



Minnesota

Overview – Innovative Finance Opportunities for Nutrient Reduction

Minnesota has well-established programs that can fund nutrient reduction projects on or near agricultural land with a combination of loans, grants, and matching funds. Innovative opportunities can build on coordination among the state's sales-tax-funded Clean Water Fund, its Clean Water State Revolving Fund programs, and other state and federal sources of funding. **Among innovative funding sources, the Clean Water Partnership Loan program (part of the Minnesota Clean Water State Revolving Fund) can provide loans and grants for nonpoint projects often in combination with other funding.** Under this program, watershed districts and other applicants can sponsor nutrient reduction projects in coordination with funding for other point and nonpoint projects.

Clean Water Fund

In 2008 Minnesota adopted the Clean Water, Land, and Legacy Amendment, which established a Clean Water Fund (CWF). Funding for Legacy activities comes from an increase in the state sales tax by three-eighths of one percent on taxable sales in effect from July 2009 to 2034. From these tax receipts, 33% of funds are dedicated to the Clean Water Fund for water quality projects, with 5% of the fund dedicated for protecting drinking water sources (Clean Water, Land, and Legacy Amendment, 2018).

The CWF provides funds to state agencies for water management activities, including monitoring, planning, restoration, and protection projects. Seven Minnesota agencies (Metropolitan Council, Board of Water and Soil Resources, Department of Agriculture, Department of Health, Department of Natural Resources, Pollution Control Agency, Public Facilities Authority) receive and distribute these funds based on their own program priorities, supporting water quality projects, including those that help support best management practices and other activities by local governments, conservation districts, and farmers. Eligible activities include groundwater, surface water, and drinking water protection, implementation of the Minnesota Agricultural Water Quality Certification program, monitoring and research, and development of watershed protection and restoration strategies. For the FY 2018-2019 biennial, \$211.87 million was allotted to the seven agencies; 50% of the funds are devoted to nonpoint source pollution projects (Minnesota Pollution Control Agency, December 2017). The Board of Water and Soil Resources (BWSR) receives the largest share of the CWF, supporting project implementation, planning and technical assistance, monitoring and mapping, and research and evaluation, with \$95.508 million projected for FY2018-2019 (Minnesota Pollution Control Agency, 2017). Implementation funds disbursed by BWSR support water quality and nutrient management projects as well as acquisition of conservation easements and other actions. BWSR has targeted approximately \$9 million of

implementation funding in FY2018-2019 for the **One Watershed One Plan program. This pilot program provides grants to implement projects that restore surface water quality and protect ground water pursuant to comprehensive watershed plans** developed by soil and water conservation districts, counties and watershed districts (Laws of Minnesota 2017, Chapter 91, Article 2, Section 7 (a)). BWSR will also expend approximately \$18 million in the same period for implementation grants to protect and restore drinking water and surface waters (Laws of Minnesota 2017, Chapter 91, Article 2, Section 7 (b)).

Agriculture Best Management Practices Loan Program

The Agriculture Best Management Practices (AgBMP) Loan Program, established in 1994 provides low interest loans to farmers or rural landowners to help fund any activity or practice that helps improve water quality (Minn. Stat. 17.117). The Public Facilities Authority and the Minnesota Department of Agriculture (MDOA) administer the program in cooperation with local Soil and Water Conservation District Offices in each county. Commercial lending institutions, counties, development commissions, and drainage authorities, and other local governments act as “local lenders” under the Program. Local lenders make lending decisions, determining whether prospective borrowers can carry out the project and can make repayments, and whether the project provides sufficient environmental benefits. They issue the loans, and collect repayments, which accrue to county accounts held by the MDOA. Funding for these loans comes from the Clean Water State Revolving Fund (CWSRF), Clean Water Act Section 319 funding, and from state sources of funding such as the Minnesota CWF. In FY2017, 443 AgBMP projects were completed using \$11.4 million in loans (MDOA, 2017). Project types include agricultural waste management projects (avg. 68 projects/yr), erosion control (avg. 1 project/yr), sewage system upgrades (avg. 256 projects/yr), and nutrient reduction projects (avg. 30 projects/yr) (Minnesota Department of Agriculture, 2017). The maximum loan amount is \$200,000 per individual or project for a 10 year period (Minnesota Department of Agriculture, 2018). Priority is given to projects that are included in a comprehensive water management plan, improve environmental quality, and/or demonstrate coordination between local units of government, public agencies, and other public and private funding sources.

Clean Water State Revolving Fund/Clean Water Partnership Loans

The Minnesota Clean Water State Revolving Fund (CWSRF) makes loans to help communities with point and nonpoint source projects. The Minnesota Public Facilities Authority (MPFA) and the Minnesota Pollution Control Agency (MPCA) administer this fund. This fund is mostly devoted to infrastructure upgrades and compliance measures for discharge standards of the federal Clean Water Act. The MPCA established the priority point system in Minnesota Rules 7077.0100-7077.0121. The FY2019 Minnesota Intended Use Plan (IUP) has approved 86 projects—carried over from FY2018 and new projects for a total of \$292.5M in CWSRF loans (Minnesota IUP FY2019).

The CWSRF also provides funding for the Clean Water Partnership Loans program (Minn. Stat. R. 7076). This program provides grants, loans, and/or technical assistance for point and nonpoint source projects. Grants are available for up to 50% of project cost, while loans may cover up to 100% of the project cost with 0% interest (MCPA, 2017). There is approximately \$15 million funding available per year, with a \$2

million cap per project (MCPA, 2017). **Under this program, Partnership loans have been combined with BWSR CWF grants and local sources of funding to accomplish nutrient reductions.** For example, the Rice Creek Watershed was able to complete a project of \$1.7 million to significantly reduce phosphorous and algae levels of Bald Eagle Lake. The Watershed obtained funding resources from the BWSR Clean Water Fund (\$497,000), MPCA Clean Water Partnership loans (\$400,000), and the remainder from the watershed district and Bald Eagle Water Management District (MCPA, 2017). The project received the Minnesota Association of Watershed District 2016 Project of the Year award for the partnership efforts to reduce phosphorous levels by 67%.

Section 319 Grants

Section 319 of the Clean Water Act addresses non-point source pollution such as nutrient runoff. Section 319 provides some grant funding each year through Congressional appropriations. The Minnesota Pollution Control Agency anticipates \$1.4 million in Section 319 funding for the next round (MPCA, 2018). The recipient must match 40% of the total project cost. Minnesota has been using these funds to address specific nonpoint pollutant problems in water bodies that do not meet federal standards.

USDA Funding

The U.S. Department of Agriculture (USDA) operates several funding programs that can support nutrient reduction activities in Minnesota. The National Resource Conservation Service (NRCS) manages the Environmental Quality Incentives Program. This program provides grants to farmers for certain conservation practices that may include nutrient reduction. Minnesota had \$29,434,400 in EQIP obligations in 2017 (USDA, 2018). A sub-program of EQIP, the National Water Quality Incentives (NWQI) program targets EQIP money for this purpose. The Conservation Stewardship Program (CSP) and Regional Conservation Partnership Program (RCPP) also support relevant activities.

The USDA's Farm Service Agency (FSA) also manages the Conservation Reserve Program and the Conservation Reserve Enhancement Program. These programs provide annual payments to farmers to remove environmentally sensitive land from production and convert it to conservation cover. Minnesota was awarded \$6,616,900 in CRP funding in FY2017 (USDA, 2018).

References:

ELI conducted interviews with Minnesota officials and organizations, and legal research on applicable statutes, regulations, and policies. In addition, financial data and description may be found in the following public sources.

Clean Water Council & Peichel, B. December 1st, 2016. "FY 18-19 Clean Water Fund and Policy Recommendations Report," Minnesota Pollution Control Agency. <https://www.pca.state.mn.us/sites/default/files/lr-cwc-1sy16.pdf>

Clean Water, Land, and Legacy Amendment Minnesota, 2018. "2018 Clean Water Fund Performance Report." <https://www.pca.state.mn.us/sites/default/files/lrp-f-3sy18.pdf>

Minnesota Board of Water & Soil Resources, 2017. "Clean Water Fund Projects and Practices 2017 Awards" http://www.bwsr.state.mn.us/cleanwaterfund/fy2017/awards/FY17_Projects_and_Practices.pdf ; <http://www.bwsr.state.mn.us/cleanwaterfund/>

Minnesota Board of Water & Soil Resources, 2018. "FY 2018 Watershed-Based Funding Pilot Program Policy." http://www.bwsr.state.mn.us/cleanwaterfund/fy2018/FY18_Watershed_Funding_Policy.pdf

Minnesota Department of Agriculture, 2017. "Agricultural Best Management Practices Loan Program Biennial Status Report." <https://www.leg.state.mn.us/docs/2017/mandated/171043.pdf>

Minnesota Department of Agriculture, 2018. "Agriculture Best Management Practices (BMP) Loan Program" <http://www.mda.state.mn.us/agbmploan>

Minnesota Pollution Control Agency, December 2017. "FY 2018-19 Clean Water Funds appropriated for Minnesota's water agencies" <https://www.legacy.mn.gov/sites/default/files/resources/leg-sy18-01.pdf>

Minnesota Pollution Control Agency, March 2017. "Bald Eagle Lake now meets water quality standards." <https://www.pca.state.mn.us/featured/bald-eagle-lake-now-meets-water-quality-standards>

Minnesota Pollution Control Agency, 2018. "Section 319 Funding Round" <https://www.pca.state.mn.us/water/section-319-funding-round>

Minnesota Pollution Control Agency, 2017. "Clean Water Partnership Loan Program." <https://www.pca.state.mn.us/sites/default/files/wq-cwp7-35b.pdf>

Minnesota Public Facilities Authority, January 18th, 2018. "Clean Water State Revolving Fund" <https://mn.gov/deed/pfa/funds-programs/cleanwaterrevolvingfund.jsp>

Minnesota Public Facilities Authority, 2018. "Clean Water Revolving Fund 2019 Intended Use Plan." https://mn.gov/deed/assets/cw-iup_tcm1045-313601.pdf

Minnesota Public Facilities Authority, 2017. "2017 Annual Report to the Governor and Legislature." https://mn.gov/deed/assets/pfa-annual-report_tcm1045-290187.pdf

Minnesota Public Facilities Authority, 2017. "FY 2018-2019 Federal Funds Summary" https://www.leg.state.mn.us/docs/2017/mandated/170176/public_facilities_authority.pdf

United States Department of Agriculture, 2018. "NRCS Conservation Programs: Minnesota," https://www.nrcs.usda.gov/Internet/NRCS_RCA/reports/cp_mn.html

For additional information, please contact Jim McElfish, Senior Attorney; Director, Sustainable Use of Land Program. Email: mcelfish@eli.org.