

COUNCIL ACTION FORM

SUBJECT: LETTER OF SUPPORT FOR A REGIONAL CONSERVATION PARTNERSHIP PROGRAM (RCPP) ALTERNATIVE FUNDING ARRANGEMENT GRANT APPLICATION

BACKGROUND:

On February 26, 2019, City Council approved the submission of the Nutrient Reduction Feasibility Study report for the Ames Water Pollution Control Facility (WPCF) to the Iowa Department of Natural Resources. That study formed the basis of the subsequent Capital Improvements Plan project that will complete a treatment technology upgrade to the WPCF in three distinct phases over the next 20 years.

In addition to the improvements to the treatment plant, the study also recommended that the Sewer Fund undertake non-point source nutrient reduction projects in the upstream watershed. Council directed that \$200,000 per year be allocated towards this watershed effort. The non-point source activities are budgeted in a separate Capital Improvements Plan project. The current fiscal year (FY 2019/20) is the first year that watershed-based funding has been budgeted.

Included in the various watershed initiatives that staff has been investigating is a partnership with the Iowa Soybean Association (ISA). ISA has created a separate nonprofit entity titled the Soil and Water Outcomes Fund. As a non-profit, the Soil and Water Outcomes Fund can seek grant funding to implement nutrient discharge-reducing practices in the watershed.

The level of nutrient reduction achieved would be quantified using a widely accepted USDA modeling tool (the Nutrient Tracking Tool, or NTT). Once quantified, the nutrient reduction credits can be sold to point sources like the Ames WPCF. Carbon sequestration credits could also be sold to entities seeking carbon reduction credits. The money paid to buy the credits would then be rolled into the construction of new practices the following year.

There are multiple benefits to the City of Ames through a partnership of this sort:

- The Iowa Soybean Association is a well-known and respected partner in the agricultural community and has been extremely active in promoting environmental stewardship by its members. As a result, it can be far more effective at recruiting landowners than the City could be on its own.
- The nutrient reduction achieved will be quantified by a method that has been accepted by the Iowa Department of Natural Resources as a part of its Nutrient

Reduction Exchange. This allows point sources like Ames to “bank” nutrient reduction credits against future, more restrictive nutrient discharge requirements for wastewater facilities. **City staff is currently working towards completion of a Memorandum of Understanding with the Iowa DNR that would grant credit for voluntary projects undertaken since 2013 that have a quantifiable nutrient reduction component. That MOU will ultimately be brought to Council for authorization; hopefully later this summer.**

- The planned projects for the next two years would provide a projected reduction of 54,545 pounds of nitrogen and 4,545 pounds of phosphorus each year. While the proposed projects involve annual practices (specifically, cover crops) and not the structural practices (like buffer strips or wetlands) that staff would prefer, the cost payback is very attractive and makes City staff supportive for these first two years. Discussions with ISA are ongoing about the development of more structural, longer-lived practices in future years.
- By “stacking” the multiple benefits of nutrient and carbon reductions, it allows the price per acre to be substantially lower than if the City were to undertake similar work on its own.

The Soil and Water Outcomes Fund is finalizing a grant application with the US Department of Agriculture’s Natural Resource Conservation Service (NRCS) for a Regional Conservation Partnership Program (RCP) Alternative Financing Arrangement (AFA) grant. If successful, the funding from the NRCS would cover 75% of the cost to implement the practice, with the City picking up the other 25%. Since the NRCS is only interested in the land use practice itself and not the accompanying nutrient reduction credits, 100% of the nutrient reduction credits can be claimed by the Ames WPCF. **This would effectively provide the City with a 4:1 benefit on the nutrient reduction credits.**

To help bolster the grant application, the City has been asked to provide a letter of support. A copy of the draft letter, along with a summary of the Soil and Water Outcomes Fund and the RCP AFA grant program is attached to this CAF. **The letter explicitly states that providing the funds is subject to the City Council ultimately appropriating the funding, and no binding commitment is being made at this time. However, if Council is not inclined to approve a future agreement for this project, then it would not be appropriate to provide a letter of support at this time.** Staff and the Iowa Soybean Association staff will be working on the formal agreement over the next few months.

ALTERNATIVES:

1. Authorize the Mayor to sign the letter of support for the Regional Conservation Partnership Program (RCPP) Alternative Funding Arrangement (AFA) grant application. If the grant is awarded, the City would then enter into an agreement to provide funding of \$50,000 per year for each of the next two fiscal years.
2. Do not authorize the letter of support and provide additional guidance to staff on how the watershed-based nutrient reduction funds included in the Capital Improvements Plan should be expended.

CITY MANAGER’S RECOMMENDED ACTION:

The joint funding of environmental improvement projects by federal, municipal, and corporate entities is highly innovative. The ability to “stack” environmental outcomes allows each funding party to achieve a greater outcome than they could if undertaking projects on their own. The involvement of the Iowa Soybean Association provides a sense of reassurance among rural landowners. The ability to claim 100% of the nutrient reduction credits for 25% of the cost is highly favorable. And a Memorandum of Understanding with the Iowa Department of Natural Resources is believed to be achievable by the end of the calendar year, giving the City certainty of being able to “bank” nutrient credits against a future tightening of nutrient standards.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No.1, as described above.



May 27, 2020

Adam Kiel, Director of Conservation and External Programs
Iowa Soybean Association Research Center for Farming Innovation
1255 SW Prairie Trail Parkway
Ankeny, IA 50023

Delivered via email to "Adam Kiel" AKiel@iasoybeans.com

RE: Soil and Water Outcomes Fund RCPP Proposal

Dear Mr. Kiel,

I am writing to document the City of Ames support for the Ag Technology and Environmental Stewardship Foundation's proposal to the Natural Resources Conservation Service's Regional Conservation Partnership Program (RCPP) Alternative Funding Arrangement (AFA), titled "Soil and Water Outcome Fund". Ames is familiar with the proposal, understands the general expectations, and supports the efforts to address the natural resource concerns identified therein.

If this RCPP proposal is selected for funding, Ames will provide contributions totaling \$100,000 over two years to this project. This contribution is equal to the anticipated yearly purchase of environmental outcomes resulting from conservation practice implementation on farms. Specifically, Ames will purchase the water quality outcomes generated by the conservation practices after they have been installed and verified. Our expected contributions include:

Year	Specific Activities/Deliverable (Action)	Associated Local, State, or Federal Program or Initiatives	Amount	Limitations	Cash or In-Kind
1/1/2021-12/31/2021	Purchase of verified nitrogen and phosphorus water quality outcomes (lbs of N and P) resulting from the project.	None	\$50,000	Outcomes must be verified with NTT. Subject to Ames City Council appropriation of funds.	Cash purchase
1/1/2022-12/31/2022	Purchase of verified nitrogen and phosphorus water quality outcomes (lbs of N and P) resulting from the project.	None	\$50,000	Outcomes must be verified with NTT. Subject to Ames City Council appropriation of funds.	Cash purchase

Sincerely,

John Haila, Mayor
Ames, Iowa

JRD/

Soil & Water Outcomes Fund

RCPP Alternative Funding Arrangement Partnership Request

Soil and Water Outcomes Fund Background & Approach

The Soil and Water Outcomes Fund provides financial incentives to farmers to implement conservation practices, and monetizes the resulting environmental benefits by selling verified outcomes to beneficiary customers. The Fund is in its first year of implementation in Iowa, supporting the implementation of practices like cover crops, conservation tillage and conversion to perennial cover across nearly 9,500 acres of Iowa cropland. Approximately 2,400 of these acres are located in the Squaw Creek and South Skunk River watersheds. The Fund is jointly administered by AgTech, the Iowa Soybean Association and Quantified Ventures.

The environmental benefits - specifically, reductions in nitrate and phosphorus in Iowa waterways and enhanced carbon sequestration in soils - will be sold to public and private customers. We anticipate the City of Ames will purchase verified water quality outcomes (lbs of N and P) from the 2,400 acres of practices in the Squaw Creek and South Skunk River watersheds in 2020 to apply against regulatory NPDES permits under the framework of the Nutrient Reduction Exchange. Cargill, a core project partner, will purchase verified CO₂e reductions or improvements in sequestration.

By monetizing or “stacking” the multiple benefits of conservation practices and aligning customers, the Fund is able to provide extremely cost competitive outcomes pricing. As detailed below, the Iowa Soybean Association and Quantified Ventures believe that producing outcomes using the Soil and Water Outcomes Fund is more cost effective than treatment improvements at wastewater plants. We anticipate that the use of USDA Regional Conservation Partnership Program (RCPP) funding to share in the cost of purchasing these water quality outcomes will create even greater efficiencies.

Summary of RCPP Alternative Funding Arrangement Opportunity

Through RCPP, USDA wishes to co-invest with partners in projects that demonstrate innovative solutions to conservation challenges while providing measurable environmental improvements and outcomes. The Classic RCPP has a long history of success in Iowa. The 2018 Farm Bill authorized new changes to the RCPP program that allow for additional innovation and impact. One such change involves the creation of a new “Alternative Funding Arrangement” (AFA) provision intended to promote new and innovative methods for conservation, including “pay for performance” approaches like the Soil and Water Outcomes Fund.

NRCS has authorized a \$50 million funding pool across a maximum of 15 awards for FY 2020, with a maximum award of \$10 million per project. **Proposals for the RCPP AFA are due on May 29th.**

Proposed RCPP AFA Approach

The project ISA and QV are proposing for the RCPP AFA seeks to expand the implementation of conservation practices on farms by leveraging RCPP AFA funding as a payor for verified water quality outcomes generated by the Soil and Water Outcomes Fund in Iowa. This proposed approach responds

directly to the RCPP AFA request for projects that 1) “use innovative approaches to leverage federal investment in conservation” and 2) “deploy a pay for performance conservation approach”.

As part of this project, we wish to engage Ames as a co-payor for nitrate and phosphorus outcomes alongside RCPP AFA funding. Funding for outcomes payments from the City of Ames would be stacked together with water outcome payments provided by the RCPP AFA award to allow for a lower “cost of entry” for the City of Ames. The subsidy being proposed is a 75% / 25% split - for every dollar of water quality outcomes produced, we propose the RCPP AFA pays \$0.75 and the City of Ames pays \$0.25. One hundred percent of the water quality outcomes purchased by the City of Ames will be available for use with Nutrient Reduction Exchange, but Ames will only be required to pay for 25% of the cost. QV and ISA will provide the upfront funding to farmers needed to implement conservation practices across at least 100,000 acres of Iowa cropland annually in 2021 and in 2022.

As part of our RCPP AFA proposal, we request that the City of Ames contribute a total of \$100,000 over 2 years (\$50,000 per year at the end of calendar year 2021 and calendar year 2022) for the purchase of verified water quality outcomes. The sale price to Ames for these outcomes will be fixed at \$3 per lb of N and \$8 per lb of P, paid only upon confirmation that these outcomes have been achieved by our independent verification partner (Sustainable Environmental Consultants)¹ using the IDNR-approved Nutrient Tracking Tool model. With the RCPP funding taken into account, the effective City of Ames cost per pound is reduced to \$0.75 per lb of N and \$2 per lb of P. All information about the location of practice implementation, types of practices implemented, monitoring data collected would be transparent and freely provided to the City of Ames as needed, so long as the request is compliant with the farmer agreements.

It is anticipated the City of Ames annual purchase of \$50,000 of water quality outcomes will result in an estimated 54,545 lbs of nitrogen and 4,545 lbs of phosphorus reductions each year during the 2021 and 2022 period. The water quality outcomes not purchased by the City of Ames and RCPP are anticipated to be purchased by IDALS and will not be available for use by the City of Ames with the Nutrient Reduction Exchange.

Why This Approach Benefits the City of Ames

ISA and QV believe our proposed RCPP AFA approach to achieving conservation outcomes in Iowa offers several significant advantages over other approaches.

1. Water quality outcomes purchased by the City of Ames will be created under the NRE and will be used to meet regulatory requirements of NPDES permits via a future Memorandum of Understanding between the City and the Department of Natural Resources.
2. We aim to provide a pathway for the City of Ames to purchase outcomes only after they have been verified, which we feel offers a more cost-effective pathway for public expenditure.

¹ <https://sustainableenviro.com/>

3. The purchase of verified water quality outcomes would yield significant cost savings per unit of outcome over current and future City of Ames nutrient reduction programs. Partnering with the RCPP AFA increases this cost effectiveness significantly.
4. Stacking federal government, municipal, and corporate funding represents a first-of-kind innovation in financing agricultural conservation, and would further reinforce the City of Ames commitment to achieving water quality outcomes in the Squaw Creek and South Skunk River watersheds.
5. ISA and QV believe we can demonstrate to NRCS that pay for performance approaches deserve expanded funding support, unlocking even more federal funding to support outcomes focused transactions for Ames.

Next Steps

We welcome the opportunity to further discuss our proposed project and to explain why we believe this is a unique opportunity to pilot an innovative approach to achieving conservation outcomes in the Squaw Creek and South Skunk River watersheds. ISA and QV are currently in the process of preparing proposal materials and securing agreement from our proposed project partners. We have secured commitment from Cargill to purchase the CO₂e reductions from 100,000 acres of Iowa cropland during the grant period (2021-2023). If the City of Ames wishes to participate, we would require a letter of commitment stating the funding amount allocated for annual outcomes purchases provided that we meet the city's stated purchase conditions (price, quantity, etc).