

**Minnesota Department of Agriculture  
Agriculture Best Management Loan Program  
(State Revolving Fund)**

Status Report  
to the  
Legislative Water Commission

October 30, 1995

# Agriculture Best Management Loan Program

(Minnesota Statutes, 1994, Section 17.117)

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## Background

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ST. PAUL, MN 55155

The Agriculture Best Management Practices Loan Program (Ag BMP Loan Program) was authorized by the 1994 Minnesota legislature to provide 20 million dollars over two years for low interest loans to farmers, rural land owners, and agri-businesses. The loans may be used for approved agricultural best management practices (Ag BMPs) that help prevent or mitigate nonpoint source pollution, and are identified as priorities in local water management plans. The agricultural BMPs may include such practices as animal waste control systems; abandoned well sealing; individual sewage treatment facilities for farm residences; conservation practices such as waterways, erosion and sediment control basins and terraces; and the purchase of conservation tillage equipment.

The program is administered by the Minnesota Department of Agriculture (MDA) through county governments or the counties' designees. The funding was made available from the Water Pollution Control Revolving Fund (referred to as the State Revolving Fund, or "SRF"), which was originally created by the federal Clean Water Act for public sewage treatment plant upgrades. The Ag BMP program is part of a \$34 million dollar package of programs authorized to use SRF funds. Other parts of the package include loans available under the Minnesota Pollution Control Agency's Clean Water Partnership Program, and the Department of Trade and Economic Development's Small-Cities Development and Tourism Loan programs.

Minnesota Statutes, 1994, Subdivision 15, requires the Commissioner of Agriculture to submit a report on the status of the program to the Legislative Water Commission in October of 1994 and 1995, and in odd numbered years thereafter.

### Initial Program Development

Since the inception of the program, an informal interagency group, including the Minnesota Department of Agriculture (MDA), the Public Facilities Authority/Department of Trade and Economic Development (DTED), the Minnesota Pollution Control Agency (MPCA) and the Minnesota Board of Water and Soil Resources (BWSR) has met to insure a coordinated implementation of related programs using the SRF funds. In addition to sharing information on administration of the funds and implementation issues, the group has prepared a brochure advertising each of the nonpoint source pollution reduction programs funded by the State Revolving Fund.

### **Communication With Local Units of Government.**

At the same time the department began to develop the program, local units of government were also contacted to begin to make them aware of the program and the opportunity for funding. A further description of the outreach efforts is outlined in the attachments.

### **1995 Legislative Amendments.**

During the first application period in late 1994 and early 1995, problems with implementing options of the program allowing local units of government to serve as the "local lender" were identified.

Amendments to the law were prepared to address those issues and improve upon other provisions were introduced and passed during the 1995 legislative session.

### **Status of the First Loan Allocations.**

Attached are sheets outlining the status of loan funds allocated during the first round of funding. Also included is a map of counties where loan funds were allocated. The MDA received requests from 50 counties and SWCDs for approximately \$32 million.

### **Statutory Loan Allocation Review Committee.**

A committee, established in M.S. 1994, 103F.761, subdivision 2, paragraph (b), including the Minnesota Pollution Control Agency (MPCA), the Association of Minnesota Counties (AMC), The United States Department of Agriculture's Agricultural Stabilization and Conservation Service (ASCS) and Soil Conservation Service (SCS), the Minnesota Board of Water and Soil Resources (BWSR) and the Minnesota Association of Soil and Water Conservation Districts (MASWCD) reviewed and ranked the 1995 allocation requests. The MDA was able to offer loan allocations to 45 counties and SWCDs in amounts that ranged from \$175,000 to \$350,000.

### **1996 Application Period.**

The department just completed a series of workshops held around the state to familiarize potential applicants for the second \$10,000,000. A summary of those meetings is attached, along with a list of issues raised by participants.

**June 1994 through March 1995: Intensive outreach:**

**8 County AgBMP meetings:**

Total attendees 320 people

Total counties represented: 77

**AgBMP Loan Program Staff has also provided information by presenting the program at meetings with the following organizations:**

MASWCD areas 1,2,3,4,5, 6 and 7	Fillmore County Commissioners
AMC area meetings	Ottertail County Commissioners
Metro Area Water Planners	Ottertail County Bankers Association
South Central Minnesota Water Planners	County Auditors Annual Convention
SWCD bus tour, Goodhue County	Blue Earth River Basin Initiative (BERBI)
MASWCD Annual Convention	Goodhue County Bankers Association
MASWCD Board of Directors	Houston County Commissioners
Lincoln County Commissioners	Freeborn County
Mower County Commissioners	West Central Initiative Fund
Wright County Commissioners	Redwood Cottonwood Joint Powers Organization
Kanabec County Commissioners	Clay County Water Planning Meeting
Scott County Commissioners	North Eastern Minnesota Interagency Workgroup
Wilkin County Commissioners and bankers	

**1995 Allocation Chronology**

August 18, 1994	Initial information packet mailed to Counties and SWCDs
September 23, 1994	Supplemental information mailed to all counties and SWCDs
December 2, 1994	Application Packets mailed to counties.
December 5, 1995	Letter advising applicants of change in due date for applications
January 25, 1995	Guidelines and AgBMP Program advisories mailed:

**1995 Allocation Chronology (Cont.):**

March 31, 1995	Application due date:
May 10, 1995	Allocation letters out:
June 6, 1995	Loan agreements mailed:
July 25, 1995	1st Loan agreement completed: Hubbard County

**Press Releases:**

January 10, 1995: "Low Interest Loans Available to Curb Nonpoint Source Pollution"  
April 24, 1995: "Fifty Counties Apply...."  
May 10, 1995: "Allocation Decisions made"

**1996 Allocation Chronology:**

**October, 1995: 7 Regional Local AgBMP Informational Meetings**

**1: Grand Rapids:**

5 people

3 SWCD representatives

2 county representatives

**5 counties represented**

**2: Marshall:**

32 people

14 SWCD representatives

8 county representatives

3 banks

1 BWSR

1 JPA engineer

**16 counties represented**

**3. Thief River Falls**

17 people

10 SWCDs representatives

2 JPA engineer

2 local lending institutions

2 county representatives

**8 counties represented**

**4. Metro area**

12 people

6 SWCD Representatives

4 county representatives

1 BWSR representative

1 local lender

**5 counties represented**

**5. Fergus Falls**

12 people

One JPA Engineer

8 SWCD representatives

1 county representative

**5 counties represented**

**6. Rochester**

28 people

11 SWCD representatives

10 county representatives

1 local lending institution

1 BWSR representative

**14 counties represented**

**7. St. Cloud**

22 people

14 SWCD representatives

3 county representatives

1 local lending institution

**9 counties represented**

**TOTAL: 128 people representing 62 counties attended the 1995 AgBMP Program informational meetings.**

Application Packages distributed at local meetings

Application Packages mailed: October 13, 1995

Application Deadline: December 1, 1995

### **Issues Raised at Regional Meetings:**

1. Individual Sewage Treatment System (ISTS) eligibility is not clearly defined.  
In response, The MDA has issued an advisory clearly defining which ISTS or septic systems are eligible.

2. The audit requirements will be too costly.  
The audit requirements have been dictated by the EPA. The MDA is both exploring the least costly audit options and pursuing discussions with the EPA to see if these requirements can be modified.

3. The MDA is not allowing us enough flexibility to move loan funds between practice categories.

In response, the MDA explained that applicants would be held to the uses of the loan funds originally indicated in their applications. The MDA is insisting on this in order to ensure that applicants operate the program to attain the water quality goals stated in the applications, and not simply to provide low interest financing to random landowners.



October 27, 1995

**Minnesota Department of Agriculture  
Ag. Planning and Development Division**

Status Report of the Agriculture BMP Loan Program

**32 Counties with signed contracts**

COUNTY	ALLOCATED	DISBURSED as of 10-27
BENTON	\$ 250,000	
BLUE EARTH	90,000	\$ 23,380
BROWN	250,000	
CHIPPEWA	175,000	
COTTONWOOD	250,000	
DAKOTA	350,000	81,900
DODGE	175,000	
FARIBAULT	340,000	
FREEBORN	250,000	
HOUSTON	175,000	
HUBBARD	350,000	124,955
JACKSON	175,000	
LeSUEUR	175,000	
LINCOLN	350,000	
MARTIN	340,000	34,413
MORRISON	175,000	25,500
OWEN	350,000	49,522
MURRAY	250,000	
NICOLLET	150,000	
NOBLES	250,000	
OLMSTED	350,000	
PIPESTONE	175,000	
RENVILLE	250,000	
RICE	175,000	
ROCK	250,000	145,127
SCOTT	175,000	
SWIFT	175,000	
WABASHA	175,000	
WASECA	340,000	58,219
WATONWAN	340,000	
WINONA	175,000	
WRIGHT	<u>175,000</u>	
<b>TOTALS</b>	<b>\$ <u>7,625,000</u></b>	<b>\$ <u>543,016</u></b>

**DOLLARS IN EACH CATEGORY**

AG. WASTE	\$ 3,500,000
EROSION	1,064,000
EQUIPMENT	1,865,000
WELL SEALING	148,000
CELLANEOUS	12,500
ISTS	<u>1,035,500</u>
<b>TOTALS</b>	<b>\$ <u>7,625,000</u></b>

**Number of Activities per category**

170
281
126
185
7
274



## **Summary of Changes to the Minnesota Department of Agriculture's Agriculture Best Management Practices Loan Program**

1. The new legislation clarifies that the Minnesota Department of Agriculture (MDA) is making a loan to the local lender and that the local lender is making loans to individuals, instead of the local lender servicing a loan for the MDA;
2. Clarifies that the lender agreement is a three party agreement between the applicant, the local lender, and the MDA;
3. Expands list of eligible local lenders;
4. Deletes possibility of loans made directly by the MDA to individual borrowers;
5. Clarifies that loans are disbursed on a cost incurred basis;
6. Provides for rescission of the loan allocation if funds are not committed within one year or disbursed within two years (with one extra year for extenuating circumstances);
7. Makes the proposed interest rate one of the criteria for review and ranking;
8. Creates a \$50,000 loan cap for individual borrowers;
9. Clarifies repayment schedules for local revolving funds from the local lender to the MDA. (Repayment must begin at 10 years and be completed by 20 years); and
10. Provides for loan allocation rescission if funds are used inappropriately. Rescission results in the termination of the undisbursed portion of an allocation, the immediate repayment of any unencumbered loan principle held by the local lender, and the repayment of principle as it is received from borrowers.
11. Mandates a certification of project completion from a local government unit to the local lender before final payment is made to the contractor or borrower;
12. Allows counties to act as local lenders without a county wide voters referendum;
13. Allows counties to receive a first priority lien on AgBMP program loans provided all creditors are notified at least 30 days prior to disbursement of the funds and subordination agreements are received from other lenders;
14. Allows counties to secure amounts due on a loan used to purchase equipment by taking a purchase money security interest in the equipment;
15. Clarifies that the local lender must separate loan repayments into a principle account for re-lending and an interest earned account that the local lender will keep. If the interest portion of an individual borrower's repayment is put in the principle account, it becomes principle and must be repaid to the MDA.
16. Clarifies that any interest earned on the principle account must be added to the principle portion of the loan allocation (i.e. if the principle was placed in an interest bearing account while it was not being used, that interest must be paid back to the MDA).