

CONSERVATION INNOVATION GRANTS
Biannual Progress Report

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| Grantee Name: Agflex, Inc. | |
| Project Title: Improving Conservation and Ag Economics with Water Quality Trading and the BMP Challenge | |
| Project Director: Thomas Green | |
| Contact Information: | Phone Number: (608) 232-1425 E-Mail: maggie.westaby@bmpchallenge.org |
| Period Covered by Report: October 31, 2008-March 31, 2009 | |
| Project End Date: July 2009 | |

1. Summarize the work performed during the project period covered by this report:

Since our September 2008 report, we have:

- Completed an up-to-date contact list including CCA, individuals from USDA-NRCS and SWCD for a total of 10,498 contacts.
- Updated and circulated the BMP CHALLENGE brochure to 10,498 of the contacts. With 6,292 receiving a cover letter directed towards agricultural professionals.
- Initiated expansion of BMP CHALLENGE to California.
- Created 2009 BMP forms for California and a webpage on the BMP CHALLENGE website.
- Collected and analyzed 2008 BMP CHALLENGE results.
- Sent out compensation to growers in the 2008 CHALLENGE who lost yield in their BMP acres.
- Sent out compensation to certified crop advisors who worked for growers during the 2008 season.
- Started to collect payment from growers in 2008 that had a surplus in their BMP yields.
- Updated all BMP forms for 2009.
- Recruited acres for 2009.
- Completed three monthly project team conference calls, two quarterly advisory calls as well as bi-weekly BMP CHALLENGE team conference calls.
- Set the next quarterly advisory committee call date as June 11, 2009.

Table 1. Describe significant results, accomplishments, and lessons learned. Compare actual accomplishments to the project goals in your proposal:

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| <p>1. WQ trading and BMP CHALLENGE curriculum delivered to MN state agency, conservation districts, crop advisors and others to equip them to offer these opportunities to their producer clientele.</p> | <p>a. Calendar of industry and extension meetings has been created and continually modified with contact information for meeting organizers.</p> <p>b. BMP CHALLENGE and WQCT meetings and conferences, 1,541 participants to date: -March 21, 2009, New Ulm, MN, 60 participants; -September 2008-March 2009, MN River and Cannon River Basin, MN, 40 participants; -March 5, 2009, Columbus, NE, 38 participants; -March 4, 2009, Wisner, NE, 48 participants; -February 23, 2009, New Lenox, IL, 38 participants; -February 18, 2009, Harrisburg, PA, 16 participants; -February 16, 2009, Harrisburg PA, 10 participants; -February 11, 2009, Saint Louis, MO, 48 participants; -January 2009, Albuquerque, NM, 40 participants; -December 9, 2008, Duluth, MN, 30 participants; -December 8, 2008, St. Paul, MN, 98 participants; -August 5, 2008, Saint Cloud, MN, 23 participants; -July 29, 2008, Tucson, AZ, 50 participants; -April 16, 2008, Redwing MN, 148 participants; -April 1, 2008, Sauk Center, MN, 15 participants; -March 31, 2008, Faribault, MN, 28 participants; -March 28, 2008, Emmetsburg, IA, 48 participants; -March 24, 2008, Fairmont, MN, 30 participants -March 14, 2008, Marion, IA, 40 participants; -March 3, 2008, Napoleon, OH, 23 participants; -February 27, 2008, St. Paul, MN, 78 participants; -January 14, 2008, Sidney, OH, 60 participants; -January 10, 2008, Redwood Falls, MN, 35 participants; -January 7, 2008, Cannon Falls, MN, 28 participants; -December 18, 2007, Alexandria, MN, 26 participants; -November 26, 2007, Owatonna, MN, 16 participants; -August 30, 2007, New Haven, IN, 30 participants; -August 17, 2007, Huron County, OH, 48 participants; -August 10, 2007, Crawford County, OH, 48 participants; -July 27, 2007, Toledo, OH, 28 participants; -March 29, 2007, Shelbyville, MI, 7 participants; -January 11, 2007, New Ulm, MN, 42 participants; -2007, Rochester, MN, 38 participants; -December 7, 2006, Harrisburg, PA, 18 participants; -December 2006, Madison WI, 50 participants; -September 27, 2006, Lancaster County, PA, 28 participants; -September 15, 2006, Stark County, OH, 20 participants; -September 11, 2006, Cross Plains WI, 50 participants; -August 24, 2006, Champaign County, OH, 20 participants.</p> <p>c. Tom Green, Brian Brandt and Maggie Westaby updated the BMP CHALLENGE brochure and composed a cover letter directed towards agricultural professionals. Brochures were circulated to 10,499 contacts between December 2008 and January 2009.</p> |
| <p>2. Support package of existing tools for trainers, subset to be used as handout for seminars and available online.</p> | <p>a. Trainer curriculum and support materials package currently includes 2009 BMP CHALLENGE enrollment and implementation forms, presentation PowerPoint files and print-outs, curriculum outline with notes, water quality trading references, BMP CHALLENGE FAQ sheets and additional BMP information (i.e. alternative credit generating BMPs and management information). These materials were reviewed at a MN Trainer meeting in November 2007.</p> |

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| | <p>b. Website updated regularly, with current documents and information. Recent updates include the addition of a webpage dedicated to the California BMP CHALLENGE and the addition of the 2009 forms for the Nutrient, Reduced Tillage and the California Reduced Tillage CHALLENGE.</p> |
| <p>3. Preparing three MN public agency/NGO trainers to train others on BMP CHALLENGE and WQ credit trading.</p> | <p>a. Three trainers have been identified for Minnesota: -Shannon Fisher, MN River Board and Water Resources Center -Ed Hohenstein, Seven Mile Creek Watershed Project - Russ Derickson, MN Dept of Agriculture In addition to these three, a number of other collaborators including several professionals on our advisory committee are gaining competency in addressing water quality trading and the BMP CHALLENGE with others.</p> <p>b. Upcoming summer Minnesota meetings: - Work is being done to obtain invitations to present at existing meetings. - One or two dedicated workshops may be planned for the summer of 2009.</p> |
| <p>4. Inventory of potential point and non-point source traders, trades, values, credits, rates, forms, implementation and verification procedures.</p> | <p>The draft MN State rules for water quality trading are now available.</p> |
| <p>5. 95,000 brochures, 1,000-1,500 farmer inquiries generated to state agencies, crop advisors, watershed groups on BMP CHALLENGE and WQ credit trading. Approximately 50 inquiries have been made from agricultural professionals since the Dec 08/Jan 09 mailing.</p> | <p>a. 60,000 BMP CHALLENGE brochures were printed with approx. 49,500 distributed to date.</p> <p>b. Mailing of 1,150 brochures to 21 agricultural professionals regarding their request to promote the CHALLENGE since recruitment mailing of December 2008 and January 2009.</p> <p>c. Per the 2008 Outreach plan, a brochure and electronic newsletter schedule with designated dates of dispersal and topic outlines has been developed. Potential future E-newsletter topics include: Update on the Farm Bill, EPA Non-point Source Outreach Toolbox, implications of the EPA CO₂ regulation mandate for BMP CHALLENGE, a highlight on a main contact for a particular region, fall applications/tillage info, and updates on upcoming workshops, enrollment procedures, etc.</p> <p>d. Electronic newsletter mailing: March E-news, April 15, 2008 to 5240 contacts; Iowa BMP CHALLENGE workshop, February 28, 2008 to 1702 contacts; Redwood Falls Workshop Announcement, January 3, 2008 to 814 contacts; BMP CHALLENGE- Owatonna Workshop, November 13, 2007 to 975 contacts; MN BMP CHALLENGE/WQT Workshops-Owatonna, October 10, 2007 to 817 contacts; Owatonna Workshop "Save the Date" September 26, 2007 to 820 contacts; BMP CHALLENGE July 27, 2007, August 7, 2007 to 2451 contacts and August 27, 2007 to an additional 1670 contacts; April BMP CHALLENGE Update, April 20, 2007 to 2438 contacts; November BMP CHALLENGE Update, November 15, 2006 to 943 contacts; August BMP Performance Guarantee Update, August 8, 2006 to 832 contacts; Resend of August BMP Performance Guarantee Update, August 9, 2006 to 11 contacts; BMP Performance Guarantee Update, November 29, 2005 to 340 contacts.</p> |
| <p>6. Ten point sources in MN</p> | <p>a. Keiser & Associates have contacted and identified ethanol plants in</p> |

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| <p>prepared to trade, list of trades completed, acres, practices, credits, estimated resource improvements.</p> | <p>the MN River watershed, which are currently willing to use the point-point trading permit system, but are not at this time committed to using the more desirable point-nonpoint trading system. The new 2008 CIG was funded to work with several watersheds to implement trades.</p> <p>b. James Klang, PE, and Brian Brandt have released a white-paper to help clarify how point and non-point perspectives view trading by interviewing potential buyers and sellers. The white paper was released in May 2008.</p> <p>c. Educational efforts have initiated conversations with numerous water quality trading participants. Possible work within two watersheds is waiting for TMDL approval for 2009.</p> |
| <p>7. Inventory of BMP CHALLENGE guarantees implemented, acres, practices, improvements.</p> | <p>a. Nutrient BMP guarantees have been implemented on approximately 100 farmer fields, resulting in an average 22.5% reduction in nitrogen fertilizer use.</p> <p>b. Reduced tillage was implemented in 2006 and since then 36 fields have been enrolled.</p> <p>c. With the goal of expanding the Enhanced Nutrient option, which, refers to an additional 15% reduction in BMP rates for nitrogen fertilizer use. In 2008 approximately 960 acres were enrolled with the hopes of expanding to over 1,000 acres in 2009.</p> <p>d. All results are recorded in a database.</p> <p>e. From 2000-2008, 4626.28 acres, 1905.8 acres and 4660.6 acres were enrolled in the Nutrient BMP, Reduced Tillage BMP and Enhanced Nutrient BMP respectively.</p> |
| <p>8. Reductions of 760K lbs of N use, 40K lbs. P loading; 30K tons sediment loading; 25 K lbs. NO₂; 5K tons CO₂ from nutrient and tillage reduction on approximately 34K acres in MN and PA. See table 2</p> | <p>a. See tracking, attached.</p> |
| <p>9. Funding development including \$759,464 in matching non-federal funding, \$170,500 in program income and \$944,400 in-kind. Additional funding for program expansion.</p> | <p>a. Current grants amounting to \$1,998,000:</p> <ul style="list-style-type: none"> - 2006 Conservation Innovation Grant to Agflex, NRCS, \$683,000 - 2007 Bush Foundation Grant to AFT, \$75,000 - 2007 Pennsylvania Dept. of Environmental Protection (to IPM Institute, \$225,000 - 2007 Pennsylvania State Conservation Commission to IPM Institute, \$20,000 - 2007 Chesapeake Bay Commission to IPM Institute, \$25,000 - 2008 Pennsylvania Dept. of Environmental Protection to IPM Institute, \$50,000 - 2008 Bush Foundation Grant to AFT, \$270,000 - 2008 Conservation Innovation Grant to AFT, \$650,000 - 2008 Conservation Innovation Grant to Minnesota River Board, 999,993.60. Accomplished 1,000,006.21 match funds (accommodation of in kind and match). |
| <p>10. Quarterly and final progress reports including conference call and advisory</p> | <p>a. Advisory conference calls and meetings scheduled for Dec, Jan and Mar through Aug 2009, including one in-person meeting per year.</p> |

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| meeting minutes. | <p>b. BMP CHALLENGE Project team (Brandt, Green, Westaby, and contractors) meets at least twice monthly by conference call to manage BMP CHALLENGE acreage recruitment and implementation.</p> <p>c. MN BMP CHALLENGE and WQ Credit Trading team (Fisher, Green, Kieser & Associates, and Westaby) meets monthly by conference call, second Thursday of each month at 8:30am CST. Advisors welcome to participate. Call agenda and post-call notes circulated to project team and advisors.</p> |
| 11. Other | <p>a. CA expansion is in progress. Alan Forkey with NRCS will be sending a letter of review to make it eligible. Planning on having up to 10 farmers and 1,000 acres using conservation tillage for 2009.</p> |

Table 2. Results to Date

| 2000-2008 RESULTS | Nutrient BMP | Reduced Tillage | Enhanced Nutrient Management |
|--|----------------------------|----------------------------|------------------------------|
| Total acres, 2000-2008 | 4,332 acres | 1,700 acres | 4,659 acres |
| BMP yield, average and range | 158.16 bu/acre 59 - 220 | 156.78 bu/acre 72-233 | 129.38 bu/acre 55-217 |
| Check-strip yield, average and range | 164.94 bu/acre 49-230 | 166.93 bu/acre 110-227 | 137.79 bu/acre 63-238 |
| Farmer net returns after fertilizer or tillage savings | (\$4.94) (\$89) - \$81 | (15.34) (\$156) - \$130 | (\$22.90) (\$141) - \$105 |
| Total N use reduction | 146,272.30 lbs N | - | 124,239 lbs N |
| Estimated sediment reduction | - | 2,550.75 tons | - |
| Estimated P load reduction | - | 3,401 tons | - |
| Estimated N ₂ O reduction (lbs) | 2758.28 | - | 2342.80 |
| Estimated CO ₂ reduction | | 850.25 tons | |

2. Over the next six months we will:

- Continue to collect payment from growers who accumulated a surplus on their BMP acres during the 2008 season.
- Continue recruiting 2009 acres.
- Plan and develop a water quality credit trading workshop in Minnesota for July 2009.
- Revise, reprint and mail the MN Water Quality Credit Trading brochure to approximately 1500 MN point source contacts.
- Continue to interact with Minnesota state agencies and other interested parties on water quality credit trading rule development, and pursue additional funding to continue and expand the program.
- Plan/hold annual advisory meeting.

- Publish BMP CHALLENGE email newsletter edition, circulate to approximately 8400 contacts.
- Prepare and submit a no-cost extension request to February 28, 2010.

3. In the space below, provide the following in accordance with the Environmental Quality Incentive Program (EQIP) and CIG grant agreement provisions:

NOTE: To protect the confidentiality of producer identification numbers, the following information will only be added to the hard copy report mailed to the NRCS CIG office.

- a. *A listing of EQIP-eligible producers involved in the project, identified by name and social security number or taxpayer identification number;*
- b. *The dollar amount of any direct or indirect payment made to each individual producer or entity for any structural, vegetative, or management practices. Both biennial and cumulative payment amounts must be submitted.*

Producer participants in 2009 will be reported in the next six-month report. No payments have been made to 2009 participants to date. Payments are anticipated in December- January after 2009 harvest reports are submitted by crop advisors.

II. Project Team, Advisors and Trainers – As of 03/11/2009

Kelly Adams

Business Manager
CIG Project Financial Reporting
IPM Institute
4510 Regent St.
Madison WI 53705
608-232-1410
Fax: 608-232-1440
kellyadams@att.net

Brian Brandt

Director
Agricultural Conservation Innovation Center
50 W. Broad St, Suite 3250
Columbus OH 43215
614-221-8610 x 201
Fax : 614-221-8620
bbrandt@farmland.org
<http://www.farmland.org/resources/innovation/default.asp>

Dr. Shannon Fisher

Executive Director
Minnesota River Board and MSU Water
Resources Center
184 Trafton Science Center S
Mankato MN 56001
507-389-5492
Fax: 507-389-5493
shannon.fisher@mnsu.edu

Thomas Green

President
CIG Project Manager
IPM Institute of North America and Agflex
4510 Regent St.
Madison WI 53705
608-232-1425
Fax: 608-232-1440
Cell: 608-209-8298
tom.green@bmpchallenge.org

Mark Kieser

Senior Scientist
Kieser & Associates, LLC
536 East Michigan Avenue, Suite 300
Kalamazoo MI 49007
269-344-7117
Fax : 269-344-2493
mkieser@kieser-associates.com
<http://www.kieser-associates.com/>

James Klang, PE

Senior Project Engineer
Kieser & Associates, LLC
7162 Mill Road
Centerville, MN 55038
651-407-0256
Fax: 269-344-2493
jklang@kieser-associates.com

Laurence Picq

Project Scientist
Kieser & Associates, LLC
536 East Michigan Avenue, Suite 300
Kalamazoo MI 49007
269-344-7117
Fax: 269-344-2493
lpicq@kieser-associates.com
www.kieser-associates.com

Maggie Westaby

Project Assistant
BMP CHALLENGE
Agflex, Inc.
4510 Regent St.
Madison WI 53705
608-232-4510
Fax: 608-232-1440
maggie.westaby@bmpchallenge.org
www.bmpchalleng.org

CIG Contacts

David Buland

Technical Contact
USDA-NRCS, Central NTSC
501 W Felix St, Bldg 23
Fortworth TX 76115
817-509-3577
david.buland@ftw.usda.gov

Gregorio Cruz

CIG and Conservation Partnership Initiative
Manager
USDA-NRCS
Financial Assistance Programs Division
14th and Independence Ave SW
Room 5241-S
Washington DC 20250
202-720-2335
gregorio.cruz@wdc.usda.gov

Advisory Group

Participation is invited on monthly conference calls and requested for quarterly conference calls and one in-person meetings per year. Role includes reviewing plans and progress, responding to requests for information/assistance from project team.

George Boody

Executive Director
Land Stewardship Project
2200 4th Street
St. Paul, MN 55110-3011
651-653-0618
Fax: 651-653-0589
gboody@landstewardshipproject.org

Mark Bredehoeft

Southern Minnesota Beet Sugar Cooperative
PO Box 500
East Highway 212
Renville, MN 56284
320- 329-4129
Mark_Bredehoeft@smbcsc.com

Dennis Fuchs

Stearns County SWCD
110 Second Street South, Suite 128
Waite Park, MN 56387
320-251-7800 x 132
Fax: 320-251-9171
dennis.fuchs@mn.nacdnet.net
www.soilandwater.co.stearns.mn.us

Jeremy Geske

Local Issues Specialist
Minnesota Farm Bureau
PO Box 64370
St. Paul, MN 55164
651- 905-2107
jgeske@fbmn.org

Marco Graziani

Minnesota Pollution Control Agency
Wastewater Section – Watershed Planning
Southwest Regional, Municipal Wastewater
520 Lafayette Road, St. Paul, MN 55155-4194
651-296-8632
marco.graziani@pca.state.mn.us

David Mulla

Professor
University of Minnesota
439 Borlaug Hall
1991 Upper Buford Circle
St. Paul MN 55108
612- 625-6721
Fax: 612- 625-2208
mulla003@umn.edu

Mark Scharf

Financial Services Officer
AgStar Financial Services
1921 Premier Drive
P.O. Box 4249
Mankato MN 56002
888 -259-5738
Fax: 507-344-5089
mark.scharf@agstar.com

Jason Portner

United Farmers Cooperative
840 Pioneer Avenue
PO Box 4
Lafayette, MN 56054
507-228-8224
Fax: 507-228-8766
Jason.portner@ufcmn.com

John Schueller

Minnesota River Board
29157 250th Street
Wabasso, MN 56293
507- 342-5621

Jeff St. Ores

USDA-NRCS
375 Jackson St. Suite 600
St. Paul MN 55101
651- 602-7869
jeff.st.ores@mn.usda.gov

Scott Thaden

Anez Consulting, Ltd.
1025 19th Avenue SW
Willmar, MN 56201
320 -235-1970
Fax: 320-235-1986

Trainers

Three Minnesota and three Pennsylvania public agencies or NGO professionals who will be trained to offer the BMP CHALLENGE and WQ Credit Trading curriculum developed as part of this project. Goal is to identify individuals whose current role would be enhanced by this capacity. ***Pennsylvania Trainers yet to be determined.***

Minnesota Trainers

Russ Derickson

Agriculture Advisor
Minnesota Department of Agriculture
Agronomy & Plant Protection Division
90 West Plato Blvd.
Saint Paul, MN 55107-2094
507-752-7992
Fax: 651-296-7386
dericksr@rrcnet.org

Dr. Shannon Fisher

Executive Director
Minnesota River Board and MSU Water
Resources Center
184 Trafton Science Center S
Mankato MN 56001
507-389-549
Fax 507-389-5493
shannon.fisher@mnsu.edu

Ed Hohenstein

Program Manager
Seven Mile Creek Watershed Project
322 South Minnesota Avenue
St. Peter, MN 56082
507- 934-4140
hohenbnc@hickorytech.net

III. Project Summary from Original Proposal to NRCS CIG

Our project will build capacity by creating broad awareness and teaching in-state personnel to support CD, crop advisory professionals and others who work with farmers to meet conservation goals using new, innovative strategies. We will highlight, teach and implement BMP performance guarantees for corn farmers reducing both nutrient use and tillage in DE, IA, IL, IN, MD, MI, MN, NC, NE, OH, PA, VA, WI and point-nonpoint water quality credit trading in MN and PA.

BMP performance guarantees will focus on 51 million acres of corn in these 13 states. Our *BMP Challenge* has delivered a 24% nutrient use reduction in seven states over the past four years. We provide a financial safety net for farmers who reduce nutrient and sediment pollution using practices developed and recommended by land-grant scientists and state agencies. These practices save farmers money over time, but in any one year may result in lower yields and income. The program uses a side-by-side comparison in the farmer's field of his or her conventional practice on a "check" strip vs. reduced nutrient or tillage practice on the balance of the field. We compensate the farmer if net income declines as a result. Our 2005 survey indicates that 42% of corn farmers would try these new practices if guarantees were available.

Water quality credit trading is a new opportunity in the Susquehanna and Potomac River Watersheds in PA and the Minnesota River Watershed in MN. Point sources such as wastewater treatment facilities have greatly reduced nutrient emissions over the past 30 years and face very high costs for incremental gains. These funds can be more efficiently invested in improvements by farmers. Adequate controls are needed to ensure water quality goals are met. Accurate and effective education, training and technical support are needed to implement trading effectively.

Our experienced and nationally recognized team will work with state agencies and others to develop and implement a training curriculum, support tools and outreach for these innovative approaches, and work with conservation districts, crop consultants and other key influencers to equip them to competently offer and manage these opportunities with their client farmers. Support tools will include both new and existing materials and trained in-state technical support to help these professionals efficiently identify the best opportunities, calculate economic benefits to farmers and estimate water quality improvements, and verify and report implementation of conservation practices. Outreach will focus on CDs, crop consultants, Extension, Ag organizations and other key influencers to drive farmer interest and inquiries to trained CD staff and crop consultants.

We will ease farmer recruiting to trading using our proven model of enlisting crop consultants, Extension and CD staff as recruiters, on-site BMP overseers and/or third-party verifiers for our guarantee program; assure farmers with yield/income guarantees so that they can put a comfortable value on their participation in trades, e.g., farmers are reluctant to trade nutrient use reductions for cash because they can't predict the yield impacts; verify/document credit production by farmers and so provide point-sources/regulators with the assurance they need; discover and institutionalize locally-acceptable credit estimation tools to provide certainty for participants; track multiple environmental benefits/environmental services; aggregate credits from multiple farmers to create a reserve pool such that if any one farmer cannot deliver promised credits for any reason, other credits are available to fill in; and offer this model as a turn key service solution to trading projects in other states as they begin to get ready for trading.