

1999 HOUSE AGRICULTURE

HB 1047

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1047

House Agriculture Committee

Conference Committee

Hearing Date 1-14-1999

Tape Number	Side A	Side B	Meter #
ONE HB 1047	x		0.1 to 13.6
Committee Clerk Signature <i>Arlin Hanson</i>			

Minutes:

1 A: 0.0 Chairman Nicholas called the committee to order with all members present.

#1 A: Mr Paul Kramer-Legislative Council staff.. Explained what HB1047 does.

It basically relates to the beginning farmer revolving loan fund. to provide an effective date and to declare an emergency. (See attached testimony)

#1 A: 0.9 Richard Slosser, ND Farmers Union not opposed as per say but basically wants to come back home(young and beginning) Concerned about the use of the funds. Maybe need to look at the terms and especially buy down interest rate.

1 A: 4.0 Jan Birch, ND Farm Bureau.. Not really in opposition by wants more information on how it works.

Chairman Nicholas asked Eric (Bank of ND) to come to the podium and answer questions.

What amount of available funds are being used?

Page 2

House Agriculture Committee

Bill/Resolution Number Hb 1047

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Eric Hardmeyer: All buydown funds are used. \$1 dollar buys down \$10. B/ND has a lot of 7

loans in place. Best benefit is the reduction of loan cost, reduction of accounting fees,

Rep Nowatzki asked if this was a revolving fund?

Eric Hardmeyer: Yes

Motion for DO PASS by Rep Rennerfeldt Second by Rep Renner

On a 10 to 4 vote 1 absent Carrier: Rep Pollert

FISCAL NOTE

(Return original and 10 copies)

DEC 17 1998

Bill/Resolution No.: HB 1047 Amendment to: _____

Requested by Legislative Council Date of Request: December 10, 1998

- 1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

Narrative:

No fiscal impact as Beginning Farmer Revolving Loan Fund would simply be transferred to the Bank of North Dakota and cease to exist as a separate fund.

- 2. State fiscal effect in dollar amounts:

1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds

Revenues:

Expenditures:

- 3. What, if any, is the effect of this measure on the appropriation for your agency or department:

- a. For rest of 1997-99 biennium: _____
- b. For the 1999-2001 biennium: _____
- c. For the 2001-03 biennium: _____

- 4. County, City, and School District fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed, attach a supplemental sheet.

Signed John Hoeven

Typed Name: John Hoeven

Department Administration

Phone Number 701-328-5681

Date Prepared: 12/16/98

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1047

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to amend and reenact subsection 4 of section 6-09-15.5 of the North Dakota Century Code, relating to the beginning farmer revolving loan fund.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 4 of section 6-09-15.5 of the 1997 Supplement to the North Dakota Century Code is amended and reenacted as follows:

4. A loan made from the fund must have the interest rate fixed at ~~one percent~~ below the Bank's then current base rate four percent for the first five years with a maximum rate of six percent per year and ~~variable at one percent~~ below the Bank's then current base rate and six percent for the second five years. ~~During the second five years, the variable rate must be adjusted annually on the anniversary date.~~ The rate during the remaining term of the loan floats at the Bank's base rate as in effect from time to time."

Renumber accordingly

Date: 1-28
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1047

House AGRICULTURE Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do pass

Motion Made By Rennerfeldt Seconded By Renner

Representatives	Yes	No	Representatives	Yes	No
Eugene Nicholas, Chaiman	✓		Bob Stefonowicz		✓
Dennis E. Johnson, Vice Chm	✓				
Thomas T. Brusegaard					
Earl Rennerfeldt	✓				
Chet Pollert	✓				
Dennis J. Renner	✓				
Michael D. Brandenburg	✓				
Gil Herbel	✓				
Rick Berg	✓				
Myron Koppang	✓				
John M. Warner		✓			
Rod Froelich		✓			
Robert E. Nowatzki	✓				
Phillip Mueller		✓			

Total (Yes) 10 No 4

Absent 1

Floor Assignment Pollert

1999 SENATE AGRICULTURE

HB 1047

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1047

Senate Agriculture Committee

Conference Committee

Hearing Date 3/5/99

Tape Number	Side A	Side B	Meter #
1		X	0-3242
3/25 2		X	1005-1310
Committee Clerk Signature <i>Tricia Jorgensen</i>			

Minutes:

Senator Wanzek called the meeting to order, roll call was taken, all were present.

Senator Wanzek opened the hearing on HB 1047.

Paul Kramer from Legislative Council spoke in support of the bill. It transfers the beginning farmer revolving loan fund into the Bank of ND and eliminates it as a separate fund. Went through the bill and explained some of the changes.

Senator Sand: Lines 15 and 16 don't prevent you from going beyond that, when you transfer assets would that be a plus or minus?

Paul Kramer: No, and it is a plus.

Senator Wanzek: This is eliminating beginning farmer fund?

Paul Kramer: It's eliminating the fund as a separate entity.

Senator Wanzek: With language on page 2 it could be subject to those who might want to continue the program we would have to be in the legislature every two years fighting for an appropriation.

Paul Kramer: That's correct.

Senator Wanzek: At the end of this biennium what does it look like the fund balance will be.

Paul Kramer: I don't believe there's been an excess of appropriation.

Roger Johnson, Ag Commissioner spoke in opposition. Testimony enclosed.

Senator Sand: There is a commission of three, does the bank run the commission?

Roger Johnson: Yes.

Senator Sand: Then there should be no problem.

Roger Johnson: This industrial commission ought to constrain the amount of loans that folks might be eligible for so we can meet what ever is appropriated and not any longer depend on this fund to meet additional command, I think that's what you're saying.

Senator Sand: No, I'm saying the industrial commission has the authority to constrain the loan. It doesn't limit the bank from making more loans.

Roger Johnson: Let me ask your interpretation. Does that mean if the industrial commission chooses to continue same rates and terms knowing that we're going to spend more than the million dollars that's appropriated for this program, would it be your opinion that we would continue to make more loans and continue to provide those low costs rates and terms and then reduce the profits from the bank as a result of that? If that is what you are saying I don't think that is what was intended here and I don't think that's what the appropriations process would permit us to do.

Senator Sand: It doesn't stop them from loans it just says they are not required to, I assumed when I read this it gave the bank and the directors that if it was a good deal for ND to go on and do something anyhow.

Roger Johnson: We have an appropriation that we have operate underneath and if the demand for beginning farmer loans exceeds that appropriation than our choice is really to adjust.

Senator Wanzek: If we were to depend on that, the current law, there would be ambiguity.

Roger Johnson: I agree.

Mark Sitz from the ND Farmer's Union spoke in opposition. Feels this bill would restrict beginning farmers. We need to continue this program.

Senator Urlacher: Can you relate to what positive side was to get it here.

Mark Sitz: Other than some audit saving I don't really know. I don't want to speculate.

Eric Hardmeyer from the Bank of ND spoke neutrally. Stood for questions.

Senator Kroeplin: What's the dollar amount?

Eric Hardmeyer: 16 million- 12 million for loans, 3 million cash and prepaid interest.

Senator Klein: Do you see this as strapping the program?

Eric Hardmeyer: Earlier testimony said we ran out of funds, there is a risk.

Senator Wanzek: Possible concern is with the revolving fund, if something doesn't happen will it continue to grow?

Eric Hardmeyer: I don't know what total rational is.

Senator Wanzek: Does the fund continue to grow?

Eric Hardmeyer: The fund is growing.

Senator Sand: Are you going to stop because with all these assets you have you have a tremendous leverage ability to do far more than the legislature even provides you money for.

Eric Hardmeyer: I don't know that that was the complete amount of money.

Senator Sand: It would help me if I had all the information.

Eric Hardmeyer: That is why we have no stand.

Senator Wanzek: No matter what action we do take here it doesn't affect the bank net equity or net worth, the fund is just a special fund but it is still considered part of the banks net worth?

Eric Hardmeyer: No, this will have an effect on the banks equity.

Senator Kinnoin: This will be a line item into the bank?

Eric Hardmeyer: No, loans in fund will go on as bank loans.

Senator Urlacher: Does this have something to do with amount that we are pulling out of the Bank of ND profits in relationship to maintaining a viable amount of assets?

Eric Hardmeyer: There is no question that will help but I don't know if that was the intent.

Senator Wanzek closed the hearing on HB 1047.

MARCH 25, 1999

Discussion was held.

Senator Klein made the motion for a Do Not Pass.

Senator Mathern seconded.

Discussion was held.

ROLL CALL: 7 Yes, 0 No

CARRIER: Senator Mathern

Date: 3/25
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1047

Senate Agriculture Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Klein Seconded By Mathern

Senators	Yes	No	Senators	Yes	No
Senator Wanzek	✓				
Senator Klein	✓				
Senator Sand	✓				
Senator Urlacher	✓				
Senator Kinnoin	✓				
Senator Kroeplin	✓				
Senator Mathern	✓				

Total (Yes) 7 No 0

Absent _____

Floor Assignment Senator Mathern

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
March 26, 1999 7:32 a.m.

Module No: SR-55-5658
Carrier: D. Mathern
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1047: Agriculture Committee (Sen. Wanzek, Chairman) recommends DO NOT PASS
(7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1047 was placed on the
Fourteenth order on the calendar.

1999 TESTIMONY

HB 1047

MEMORANDUM

TO: Senator Terry Wanzek
FROM: ^{FAA} Eric Hardmeyer, SVP
DATE: March 9, 1999
RE: Beginning Farmer Revolving Loan Fund

During last weeks hearing on House Bill 1047 relating to the transfer of the Beginning Farmer Revolving Loan fund (Fund) to the Bank of North Dakota, you asked me to provide a financial history of the Fund.

1983	\$5,000,000	Initial transfer from BND
1985	2,725,478	Transfer from Beginning Farmer Guaranty Fund
1989	1,500,000	Transfer from BND
1990	<u>1,500,000</u>	Transfer from BND
Total	\$10,725,478*	

*This amount was used as capital to make Beginning Farmer loans. In addition to the capital provided the fund has earnings of approximately \$2.7 million that also has been or can be used to fund loans.

Starting with the 1991-93 biennium, the Fund has received appropriations from the General Fund for the purpose of buying down the interest on Beginning Farmer loans made using BND assets. The Fund has received the following appropriations:

1993-95 biennium	\$1,000,000
1995-97 biennium	950,000
1997-99 biennium	<u>921,500</u>
Total	\$2,871,500

Enclosed for your review is an unaudited balance sheet of the Fund as of February 28, 1999. You will note that the Fund totals about \$16.3 million, made up of cash of \$3.5 million, loans of \$10.9 million, accrued interest receivable of \$.3 million, and prepaid interest (buydown) of \$1.6 million. Please note that the prepaid interest (buydown) portion of the balance sheet represents funds that are not available for re-lending, these are funds committed for buydown on specific loans.

Senator Wanzek, I should also mention that should your committee approve

HB 1047, it would be helpful to attach an amendment that allows for a continuing appropriation of the buydown funds. This would enable the Bank of North Dakota to rollover any unused buydown money into the next funding cycle and not return it to the General Fund. Since we started the buydown appropriation method in 1991 we have expended all the funds and I anticipate it will all be utilized this biennium. Both the PACE and AG PACE programs have continuing appropriations.

If you have any questions, please contact me at 328-5674.

c. John Hoeven

BEGINNING FARMER

BALANCE SHEET

02/28/99

ASSETS

CASH (CHECKING & MONEY MKT.)	3,512,051.37
INVESTMENTS	
LOANS	11,534,923.92
UNEARNED CAP. INT.--LOANS	
LOANS-NET OF UNEARNED CAP. INT	11,534,923.92
ALLOWANCE FOR LOAN LOSSES	(602,000.00)
LOANS--NET OF UNEARN & ALLOW	10,932,923.92
PROVISION FOR LOAN LOSSES	
LOANS CHARGED OFF--GROSS	
RECOVERIES-- LOANS CHARGED OFF	
AIR--MMDA'S	
AIR--INVESTMENTS	
AIR--LOANS	299,977.41
A/R--OTHER	
REC FROM BND	
PREPAID INTEREST	1,593,799.45
OTHER ASSETS	
TOTAL ASSETS	16,338,752.15
LIABILITIES AND FUND BALANCE	
FEEES PAYABLE	9,867.19
OTHER PAYABLES	
PAYABLE TO ND AG. DEPT.	
PAYABLE--AG. DEPT. LEGAL & TAX	
PAYABLE TO CRB OR SBUSL	
TOTAL LIABILITIES	9,867.19
FUND BALANCE (RET. EARNINGS)	8,603,406.70
FUND BALANCE (CONTRIB. CAP.)	7,725,478.26
	16,338,752.15

SEE NOTES TO FINANCIAL STMTS
UNAUDITED

PREPARED BY: *D. Mills*
DK
E. Hansen

Testimony of Roger Johnson
Commissioner of Agriculture
House Bill 1047
March 5, 1999
Senate Agriculture Committee
Roosevelt Park Room

Chairman Wanzek and members of the Senate Agriculture Committee, my name is Roger Johnson and I am the Commissioner of Agriculture.

I am here today to oppose House Bill 1047, which along with minor changes, proposes to transfer the assets, liabilities and fund equity of the Beginning Farmer Revolving Loan Fund to the Bank of North Dakota.

The Beginning Farmer Loan Fund was established by the legislature in 1983 for the purpose of making agricultural real estate loans to North Dakota beginning farmers. The fund was to be administered by the Bank of North Dakota and had an initial appropriation of five million dollars.

As a result, the farm groups, especially Farm Bureau and Farmers Union, worked for a long-term commitment to beginning farmers through the revolving fund. Over the years, the legislature has modified the loan program's rates and terms and added additional funding. In 1985 approximately \$2.7 million was transferred from the Beginning Farmer Loan Guarantee Program. In 1989 a bill was enacted to transfer \$1.5 million from Bank of North Dakota profits to the revolving loan fund each year beginning on July first 1989 and on July first of each year through July first 1992.

As a part of the Growing North Dakota package, the 1991 and 1992 transfers were not made. The 1991 Growing North Dakota appropriation included one million dollars for the purpose of subsidizing interest rates for beginning farmer loans made from bank assets. Since that time the legislature has made a similar appropriation each biennium and most beginning farmer loans were made using the interest subsidy monies. For the last two biennium's however, the interest subsidy appropriation has not been adequate. If the Beginning Farmer Revolving Loan Fund had not been in place, BND would have been unable to make beginning farmer real estate loans for the full biennium. In addition, the proposed improvements to the Beginning Farmer Loan Program (see attachment) would likely create additional demands for subsidy money. Passage of this bill could affect the Bank's decision to make those improvements.

The Beginning Farmer Loan Fund presently contains \$11.8 million in loans, \$3.1 million in cash, \$1.5 million in prepaid interest and \$.385 million in accrued interest receivable. It creates very little additional administrative work for BND and its only maintenance cost is the yearly \$2000 to \$2500 charge for auditing the fund. This fund is a significant asset to help beginning farmers.

In a time when other major lending institutions are limiting opportunities for beginning farmers, it is important that we maintain a strong program to help finance beginning farmer real estate purchases. Leaving the Beginning Farmer Revolving Loan Fund in place would help accomplish that goal.

Mr. Chairman, I would be happy to answer any questions you or the other committee members might have.

FARM LOAN PROGRAM REVIEW - PROPOSED CHANGES

I. Family Farm Loan Program

- ▶ Increase net worth requirement from \$150,000 to \$200,000.
- ▶ Increase loan amount from \$75,000 to \$150,000.
- ▶ Remove 3-year North Dakota resident requirement.

II. Beginning Farmer Loan Program

- ▶ Increase net worth requirement from \$150,000 to \$200,000.
- ▶ Increase loan amount from \$100,000 to \$150,000.
- ▶ Increase loan-to-value from 65% to 75%.
- ▶ Seek increased funding for buydown fund.
- ▶ Eliminate one loan per borrower requirement and instead use a lifetime cap of \$150,000.
- ▶ Change the eligibility requirement of “first purchase” to “may not have previously owned any substantial farmland greater than 30% of median farm size in the county where the parcel is located”.

III. AG Pace Program

- ▶ Expand eligible uses to include financing for producer investing for the first time in irrigation projects or the purchase of equity shares of value added projects.
- ▶ Seek increased funding for buydown fund.