

HOUSE BILL REPORT

SSB 5092

As Reported by House Committee On:
Economic Development, Agriculture & Trade

Title: An act relating to the beginning farmers loan program.

Brief Description: Creating a beginning farmers loan program.

Sponsors: Senate Committee on Agriculture & Rural Economic Development (originally sponsored by Senator Jacobsen).

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 3/30/05, 4/1/05 [DP].

Brief Summary of Substitute Bill

- Authorizes the Washington State Housing Finance Commission to develop and implement a program to provide financing for beginning farmers.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: Do pass. Signed by 20 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Kristiansen, Ranking Minority Member; Blake, Buri, Chase, Clibborn, Dunn, Grant, Haler, Holmquist, Kenney, Kilmer, Kretz, McCoy, Morrell, Newhouse, Quall, Strow and Wallace.

Staff: Meg Van Schoorl (786-7105).

Background:

"Aggie Bond" financing programs are offered in 18 states to assist first-time farmers to purchase land, farm equipment, buildings, and livestock. Borrowers must be beginning farmers or ranchers who will actively farm the land. The federal tax code sets program parameters such as: defining beginning farmers; setting loan limits; and prescribing eligible and ineligible uses of loan proceeds.

"Aggie Bonds" involve three-way transactions between the borrower, a lending institution, and a bond issuance authority. A government agency issues tax-exempt, non-recourse revenue bonds as private placements to a lender. Because the interest income earned by the lender on the loans is tax exempt, the lender is able to charge borrowers lower than prevailing market rates of interest. Since lending decisions are made by the banks and since the bonds are repaid

by revenues from the borrower, the risk is assumed by the banks rather than by the bond issuing authority or the state.

The Housing Finance Commission (Commission), in existence since 1983, issues below-market-rate, tax exempt bonds and federal tax credits to fund housing and non-profit facilities statewide. The Commission is one of four statewide agencies in Washington that issue tax-exempt bonds to meet public purposes. The others are the Washington Health Care Facilities Authority, the Washington Economic Development Finance Authority, and the Washington Higher Education Financing Authority. The amount of tax exempt, private activity bonds that may be issued in the state in any given year is limited by a federally-defined maximum called the "bond cap authority" or "volume cap." For 2004, the bond cap total for Washington was \$490 million. The total bond cap is allocated among seven categories. "Aggie Bonds" would be issued from the category called "Small Issue," which had 24 percent of the total bond cap in 2004.

Summary of Bill:

Many urban and rural residents have the training, expertise and interest but not the financial means to start a career in farming. The increasing average age of farmers, the decreasing numbers of full-time commercial farms, and the lack of young people with the skills and interest are additional concerns. The Legislature authorizes the Washington State Housing Finance Commission to develop and implement a program to provide financing for beginning farmers in order to test the feasibility, interest and results of such a program. Eligibility criteria must be established that will enable the Commission to choose applicants who are likely to repay the loans. The Commission may: issue revenue bonds to finance the loans; take necessary steps to make the interest on the bonds tax-exempt; and participate fully in government programs that benefit beginning farmers.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The Housing Finance Commission was created in 1983. The "Aggie Bond" program would fit well with the housing and community development activities we operate. This is a private sector program which involves no state funds, no state guarantees, and has no impact on the state debt limit. Eighteen other states offer "Aggie Bonds." The program was initiated by the federal government in recognition that the average age of United States farmers is 55. Financial tools are needed to bring young people into farming in both urban and rural areas. These are small loans and are primarily handled by local banks, so it is an

economic development activity for banks in their communities. Eighty percent of the 150 enrollees in the Farm Link Program need financial support to get into farming.

Testimony Against: None.

Persons Testifying: Kim Herman and Tia Paycheff, Washington State Housing Finance Commission; Mary Embleton, Cascade Harvest Coalition; and Rob Holland, American Farmland Trust.

Persons Signed In To Testify But Not Testifying: None.