

HF4989 - 0 - Clean Water Soil-Healthy Farming Pilot Program

Chief Author: **Kristi Pursell**
 Committee: **Agriculture Finance And Policy**
 Date Completed: **4/5/2024 4:19:38 PM**
 Lead Agency: **Water and Soil Resources Board**
 Other Agencies:
 Agriculture Dept

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings) Dollars in Thousands	Biennium			Biennium	
	FY2023	FY2024	FY2025	FY2026	FY2027
Agriculture Dept					
Agriculture Fund	-	-	1,075	292	292
Water and Soil Resources Board					
Other Misc. Special Revenue	-	-	1,574	1,394	1,394
State Total					
Agriculture Fund	-	-	1,075	292	292
Other Misc. Special Revenue	-	-	1,574	1,394	1,394
Total	-	-	2,649	1,686	1,686
Biennial Total			2,649		3,372

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2023	FY2024	FY2025	FY2026	FY2027
Agriculture Dept					
Agriculture Fund	-	-	1	1	1
Water and Soil Resources Board					
Other Misc. Special Revenue	-	-	1.5	1.5	1.5
Total	-	-	2.5	2.5	2.5

Lead LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Jim Carlson **Date:** 4/5/2024 4:19:38 PM
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State Cost (Savings) Calculation Details

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*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2	Biennium			Biennium	
Dollars in Thousands	FY2023	FY2024	FY2025	FY2026	FY2027
Agriculture Dept					
Agriculture Fund	-	-	1,075	292	292
Water and Soil Resources Board					
Other Misc. Special Revenue	-	-	1,574	1,394	1,394
Total	-	-	2,649	1,686	1,686
Biennial Total			2,649		3,372
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Agriculture Dept					
Agriculture Fund	-	-	1,075	292	292
Water and Soil Resources Board					
Other Misc. Special Revenue	-	-	2,874	2,694	2,694
Total	-	-	3,949	2,986	2,986
Biennial Total			3,949		5,972
2 - Revenues, Transfers In*					
Agriculture Dept					
Agriculture Fund	-	-	-	-	-
Water and Soil Resources Board					
Other Misc. Special Revenue	-	-	1,300	1,300	1,300
Total	-	-	1,300	1,300	1,300
Biennial Total			1,300		2,600

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 Agency: **Water and Soil Resources Board**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2023	FY2024	FY2025	FY2026	FY2027
Other Misc. Special Revenue	-	-	1,574	1,394	1,394	
Total	-	-	1,574	1,394	1,394	1,394
Biennial Total			1,574			2,788

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2023	FY2024	FY2025	FY2026	FY2027
Other Misc. Special Revenue	-	-	1.5	1.5	1.5
Total	-	-	1.5	1.5	1.5

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2023	FY2024	FY2025	FY2026	FY2027
Other Misc. Special Revenue	-	-	-	1,574	1,394	1,394
Total	-	-	-	1,574	1,394	1,394
Biennial Total				1,574	2,788	
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Other Misc. Special Revenue	-	-	-	2,874	2,694	2,694
Total	-	-	-	2,874	2,694	2,694
Biennial Total				2,874	5,388	
2 - Revenues, Transfers In*						
Other Misc. Special Revenue	-	-	-	1,300	1,300	1,300
Total	-	-	-	1,300	1,300	1,300
Biennial Total				1,300	2,600	

Bill Description

This bill establishes statewide clean water, climate-smart, and soil-healthy farming goals. This bill also creates a pilot program to provide financial incentives for certain farming practices in specified counties and townships located in the karst region of the state (SE MN) to further these statewide goals. The bill creates a dedicated funding source from an existing fertilizer fee for the pilot program, including required data collection, and reporting.

Section 1 of the bill identifies when the names of participating farmers, their locations, and their contact information, is considered private or nonpublic data and when this data is considered public. This bill also provides when the Board of Water and Soil Resources (BWSR) and soil and water conservation districts (SWCD) may disclose data, including with written consent or if it is determined that there is a substantive threat to human health and safety or to the environment to aid in the law enforcement process.

Section 2 of the bill redirects an existing fee of 40 cents per ton of fertilizer, soil amendment, and plant amendment, that was set to expire on June 30, 2024, to a dedicated account established in Section 4, subdivision 5 of the bill, after this date.

Section 3 of the bill establishes statewide goals in 2030 and 2050 for state tillable acres using cover cropping, no-till or strip-till, and precision nutrient management practices.

Section 4 of the bill establishes a karst region pilot program for farmers implementing clean-water, climate-smart, and soil-healthy farming practices in specified counties and townships.

Section 4, subdivision 1 defines the farming practices and eligible participants in the pilot program.

Section 4, subdivision 2 establishes that BWSR must administer the pilot program to provide technical assistance and award funding to SWCDs that provide direct payments to eligible farmers to support the long-term use and maintenance of eligible farming practices. The bill also specifies that the application forms for direct payments must be written in plain language and accessible.

Section 4, subdivision 3 directs SWCDs to award ongoing direct payments to participating farmers according to the following provisions: payments are made for each acre farmed with the eligible farming practices; and farmers must at least use the three eligible farming practices of cover cropping, no-till or strip-till, and precision nutrient management. Farmers who are already participating in a comparable private direct payment program are not eligible for direct payments in this subdivision.

Section 4, subdivision 3 specifies the amount of direct payment per acre based on the number of eligible practices

implemented on the acre. The bill establishes a timeline for the SWCD payments to eligible farmers. A portion of the payment must be awarded each February and the remainder the following January after compliance has been verified in a manner approved by the Minnesota Department of Agriculture (MDA).

Section 4, subdivision 4 requires the MDA explore and possibly establish a Minnesota carbon credit market for farmers participating in the pilot program. The bill establishes a limit on the amount that MDA can spend to implement efforts in this subdivision.

Section 4, subdivision 5 establishes a special revenue fund account and appropriates to BWSR and MDA to implement the provisions in this bill.

Section 4, subdivision 6 requires BWSR, in consultation with MDA, to develop a process to enroll additional acres, select eligible farmers, and award program money if the demand exceeds available funding. The BWSR process must include an equity component.

Section 5 of the bill requires BWSR, in consultation with the MDA, to measure how soil health indicators change based on the practices implemented on fields where a direct payment was made. The bill also requires the MDA to monitor groundwater and surface water quality at least annually to determine the extent these farming practices affect groundwater and surface water quality.

Section 5, subdivision 2 of the bill requires BWSR, in consultation with the MDA, to annually report to the legislature the program outcomes, including the number of enrolled acres, the amount of carbon sequestered, greenhouse gas emissions reduced, and changes in soil health indicators. The bill also requires the MDA to provide an update of efforts related to exploring or establishing a carbon market in the February 2025 report.

Assumptions

According to reporting to the MN Department of Agriculture, approximately 3 million tons of fertilizer are sold each year in Minnesota. The most recent available report is for 2020 in which 3.25 million tons were sold. We assume the revenue generated from the fee of 40 cents per ton of fertilizer, soil amendment, and plant amendment will be appropriated to BWSR.

To administer the pilot program, provide technical assistance, and administer grant funds to SWCDs, BWSR estimates it will require 1.50 FTE per year. This includes developing the program, working with the districts to deliver the program, collecting the data, establishing quality control of the data, generating the report, and grant management to the SWCDs. BWSR estimates an approximate billable salary of \$150,000 per FTE for this work.

Based on pilot language, there are approximately 8 full counties covered in programming (7 full counties and portions of two additional). This covers the areas of 9 SWCDs.

For funding provided to SWCDs, BWSR estimates that 20% will be needed to provide technical assistance to farmers and verification of eligible acres for program payments. The remaining 80% will be for payments directly to producers.

According to the 2023 Ag Census, the average area operated is 389 acres. In the counties identified in the bill for the pilot in the bill, there are an estimated 1.6 million acres of tillable crop ground. Assuming the average field size is 40 acres = 40,000 fields in the pilot area.

Soil testing:

The bill includes direct payments of \$15/acre and \$20/acre to participating farmers depending on the number of practices being implemented. BWSR estimates 50% of payments will fall into each category, providing an average payment of \$17.50 per acre. BWSR estimates this will establish recognized practices on up to 5,079 affected acres per year for each of the nine participating SWCDs. At 40 acres per field this would represent 127 fields per SWCD area or 1143 fields total/year.

Based on rates established by the Natural Resources Conservation Service, BWSR estimates:

Each field tested per year @ \$2,100/test for dynamic soil properties

Each field tested per year @ \$40/test for a single indicator

To coordinate efforts with SWCDs and collect the needed submittals and subsequent data for the pilot area, BWSR assumes we would develop a database.

Expenditure and/or Revenue Formula

3.25 million tons fertilizer sold/year x 0.40/ton = \$1.3 million received in revenue per year

\$150,000/FTE x 1.5 FTE = \$225,000/year

1143 fields x \$2,100/test = \$2,400,300/year for dynamic soil properties

1143 fields x \$40/test = \$45,720/year for a single indicator

Based on development of two BWSR databases, the typical cost for development of a searchable electronic databases has been less than \$100,000 built and managed by outside vendors through MNIT contracts. In both instances there were existing sets of data and key areas of information known which needed to be input, managed, and searched. Due to staffing costs and the fact that this process would be completely new with unknown data input processes among nine SWCDs, BWSR estimates the cost to build an electronic database from which forms and data can be input and searched would cost an estimated \$200,000 (one time).

Based on management of current databases and management of landowner submittals, BWSR estimates an ongoing maintenance contract of \$20,000 per year for basic services and system upkeep.

Annual BWSR staff cost associated with ensuring the maintenance agreements are kept up and administered regularly, including managing the system and identification of any items that need maintenance, is assumed at 40 Hours per year (0.02 FTE) = \$3,000

Long-Term Fiscal Considerations

Ongoing staffing to implement the pilot program at the state level (\$225,000).

Annual staffing and maintenance for the database (\$23,000).

There are 1.6 million acres of tillable crop ground within the pilot area. At an average of \$17.50 per acre, this would result in \$28,000,000/year in practice payments if all were participating.

The bill sets targets for 50% of the state's tillable acres to be enrolled in some programing by 2030 and 100% of tillable acres by 2040.

Current estimates are that there are approximately 28 million acres of row crop production/tillable acres in Minnesota. If the expectation is that this program is implemented for all tillable acres, using the average cost per acre identified above, the annual cost would be approximately \$490,000,000 for practice payments annually.

Local Fiscal Impact

As noted in the assumptions above, there will be ongoing local staffing costs to provide technical assistance and administer the local payments to producers. BWSR estimates that this will equate to 20% of total program costs for each SWCD. However, there may be a significant number of contracts for smaller acreage for a program like this and additional time may also be needed to assist producers with technical assistance outside of the payment structure.

References/Sources

Minnesota Department of Agriculture 2020 Crop Year Fertilizer Sales Report (state.mn.us)

USDA Conservation Evaluation and Monitoring Activity https://www.nrcs.usda.gov/sites/default/files/2022-10/FY23_CEMA%20216_Soil%20Health%20Testing.pdf

Agency Contact: Tom Gile

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 Committee: **Agriculture Finance And Policy**
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 Agency: **Agriculture Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
Local Fiscal Impact	X	

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	Dollars in Thousands	FY2023	FY2024	FY2025	FY2026	FY2027
Agriculture Fund	-	-	1,075	292	292	
Total	-	-	1,075	292	292	
Biennial Total			1,075		584	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2023	FY2024	FY2025	FY2026	FY2027
Agriculture Fund	-	-	1	1	1
Total	-	-	1	1	1

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Chloe Burns **Date:** 4/5/2024 4:16:29 PM
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State Cost (Savings) Calculation Details

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Agriculture Fund	-	-	1,075	292	292	
Total	-	-	1,075	292	292	
Biennial Total			1,075		584	
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Agriculture Fund	-	-	1,075	292	292	
Total	-	-	1,075	292	292	
Biennial Total			1,075		584	
2 - Revenues, Transfers In*						
Agriculture Fund	-	-	-	-	-	
Total	-	-	-	-	-	
Biennial Total			-		-	

Bill Description

A bill for an act relating to agriculture; establishing clean water, climate-smart, and soil-healthy farming goals; creating a pilot program to provide financial incentives for certain farming practices in southeastern Minnesota; extending a fertilizer fee; requiring data collection; classifying data; requiring a report; appropriating money; amending Minnesota Statutes 2022, section 13.643, by adding a subdivision; Minnesota Statutes 2023 Supplement, section 18C.425, subdivision 6; proposing coding for new law in Minnesota Statutes, chapter 103C.

The person responsible for payment of the inspection fees for fertilizers, soil amendments, or plant amendments sold and used in this state must pay the inspection fee under paragraph (e), and an additional 40 cents per ton, of fertilizer, soil amendment, and plant amendment sold or distributed in this state, with a minimum of \$10 on all tonnage reports. Until June 30, 2024, the commissioner must deposit all revenue from the additional 40 cents per ton fee in the agricultural fertilizer research and education account. After June 30, 2024, the commissioner must deposit all revenue from the additional 40 cents per ton fee in the clean water, climate-smart, and soil -healthy farming account established in section 103C.703.

Clean water, climate-smart, and soil -healthy farming goals are: to increase farm income, improve soil health, prevent or minimize erosion and runoff, retain and clean water, increase vegetation on the landscape, sequester carbon, and foster healthier rural residents, pollinators, and other wildlife, the state of Minnesota's clean water, climate-smart, and soil-healthy farming goals are:

- (1) by 2030, at least 50 percent of the state's tillable acres use or are enrolled in a public or private program that requires cover cropping and no-till or strip-till;
- (2) by 2030, at least 40 percent of the state's tillable acres use or are enrolled in a public or private program that requires precision nutrient management; and
- (3) by 2040, 100 percent of the state's tillable acres use or are enrolled in a public or private program that requires cover cropping, no-till or strip-till, and precision nutrient management.

This bill establishes a clean water, climate-smart, and soil -healthy farming pilot program in southeast Minnesota and defines specific practices that would be eligible for direct payment. It directs the commissioner agriculture to explore and consider establishing a Minnesota carbon credit marker for farmers participation in the clean water, climate-smart, and soil -healthy farming program; consult with the Board of Soil and Water Resources (BWSR) and develop a process to enroll additional acres, select eligible farmers and award program money if the demand exceed available funding; and to consult with BWSR on measuring how soil health indicators change based on the practices implement on field for which payment was received under 103C.703.

This bill directs the commissioner of agriculture to monitor groundwater and surface water quality indicators at least annually to determine to what extent the implementation of clean water, climate-smart, and soil-healthy farming practices under section 103C.703 affects groundwater and surface water quality.

Assumptions

This bill will be effective July 1, 2024. This bill eliminates fertilizer fee collection for the ag fertilizer research and education account starting on June 30, 2024. It does not impact the authority of the MDA to administer the AFREC council or to distribute the funds remaining in the account as of June 30, 2024 (18C.70, 18C.71, 18C.80).

A new clean water, climate-smart, and soil -healthy farming account is established starting July 1, 2024 and supported with revenue from fertilizer fees. Revenue from this account, and interest earned, can be used to administer the program and for direct payments to eligible farmers. The MDA assumes that expenses related to field and regional scale monitoring as well as development of the feasibility study are eligible expenses. The MDA also assumes that administrative costs at BWSR and the Minnesota Department of Agriculture (MDA) are both eligible expenses.

A clean water, climate-smart, and soil -healthy farming pilot program is available to eligible farmers in Dodge, Fillmore, Goodhue, Houston, Mower, Olmsted, Wabasha, and Winona Counties; one or more of the following townships in Dakota County: Nininger, Empire, Vermillion, Marshan, Ravenna, Eureka, Castle Rock, Hampton, Douglas, Greenvale, Waterford, Sciota, and Randolph; and one or more of the following townships in Rice County: Bridgewater, Northfield, Cannon City, Wheeling, Walcott, or Richland.

The MDA assumes that the revenue generated from the account will be received by BWSR. BWSR transfers that funding to soil and water conservation districts who make direct payment to eligible farmers in the range of \$15-\$20/acre, depending on the practices implemented. BWSR can pay for administrative costs incurred at the agency or by the commissioner of agriculture. The Board of Water and Soil Resources, in consultation with the commissioner of agriculture, must develop a process to enroll additional acres, select eligible farmers, and award program money if the demand exceeds available funding. The MDA assumes all direct payments to eligible farmers will be made by BWSR.

The commissioner of agriculture must explore and may establish a Minnesota carbon credit market for farmers participating in the clean water, climate-smart, and soil-healthy farming program. The maximum amount is not identified in the bill. The MDA assumes this includes a feasibility study and recommendations that will need to be submitted by February 1, 2025, along with BWSR's report to the legislature on the clean water, climate-smart and soil-healthy farming pilot program. The MDA estimates a cost of \$50,000 for feasibility study and recommendations for a State of Minnesota carbon market.

The commissioner of agriculture must design and implement a water quality monitoring approach that evaluates the impact of practices implemented under this pilot program. Water quality monitoring assumptions include:

- Indicators of groundwater quality are nitrate and chloride.
- Indicators of surface water quality are total suspended solids (TSS), total phosphorus (TP), dissolved ortho-phosphorus (DOP), nitrate (NO₃), total Kjeldahl nitrogen (TKN), ammonia (NH₃) and chloride (Cl).
- Effectiveness monitoring will be conducted at the field scale by establishing three demonstration sites in the area of interest. Each demonstration site will include a paired watershed monitoring design to measure surface runoff. Both watersheds will have the same management prior to and during a calibration period, with the control watershed keeping the same management throughout the experiment and with the treatment watershed implementing practices identified in HF4989. If feasible, at least three monitoring wells will be installed at each demonstration site to access groundwater for monitoring and to determine groundwater flow direction.
- Each demonstration site will include an annual "Demonstration site partner agreement" which ensures continued access, and offsets additional costs to the host related to site maintenance and assistance.
- Regional scale monitoring will be evaluated using a "pre-treatment" and "post-treatment" method with the treatment phase starting upon full implementation of this bill. Existing monitoring locations, including approximately 12 streams, 12 springs, and 12 wells, in southeast Minnesota will be used to assess the long-term regional impacts.
- All monitoring equipment will be purchased, and wells will be drilled in FY25, with ongoing annual cost related to

sample collection, site maintenance, data analysis and reporting.

· 1.0 FTE (Hydrologist 2) will be required for water quality monitoring activities at an estimated annual cost of \$136,000 including salary, fringe, and other operating cost (rent, travel vehicle, supplies, etc.).

Expenditure and/or Revenue Formula

The MDA expects revenue from the 40 cents per ton of fertilizer to be similar to past years. For comparison purposes, this document uses the 2020 fertilizer tonnage data. Based on the 2020 fertilizer tonnage reported (3,251,700 tons), the 40 cents per ton fee revenue for 2024 is anticipated or estimated to be \$1,300,680 (3,251,700 x 0.40). The MDA assumes that the revenue generated from the account will be received by BWSR.

Table 1. MDA expenses related to field and regional scale monitoring.

Field Scale Monitoring Installation	Cost	Qty	Total
Monitoring well installation	\$40,000	9	\$360,000
Surface water monitoring site equipment and installation	\$30,000	6	\$180,000
Well continuous NO3 sensor	\$15,000	6	\$90,000
One Time Installation Total			\$630,000
Field Scale Annual Monitoring	Cost	Qty	Total
Field scale surface water analysis 30 samples/site/yr at 6 sites	\$190	180	\$34,200
Demonstration site partner agreement	\$6,000	3	\$18,000
Field scale well water analysis 4 samples/site/yr at 6 sites	\$47	24	\$1,128
Equipment replacement and repair	\$2,500	6	\$15,000
Hydro 2 FTE (sample collect, data mgmt & analysis, reporting)	\$136,000	0.5	\$68,000
Annual Cost Total			\$136,328
Regional Scale Annual Monitoring	Cost	Qty	Total
Surface water analysis, 20 samples/site/yr at 12 sites	\$190	240	\$45,600
Spring water analysis 4 samples/site/yr at 12 sites	\$47	48	\$2,256
Well water analysis 4 samples/site/yr at 12 sites	\$47	48	\$2,256
Hydro 2 FTE (sample collect, data mgmt & analysis, reporting)	\$136,000	0.5	\$68,000
Annual Cost Total			\$118,112
Monitoring FY25 Cost			\$884,440
Monitoring FY26 Cost			\$254,440
Monitoring FY27 Cost			\$254,440

A 15 % indirect was assumed. The indirect costs are used to provide agency wide support services for Human Resources, Finance and Budget, and the Commissioner’s Office at the MDA.

Additionally, the MDA will need \$50,000 to conduct a feasibility study and determine recommendations for a State of

Minnesota carbon market.

The MDA will require 1.0 FTE to implement the monitoring required in this bill.

- **1.0 FTE** (Hydrologist 2) to provide technical oversight and coordination for monitoring activities including sample collection, data management and analysis, and reporting.

Table 2. Projected MDA expenditure and revenue.

Expense Calculation	FY25 (\$)	FY26 (\$)	FY27 (\$)
MDA Salary and Fringe* (Hydrologist 2)	118,000	118,000	118,000
Other Operating, Rent, technology, travel, equipment, supplies for all FTEs	18,000	18,000	18,000
Demonstration site partner agreement	18,000	18,000	18,000
Monitoring equipment, sample analysis and supplies	731,000	100,000	100,000
Carbon Market Study Report	50,000	0	0
Indirect Costs	140,250	38,100	38,100
Expense Total	1,075,250	292,100	292,100

Long-Term Fiscal Considerations

Long-term water quality monitoring will be necessary to quantify the impact of the proposed management and landscape changes at an estimated cost of \$254,000 per year.

Local Fiscal Impact

Local fiscal impact is anticipated for the eligible soil and water conservation districts (SWCDs). SWCDs will be responsible for direct payments to eligible farmers for adoption of soil health practices. This will include outreach and education, administration, technical assistance, and support for participants.

References/Sources

N/A

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