



Upper Mississippi States: Innovative Financing for Nutrient Reduction

There are opportunities within the states of Minnesota, Illinois, Iowa, and Wisconsin to increase and diversify funding for nutrient reduction projects by coordinating and innovating with existing funding mechanisms. Traditionally, the Clean Water State Revolving Fund (CWSRF) loan programs have been used for sewage treatment plants and stormwater management systems, but nutrient reductions could be advanced at lower cost if these funds are applied to farm-based conservation efforts in coordination with other programs. The current systems slot farm applicants into one set of programs, water and sewer into another. Federal and state entities, as well as soil and water conservation districts, are having conversations with farmers about reducing nutrient runoff through familiar Farm Bill programs and other grant programs. However, recent experience has shown that water and sewer financing programs can provide additional flexible funding for projects on farms while meeting nutrient management goals of wastewater treatment authorities.

A focused effort that brings together farming, wastewater treatment, and state financing agencies can provide new funding for on-farm polluted runoff projects.

Flexible funding sources include **sponsorship and adoption**, which pair farmland with wastewater treatment providers to achieve targeted nutrient reduction, as well as **regional funds** supported by a broad base of ratepayers or taxpayers.

- **Sponsorship:** In this approach, a “sponsor” such as a wastewater utility proposes to borrow funds from the state’s CWSRF for a wastewater treatment plant or sewer upgrade, together with funds for a project to use funds for a related nutrient reduction project on farmland. The state’s CWSRF loans money to the sponsor to support both projects. By making the total loan for the combined projects at a subsidized interest rate, the entire cost of the nutrient management project is paid through savings realized from the reduced loan interest rate. The result is two beneficial management projects completed for slightly less cost than a traditional wastewater project alone.
- **Adoption:** In order to meet NPDES permit standards, a point source, such as a wastewater utility or sewer authority “adopts” and pays for nutrient reduction projects upstream in lieu of infrastructure upgrades. The point source and the local conservation district or watershed district work together to determine the best practices needed to meet state environmental regulations. Ultimately, the cost of the nutrient reduction project is passed to the downstream ratepayer of the point source. The point source can adopt one or more nutrient reduction projects by issuing bonds or other financing.
- **Regional Funds:** Some states have passed legislation for a tax on water use, metered water, or on taxable sales, generating dedicated funding for water quality projects and nutrient reduction activities. This funding can be used to supplement funding needed for sponsorship or adoption projects in the state.

Sponsorship and adoption funding can be supplemented by regional funding, state grant programs and standard federal nonpoint funding sources (USDA programs and EPA §319 grants) to ensure maximum funding capability for projects. The state fact sheets demonstrate the current utility of flexible funding sources in each state, as well as areas of opportunity to increase focus and funding for agricultural nutrient reduction projects.