

Joint Committee on Ways and Means

Carrier – House: Rep.

Carrier – Senate: Sen.

**Revenue:** Revenue Impact Statement Issued

**Fiscal:** Fiscal Impact Statement Issued

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**Action:**

**Vote:**

House

Yeas:

Nays:

Exc:

Senate

Yeas:

Nays:

Exc:

**Prepared By:** Krista McDowell, Legislative Fiscal Office

**Meeting Date:** 05/21/2013

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**WHAT THE MEASURE DOES:** Directs Oregon Business Development Department (OBDD), in consultation with Oregon Department of Agriculture (ODA), to create a Beginning and Expanding Farmer Loan program to facilitate loans for farmers and ranchers to finance acquisition of approved agricultural project. Requires before bond issuance that agricultural project receive eligibility determination and farmer is qualified by lender to receive loan. Directs OBDD to adopt rules of operation of program, application process and requirements for lenders and farmers and criteria and eligibility standards for farmers and lenders. Authorizes OBDD to charge fees to lenders and beginning farmers as necessary to administer program and cover cost of procurement of bond counsel, State Treasurer fees, department issuance fees and trustee fees. Authorizes lenders to charge usual and customary fees and points as agreed by farmer and approved by OBDD. Specifies loan terms as agreed by lender and farmer, and specifies lender to make independent credit evaluation. Directs ODA to cooperate with OBDD to market program and provide outreach to farmers and lenders. At request of OBDD, authorizes State Treasurer to issue revenue bonds for specified purposes. Authorizes OBDD to lend proceeds of revenue bonds for approved agricultural projects. Creates Beginning and Expanding Farmer Loan Program Fund.

**ISSUES DISCUSSED:**

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**EFFECT OF COMMITTEE AMENDMENT:** no amendment proposed

**BACKGROUND:** In a 2011 survey of farmers and aspiring farmers conducted by the National Young Farmers' Coalition, the lack of capital, including the lack of access to credit, was ranked the top challenge facing beginning farmers. Beginning farmers have difficulty accessing credit through traditional commercial loans because, by definition, they have never owned farms and often have little experience. In an effort to help new farmers secure funding for the purchase of agricultural land and other property necessary for operations, a number of states administer "Aggie Bond" programs, similar to the program outlined in House Bill 2700 A. Under these programs, a state agency issues federally tax exempt bonds to substitute for a regular loan instrument. Because lenders using these bonds do not pay tax on the interest paid by the farmer, lenders are able to offer lower interest rates. The programs aim to increase the availability of credit to new farmers by incentivizing lending.

**FISCAL IMPACT OF PROPOSED LEGISLATION****Measure: HB 2700 - A**Seventy-Seventh Oregon Legislative Assembly – 2013 Regular Session  
Legislative Fiscal Office***Only Impacts on Original or Engrossed  
Versions are Considered Official***

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Prepared by: Krista McDowell  
Reviewed by: Steve Bender, Paul Siebert, John Borden  
Date: 5/7/2013

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**Measure Description:**

Directs Oregon Business Development Department to develop and implement Beginning and Expanding Farmer Loan Program to assist beginning farmers with acquisition of agricultural land, agricultural improvements and depreciable agricultural property.

**Government Unit(s) Affected:**

Business Development Department (Business Oregon), Department of Agriculture, State Treasurer

**Summary of Expenditure Impact:**

See Analysis

**Local Government Mandate:**

This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

**Analysis:**

The measure establishes the Beginning and Expanding Farmer Loan Program to facilitate the making of loans to beginning farmers. The bill would require the Department of Agriculture to consult with the Oregon Business Development Department (OBDD) to market the program. The bill establishes the Beginning and Expanding Farmer Loan Fund in the State Treasury, separate and distinct from the General Fund. Interest earned shall be credited to the fund; all moneys in the fund are continuously appropriated to the OBDD. Under provisions of the bill, the State Treasurer may issue revenue bonds at the request of OBDD, secured by the revenue from agricultural project sales that are pledged for this purpose. The Legislature would set limits on bond issuance each biennium in a bond authorization bill. The State would not be liable to pay bond holders in the event that the revenue from secured sales is insufficient to pay debt service charges.

OBDD is authorized to establish fees to lenders and loan recipients to fund administration and bond issuance costs. While the bill authorizes OBDD to charge fees as a funding mechanism; the estimated volume for the program is projected by the department to be close to five or fewer financings per year. As a result of limited applicant participation, the proposed fees would likely be insufficient to cover the administrative costs of the program.

OBDD is requesting one permanent Program Analyst 4 position (1.0FTE) to set up, operate and manage the program and comply with continuing U. S. Security and Exchange Commission reporting requirements for these Private Activity Bonds. The positions, and associated Services & Supplies, are estimated to cost \$249,906 Lottery Funds (LF) per biennium, and an additional one-time \$50,000 LF expense, associated with the development of bond closing documents, is anticipated in the 2013-15 biennium.

The Department of Agriculture estimates up to 400 hours of existing Operations and Policy Analyst 3 positions will be needed in the implementation year; and up to 200 hours per year thereafter to provide consultation to OBDD and outreach services to qualified participants. In addition, an estimated expense of \$2,600 per biennium for production of outreach materials will also be incurred. The estimated fiscal impact for the Department of Agriculture is \$44,600 for the 2013-15 biennium and \$30,600 in

subsequent biennium. It is not determined if these expenses will be fully funded by Other Funds revenue transfer from OBDD or if a General Fund appropriation is necessary.

Bonding costs to the State Treasurer could be dependent on the amount of financing sought; since the bill does not identify minimum or maximum qualifying loans, the costs associated with bonding are foreseeably indeterminate until such requirements are established under rule. Additionally, the bill provides the State Treasurer two funding mechanisms for administrative expenses and it is unclear if this will be paid for by charging against proceeds for the revenue bonds or with the use of Other Funds from fee revenues charged to applicant lenders or beginning farmers.

The fiscal implications to the state have not been quantified as it relates to bond holders who enforce their rights, under provisions of the bill, to compel the performance of duties and obligations of, the State of Oregon or its officers, agents or employees. This action to require the state to act as if it were a trustee of an express trust, on behalf of the bond holders, could have a broad range of effects on various state agencies. Additionally, a revenue source is not identified to fund these potential expenses, should the state be required to perform such a broad range and scope of duties.

**REVENUE IMPACT OF  
PROPOSED LEGISLATION  
Seventy-Seventh Oregon Legislative Assembly  
2013 Regular Session  
Legislative Revenue Office**

<b>Bill Number:</b>	<b>HB 2700-A</b>
<b>Revenue Area:</b>	<b>Bonding and Debt</b>
<b>Economist:</b>	<b>Mazen Malik</b>
<b>Date:</b>	<b>04/09/2013</b>

***Only Impacts on Original or Engrossed  
Versions are Considered Official***

**Measure Description:**

Directs Oregon Business Development Department to develop and implement Beginning and Expanding Farmer Loan Program to assist beginning farmers with acquisition of agricultural land, agricultural improvements and depreciable agricultural property.

**Revenue Impact (in \$Millions):**

The measure specifies certain requirements for loans, maximum loan amount of, and limits on loans for depreciable property. This statement is issued to facilitate the movement of this measure to the committee on ways and means.

**Impact Explanation:**

The measure as amended directs OBDD, in consultation with Oregon Department of Agriculture (ODA), to create Beginning and Expanding Farmer Loan program. OBDD will use federally tax exempt private activity bonds to facilitate low interest loans for beginning farmers and ranchers to purchase agricultural land and related agricultural property. The measure directs ODA to cooperate with OBDD in a marketing program and outreach to farmers and lenders. The amendment also defines "bond-related" costs, and authorizes State Treasurer to issue private activity bonds at request of OBDD to pay program related costs. The measure establishes several funds to build the structure of bond repayments process through establishing, the Beginning Farmer Bond Fund, Beginning Farmer Debt Service Fund and Beginning Farmer Bond Administration Fund. The Impacts of this measure on revenue will be evaluated further as the committee on ways and means examines the different facets and mechanisms of this bond and loan program.

**Creates, Extends, or Expands Tax Expenditure:** Yes  No

**Further Analysis Required**