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HOUSE FISCAL AGENCY

124 N. Capitol Avenue
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HB4009 AS REPORTED WITH AMENDMENT(S)

Sponsor: Rep. Ron Jelinek

Committee: HOUSE APPROPRIATIONS

Analyst(s): Aben, Tim

Completed: 12/12/01

State Fiscal Impact		**Local Fiscal Impact**	
Cost:	Increase	**Cost:**	None
Revenues:	Please See Below	**Revenues:**	None

This bill would create a low-interest "Qualified Agriculture Loan" that would assist farmers who experienced a loss in a crop(s) as a result of the 2001 summer drought.

1986 STATE LOAN PROGRAM:
The same type of program existed in 1986 as a result of higher than average precipitation levels in the State. The program provided 0% loans to farmers who met the following criteria:

1 The person is engaged in, and intends to remain engaged in, agriculture production as an owner-operator of a farm.
2 The farmer must have suffered a 25% loss in major enterprises or a 50% production loss in any 1 crop, as certified by the Agricultural Stabilization and Conservation Service (ASCS).
3 The farmer must first apply for federal assistance under the federal payment-in-kind (PIK) program.
4 Any farmer is limited to a $200,000 loan or the value of the farmer's crop loss for all the farmer's crops, whichever is less. In calculating the farmer's crop loss for which a loan may be made, the value of crop loss must also be reduced by any PIK grants or crop insurance payments.
5 Loans may be for any purpose the bank or Production Credit Associations (PCA) desires, including the refinancing of outstanding loans to the farmer.
6 No repayment of principal shall be required by the bank or PCA from the farmer until the fourth year after the date the loan is made.
7 Loans must be made at 0% rate of interest.

HIGHLIGHTS OF THE 1986 PROGRAM:
® $200 million allocated to producers
® $10 million allocated to agri-business
® No principal payments for the first three years
® 15% of original loan due each year, beginning in year 4
® Annual requalification required to retain zero interest loan
® Lenders were compensated for loan administration by either receiving an additional 20% of the loan volume which could then be loaned to interest paying customers or through a loan subsidy payment from the state
Average loan size was $40,000AS OF September 30, 1987:
® Approximately $154 million loaned to 3,500 borrowers
® 56 banks loaned about 30% of the total funds

® PCAs loaned 70% of the total

AS OF JUNE 30, 1994:
® 34 banks and all PCAs are still in the program
® The cumulative lost opportunity cost to the state is estimated at $44 millions through 9-30-94
® Approximately $12 to $15 million in loans were still outstanding

PROPOSED HB 4009 AS INTRODUCED:

From the period beginning on the effective date of this Act until December 31, 2007, an amount not to exceed $210.0 million shall be made available for loans.

The terms of the loans in HB 4009:
® Applications must be accompanied by proof of loss
® Be for a term less than 5 years but not more than 10 years
® Cover not more than 65% of the proven loss
® Be accompanied by a proof of ineligibility for federal aid

FISCAL IMPACT:

The largest cost to the State is the lost opportunity cost are difficult to project, however the following table/grid indicates a range of what those lost costs may look like, assuming a 0% loan.

	5 years	8 years	10 years
5%	$6.9 million	$11.9 million	$15.7 million
8%	$11.7 million	$21.3 million	$29.0 million
10%	$15.3 million	$28.6 million	$39.8 million

Another cost to the state would be the State Treasurer's office for administrative costs and the Department of Agriculture for certification of applicants, both of which are indeterminate at this time.

A potential cost to the state is incurred if and when the State would need to borrow short term in order to purchase the cds from the banks and other lending institutions. A short term note must be paid back by the end of the fiscal year in which it is borrowed, with interest.
There would be no fiscal impact to Local Units of Government.