414	1.79	18%
Norman	2	54125	16589	3.26	31%
North Central JPB	184	1024640	704321	1.45	41%
Northwestern JPB	319	6261512	3630105	1.72	21%
Olmsted	187	1206671	846010	1.43	19%
Ottertail	25	372738	106771	3.49	15%
Pennington	16	99764	54872	1.82	7%
Pipestone	181	1593249	986880	1.61	36%
Pope	62	396477	88949	4.46	16%
Ramsey	3	45000	34281	1.31	41%
Red Lake	10	82680	53354	1.55	20%
Redwood	127	493953	366243	1.35	19%
Renville	199	782850	513344	1.53	18%
Rice	145	1424439	1416939	1.01	53%
Rock	347	1881532	1407384	1.34	24%
Saint Louis	108	503900	482088	1.05	29%
Scott	243	970476	653211	1.49	18%
Sherburne	47	246260	185391	1.33	30%
Sibley	150	530190	409040	1.30	21%
Stearns	109	850414	672855	1.26	18%
Steele	128	1144868	658413	1.74	16%
Stevens	52	809884	541777	1.49	51%
Swift	101	708304	501626	1.41	15%
Todd	116	965373	779736	1.24	25%
Traverse	47	811472	276548	2.93	27%
Wabasha	187	1905376	1209398	1.58	26%
Waseca	374	3050331	2203274	1.38	23%
Washington	30	225694	121990	1.85	21%
Watsonwan	322	2259662	1808009	1.25	20%
Wilkin	97	597885	160463	3.73	20%
Winona	129	1193444	814933	1.46	18%
Wright	135	691230	533225	1.30	19%
Yellow Medicine	139	935601	705577	1.33	25%

1. Total Loan Amount: Sum of all loans issued by the county since program start.
2. Total Allocation: Current total of all AgBMP Loan Program funds available to county 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 _____ . 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 shows the Total Allocation for the county compared to the total cost to implement all projects and is calculated as _____ . 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

ANIMAL WASTE MANAGEMENT

Abandon feedlots and manure pits
Balzer 8500 manure spreader
Bobcat 5300 skidsteer
Calumet V 3250 manure spreader
Case 430 skidsteer
Chandler manure spreader
Concrete slatted floor and manure pit
Feedlot curb, gutter, and apron
Feedlot filter strip or water diversions
Feedlot relocation
Feedlot roof and gutters systems to prevent runoff
Feedlot sedimentation basins
Fertil-gation equipment
Gehl 5635 skidsteer
Geo-textile and liners for manure basins
Hoop barn manure management system
Houle 7300 manure spreader
Hydra manure spray equipment
Knight transfer pump and manure spreader
Manure collection systems
Manure drag line, flow meter, hose reel
Manure injection or incorporation equipment
Manure or mortality composting facility
Manure pumping, handling, and transfer equipment
Manure storage basins and lagoons
Milkhouse waste system
Nuhl 6400 manure spreader
Rotational grazing systems
Separation and settling tanks
Slurrystore manure system
Terragator
Vandale manure spreader

STRUCTURAL EROSION CONTROL

Grade stabilization
Rock rip-rap and gabions
Sediment control basin and diversions
Shoreline stabilization and protection
Stormwater diversion
Terrace and tiling

CONSERVATION TILLAGE EQUIPMENT

Agco White planter 8180
Alloway stalk shredder
B&H high residue cultivator
B&H ridge planter
Blu-jet strip till equipment
Brillion disc ripper lcs7-2
Brillion Land Commander
Brillion Soil saver
Case IH 5400 no-till drill
Case IH 9300 ridge till equipment

Case IH Tiger Mate
Caterpillar TL3-930 ripper
Concord 4010 grain drill
Dawn no-till planter
Fargo 4060 air seeder
Flexcoil 5000 planter
Glencoe Soil Saver
Great Plains no-till drill
Hiniker strip till equipment
John Deere 1690 no-till drill
John Deere 2210 high trash cultivator
John Deere 693 high residue corn head
Kinse 3600 planter
Krause 6331 tillage machine
Salsford RTS 510 residue tool
Soil Warrior minimum tillage equipment
Summers 8t9446 chisel plow
Sunflower 1434 conservation disc
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

SEPTIC SYSTEMS

Puraflo waste water system
Septic treatment - cluster systems
Septic treatment - connection to sewer system
Septic treatment - holding tank, grinder, pump
Septic treatment - individual system
Septic treatment - land for drainfield

OTHER PRACTICES

Ag chemical meters and spray equipment
Agchem 854 sprayer
Double wall tanks and secondary containment
Redball sprayer and attachments
Variable rate technology
Water infiltration systems
Waterways and grassways
Well relocation
Well sealing

ELIGIBLE BUT NOT YET FUNDED

Conservation drainage
Erosion control from timber harvest
Selected "green" energy technologies

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 resource 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. This is the state agency responsible for accounting and management of the SRF.

SRF: State Revolving Fund, a permanent revolving fund established under the federal Clean Water Act.

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.