
MEMORANDUM

Legislative Fiscal Office
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To: *Natural Resources Subcommittee*

From: *Krista McDowell, Legislative Fiscal Office*
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Date: June 24, 2013

Subject: *HB 2700 - A*
Work Session Recommendations

HB 2700 – A relates to the Beginning and Expanding Farmer Loan Program.

The measure, the original staff measure summary, preliminary Joint Committee on Ways and Means staff measure summary, and fiscal impact statement are available on the Oregon Legislative Information System (OLIS).

The measure previously had a public hearing and work session in the House Committee on Agriculture and Natrual Resources and is recommended do pass with amendments.

The measure has a \$227,607 Lottery Funds fiscal impact in the 2013-15 biennium and \$146,072 Lottery Funds fiscal impact in the 2015-17 biennium.

Amendment

There is a –A8 amendment to the measure that removes the requirement for the Department of Agriculture to cooperate with OBDD to market the program and to provide outreach to beginning farmers and lenders. Provides expenditure limitation for the Beginning and Expanding Farmer Loan Program.

Motion: Move the –A8 amendment to HB 2700 - A.

Measure as Modified

The measure, as amended, is recommended to be moved to the full Committee on Joint Ways and Means.

Motion: Move HB 2700 - A to the full committee with a “do pass” recommendation, as amended.

Assignment of Carriers

Full: _____
2nd Chamber: _____

**PROPOSED AMENDMENTS TO
A-ENGROSSED HOUSE BILL 2700**

1 On page 1 of the printed A-engrossed bill, line 2, after “money;” insert
2 “limiting expenditures;”.

3 On page 3, delete lines 3 through 5.

4 In line 6, delete “(7)” and insert “(6)”.

5 On page 5, after line 42, insert:

6 **“SECTION 7. Notwithstanding any other law limiting expenditures,**
7 **the limitation on expenditures established by section 3 (1), chapter**
8 **_____, Oregon Laws 2013 (Enrolled House Bill 5028), for the biennium**
9 **beginning July 1, 2013, as the maximum limit for payment of expenses**
10 **from lottery moneys allocated from the Administrative Services Eco-**
11 **nomic Development Fund to the Oregon Business Development De-**
12 **partment, is increased by \$227,607 for the Beginning and Expanding**
13 **Farmer Loan Program.”.**

14 In line 43, delete “7” and insert “8”.

15 _____

FISCAL IMPACT OF PROPOSED LEGISLATION

Measure: HB 2700 - A8

Seventy-Seventh Oregon Legislative Assembly – 2013 Regular Session
Legislative Fiscal Office

Only Impacts on Original or Engrossed Versions are Considered Official

Prepared by: Krista McDowell
Reviewed by: Steve Bender, Paul Siebert, John Borden
Date: 6/24/2013

Measure Description:

Directs Oregon Business Development Department, in consultation with State Department of Agriculture and potential lenders, to create Beginning and Expanding Farmer Loan Program to facilitate making loans to beginning farmers to finance acquisition of approved agricultural projects.

Government Unit(s) Affected:

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

Summary of Expenditure Impact:

Summary of Expenditure Impact		
	2013-15 Biennium	2015-17 Biennium
General Fund		
Lottery Funds	227,607	143,381
Other Funds		
Federal Funds		
Total Funds	\$227,607	\$143,381
Positions	1	1
FTE	0.50	0.50

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, as amended, establishes the Beginning and Expanding Farmer Loan Program to facilitate the making of loans to beginning farmers. 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. The bill would require the Department of Agriculture to consult with the Oregon Business Development Department (OBDD) regarding loan applicants' qualifications and eligibility. 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.

Under provisions of the bill OBDD is authorized to establish fees to lenders and loan recipients to fund administration and bond issuance costs. However, while these fees are an authorized funding mechanism - Lottery Funds allocations are planned to support OBDD and Department of Agriculture administration costs.

One permanent half-time Program Analyst 4 position (0.50 FTE) is needed by OBDD 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 position is estimated to cost \$161,202

Lottery Funds (LF) in the 2013-15 biennium and \$134,492 LF in the 2015-17 biennium. An additional one-time \$50,000 LF expense associated with the development of bond closing documents is anticipated in the 2013-15 biennium.

Consultation work and rule making assistance by the Department of Agriculture is estimated at 80 hours of existing Operations and Policy Analyst 4 work in the implementation year for the program; and up to 96 hours per year thereafter. The estimated fiscal impact for the Department of Agriculture is \$16,405 for the 2013-15 biennium and \$11,580 in subsequent biennium. These expenses will be funded by a revenue transfer from OBDD.

The bill provides the State Treasurer two funding mechanisms for administrative expenses 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. Costs associated with Private Activity Bond sales, to be paid by each individual loan recipient, include the following:

- \$5,000 Office of the State Treasurer closing fee
- \$500 Oregon Facilities Authority initial application fee
- 0.5% of the amount of the bond for the Oregon Facilities Authority processing fee
- \$11,500 Oregon Facilities Authority Bond Counsel compensation fee
- \$800 financial advisor fee (maybe waived depending on OBDD rules)
- Indeterminate amount of private sector bank fees associated with loan processing and closing

Maximum principal amount of loans are assumed to comply with Internal Revenue Service tax law, currently 26 USC Sec. 147; which stipulates first-time farmer lending requirements applicable to certain private activity bonds and caps lending at the following amounts for specified purposes:

- \$501,100 agricultural land, improvements & property (adjusted annually for inflation)
- \$250,000 depreciable property (i.e. equipment and livestock)
- \$62,500 used depreciable equipment

Joint Committee on Ways and Means

Carrier – House: Rep.
Carrier – Senate: Sen.

Revenue: Revenue Impact Statement Pending

Fiscal: Fiscal Impact Statement Issued

Action:

Vote:

House

Yeas:

Nays:

Exc:

Senate

Yeas:

Nays:

Exc:

Prepared By: Krista McDowell, Legislative Fiscal Office

Meeting Date:

WHAT THE MEASURE DOES: 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.

ISSUES DISCUSSED:

- Costs associated with program advertisements and production materials
- Bonding costs and similarly existing bonding programs
- Similar types of bonds help facilitate a lower tax status for lenders
- Potential closing costs associated with program

EFFECT OF COMMITTEE AMENDMENT: A8 amendment removes the requirement for the Department of Agriculture to cooperate with the Oregon Business Development Department to market the program and to provide outreach to beginning farmers and lenders. Provides expenditure limitation for the Beginning and Expanding Farmer Loan Program in the amount of \$227,607 for the 2013-15 biennium.

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.