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Testimony on HB 5005
Joint Ways and Means Subcommittee on Capital Construction

Co-Chairs Read and Girod, Members of the Committee

Thank you for the opportunity to provide testimony on HB 5005 today. We submit this testimony in support of the bill's inclusion of an allocation of private activity bonds necessary for farmers to access the benefits Oregon's Beginning and Expanding Farmer Loan Program (aka Aggie Bonds), as well as authorization for issuance of pass-through revenue bonds sufficient for this purpose. The bill contains an allocation of $10 million in private activity bonds for this program.

In 2013, the Oregon Legislature passed HB 2700 to establish Oregon's Beginning and Expanding Farmer Loan Program. The intent of this program is to provide incentives for lower interest lending for beginning and smaller farmers. With the average age of Oregon farmers nearing 60 years old, it is estimated that between 25 - 50% of Oregon farmland will change hands in coming decades, according to the Oregon Department of Agriculture. It is currently very hard for new and smaller farmers to purchase land or expand their operations as many lending institutions simply refuse to lend to farm businesses, or only offer very high interest rates. Programs to aid beginning farmers in accessing land and equipment, including through lower interest lending, are increasingly necessary. The Oregon Beginning and Expanding Farmer Loan Program is meant to assist beginning and smaller farmers in the acquisition of agricultural land, agricultural improvements, and depreciable agricultural property including breeding livestock and equipment. For this program, qualifying loans are capped at $509,600 by the IRS, and other IRS rules ensure that this program is strictly accessible to farmers who either do not currently own land, or those currently operating on smaller acreages and seeking to expand.

The Aggie Bond program does not lend state money. Rather, the state issues tax exempt private activity bonds for the amount of the loan, allowing lenders to receive a federal tax credit on interest earned when they lend to qualifying small and beginning farmers as defined by the IRS. This can lower interest rates significantly and save qualifying farmers thousands of dollars per year in payments. Farmers can also combine Aggie Bonds backed loans with federal (ie, Farm Service Agency) beginning farmer loan, loan guarantee and down payment assistance programs.

Farm interest rates are typically significantly higher than residential interest rates. By lowering interest rates for beginning farmers, this program helps farmers improve cash flow and build equity, aiding a newer generation of farmers in access to land. While Business Oregon (OBDD) determines a loan's eligibility for the program and whether a bond will be issued, the loan and the bond are secured solely by the collateral required by the lender and are not obligations of state of Oregon.

We urge your support for the private activity bonding allocation and authorization for issuance of pass-through revenue bonds for Oregon's Beginning and Expanding Farmer Loan Program included in HB 5005.

HB 3239 and HB 5005 - Expand Low Interest Lending for Beginning Farmers in Oregon

FRIENDS OF FAMILY FARMERS

In 2013, the Oregon Legislature created the Beginning and Expanding Farmer Loan Program to incentivize lower interest lending for beginning and small farmers

- The Oregon Beginning and Expanding Farmer Loan Program, aka 'Aggie Bonds,' is meant to assist beginning and smaller farmers in the acquisition of agricultural land, agricultural improvements, and depreciable agricultural property, including breeding livestock and equipment.
- **The Aggie Bond program does not lend state money.** Rather, the program allows lenders to receive a federal tax credit when they lend to qualifying small and beginning farmers. This can lower interest rates by 25% and save qualifying farmers thousands of dollars per year in interest payments.
- Farmers can "piggy back" this program with federal (Farm Service Agency) lending programs.
- Farm interest rates are typically higher than residential interest rates. Lowering interest rates for beginning farmers improves cash flow and the ability to build equity.

HB 3239 would improve access to Oregon's existing Aggie Bond program by expanding who qualifies as a 'participating lender'

- Specifically, the bill adds Farm Credit Services, one of the region's top farm lenders, to the list of approved lenders. It also adds owner financing agreements as a form of eligible lending, in which a landowner agrees to carry the loan for a qualifying beginning farmer through a purchase agreement or sales contract.

HB 5005 would authorize $10 million in private activity bonds for the program

In order for lenders and beginning farmers to take advantage of the tax and interest rate benefits of the program, private activity bonds must be issued. $10 million in bonding would enable 20 loans at the maximum amount.

How would an Aggie Bond loan work if HB 3239 and HB 5005 were approved?

When a lender has a potential borrower that meets the IRS definition of 'first time farmer' (under IRS Code Section 147) and who otherwise qualifies for a loan, they would apply to the Oregon Business Development Department (Business Oregon), which would review and approve qualified applications. Under the federal IRS code, such loans are allowed for:

- up to $509,600 for farmland purchases (this is also the total loan limit)
- up to $250,000 for the purpose of depreciable agricultural property (including new farm equipment and breeding livestock)
- up to $62,500 on used equipment

The IRS defines 'first time farmer' as a farmer that either does not own land, or one that owns land smaller than 1/3 of the median county farm size in the county they intend to purchase land in. Equipment loans may be more broadly available. Farm Service Agency loan and loan guarantee programs available to beginning farmers are also generally available for potential Aggie Bonds participants. Business Oregon finalized rules for the Aggie Bond program in February 2015.

Farming is a high capital, low margin business, and the average age of Oregon farmers is now nearly 60 years old. Between 25 - 50% of Oregon's farmland is expected to change hands in coming decades and younger farmers are needed. It is currently very hard for new and smaller farmers to purchase land or expand their operations as many financial institutions refuse to lend to farm businesses, or offer high interest rates.

**Financing for new and small farm operations is difficult:
HB 3239 and HB 5005 will help**

Questions? Contact Ivan Maluski, Friends of Family Farmers • www.friendsoffamilyfarmers.org •
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