Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub. H.B. 621** DATE: **March 11, 1998**

STATUS: **As Reported by Senate Agriculture** SPONSOR: **Rep. Haines**

LOCAL IMPACT STATEMENT REQUIRED: **No — Permissive**

CONTENTS: **To create the Family Farm Loan Program in the Department of Agriculture to promote agricultural development, to terminate the provisions for the Family Farm Loan Program on June 30, 1999, to extend the effective date of the Rural Industrial Park Loan Program from January 1, 1999, to June 30, 1999, to make other changes to the law governing the Rural Industrial Park Loan program, and to make an appropriation.**

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
SSR Economic Development Financing Operating Fund			
Revenues	$24,000 gain	$24,000 gain	- 0 -
Expenditures	$24,000 increase	$24,000 increase	- 0 -
Facilities Establishment Fund			
Revenues	- 0 -	- 0 -	$5 million or more gain
Expenditures	- 0 -	- 0 -	- 0 -
Rural Industrial Park Loan Fund			
Revenues	-0-	-0-	- 0 -
Expenditures	$2.5 million decrease	$2.5 million decrease	- 0 -
Family Farm Loan Fund			
Revenues	$2.5 million gain	$2.5 million gain	- 0 -
Expenditures	$2.5 million increase	$2.5 million increase	- 0 -

- The bill would create a pilot program, the Family Farm Loan Program, in the Department of Agriculture with portions of the program administered by the Department of Development. First, the Family Farm Loan Fund would be created in the State Treasury. Second, a revision to temporary law contained in Am. Sub. H.B. 215 of the 112nd G.A. would create a new line item, the Family Farm Loan Program (5H1 195-652), within the Department of Development's Facilities Establishment Fund Group. A total of up to $2.5 million in each FY 1998 and FY 1999 of the moneys intended for Development's Rural Industrial Park Loan Fund (Fund 4Z6) would be transferred to this new fund. The Family Farm Loan Program (Fund 5H1) would receive loan repayments during the pilot program phase.

- Although the bill is silent on the fund into which administrative fees are to be deposited, this fiscal note assumes the Economic Development Financing Operating Fund will receive the estimated $24,000 in annual fees.
- The Family Farm Loan Program and the fund supporting its operations would be valid until June 30, 1999, after which all outstanding balances, all loan repayments and other outstanding obligations would revert back to the Facilities Establishment Fund (Fund 037).
- Changes to the Rural Industrial Park Loan Program, which contain an expansion in the definition of "eligible applicant," would have no direct fiscal effect on state funds.

Local Fiscal Highlights

- No direct fiscal effect on local governments.

Detailed Fiscal Analysis

Family Farm Loan Program

The bill would create the Family Farm Loan Program in the Department of Agriculture. The purpose of this pilot program is to provide eligible applicants with financial assistance that will ultimately promote economic opportunity for agricultural production, enhance the economic viability of Ohio's agricultural areas, provide the state agribusinesses with farm products needed in operations, and improve the economic welfare of Ohioans. State assistance in the form of purchased loans or loan guarantees would support projects such as land acquisition, construction, reconstruction, rehabilitation, remodeling, renovation, enlarging, improvements to agricultural buildings, or machinery and equipment acquisition.

Currently, the Department of Agriculture does not have a loan program of this nature, nor the funding to support it. While it has certain characteristics of the Department of Development's Direct Loan Program (e.g. fixed asset financing for private enterprises), this program would allow for the purchase of existing loans made to family farms that fit eligibility requirements. The Department of Development does not currently administer a loan *purchase* program that supports business development activities.

Funding in Development's newly created Rural Industrial Park Loan Program is underutilized. Thus, to streamline program administration and to activate funding available until June 30, 1999, the Department of Development has agreed to provide a certain level of assistance to the Department of Agriculture in the creation and implementation of the Family Farm Loan program.

Responsibilities of the Department of Development

The bill expands certain responsibilities of the Department of Development to include:

1. To review, analyze and summarize applications and information received from a financial institution for the Family Farm Loan Program, and forward such information to the Director of Agriculture,
2. Establish fees and charges, in consultation with the Director of Agriculture, for loan purchases and loan guarantees provided by the Family Farm Loan Program,
3. To provide for the release of funds for Family Farm Loan Program loan purchases and loan guarantees, once Controlling Board approval has been attained,
4. To provide loan servicing for purchased loans and loan guarantees made under this program.

In a unique dual-agency arrangement, the bill also requires the Department of Development to provide funding for this new Department of Agriculture program, yet retain these funds within Development's budget. The bill requires Development to create the Family Farm Loan Program (Fund 5H1) and to transfer up to $2.5 million in each FY 1998 and FY 1999 from its Rural Industrial Park Loan Fund (Fund 4Z6). This appropriation, created in temporary law, would be valid until June 30, 1999.

According to a spokesperson from the Department of Development, the department can provide analysis of purchased loans, *assembled* loan packages, loan servicing, and advice on fees and other charges. Loan application services will be the responsibility of participating financial institutions.

The full fiscal impact of provisions in this bill is unknown because the bill is silent regarding the mechanics of this loan process. While the transfer of $2.5 million per year to capitalize the Family Farm Loan Program is obvious, the revenue from interest and fees, the number of loans and the terms of loans are unknown. In a purchased loan scenario, the state would assume existing loan terms and payment schedules contained in the original loan agreement.

However, as a point of comparison, Development currently uses four fees, listed below, to cover its costs of administering the Facilities Establishment, Direct Loan Program:

1. A $1,500 non-refundable application fee submitted at the time of the filing of the full application,
2. A processing fee of 2 percent of the amount of the State loan,
3. Accounting fees of up to $500
4. An annual servicing fee of ¼ of 1 percent.

According to a spokesperson from the Department of Development, only one fee, a processing fee of 1 percent, will be applied to purchased loan and loan guarantees made under this program. And, according to a spokesperson from the Department of Agriculture, the size of the average loan is anticipated to be $200,000. If in a single fiscal year the program provides 12 loans, each with a value of $200,000 over ten years, then the amount in fees collected by Development in the first year would be as follows:

$ 2,000 processing fee (1% * $200,000)
<u>*   12</u> loans
$24,000 Total fees received for 12 loans in year 1

It is conceivable that the Department of Development may share with Agriculture all or part of this processing fee revenue. Additional information is needed to provide a more detailed cost impact.

Responsibilities of the Agriculture Financing Commission

The bill enhances the responsibilities of both the Agriculture Financing Commission and the director of the Department of Agriculture. In addition to its existing duties, the Agriculture Financing Commission would be required to:

1. Make recommendations to the Director of Agriculture about financial assistance applications for the Family Farm Loan Program, and
2. Advise the director in the administration of the Family Farm Loan Program.

According to a spokesperson from Agriculture, the Commission consists of eight members and currently meets once or twice a year to discuss administrative matters, usually pertaining to federal funds or bond financing. Compensation is set at a rate of fifty dollars per commission meeting, not to exceed a maximum of three thousand dollars per year. All members are reimbursed for actual and necessary expenses incurred through the discharge of official duties.

The fiscal impact of expanding the duties of the Commission would likely be minimal. While the activity of the Commission will pick up as loan applications become ready for consideration, the number of meetings would likely increase to a quarterly or bimonthly schedule. Six to eight meetings per year would keep expenses within the $3,000 statutory limit.

Responsibilities of the Department of Agriculture

In administering the Family Farm Loan Program, the bill requires the director of agriculture to:

1. Receive, process and forward applications for financial assistance to the agricultural financing commission;
2. Receive recommendations from the agricultural financing commission and from the department of development, and determine whether to proceed with funding for financial assistance;
3. Present determinations for financial assistance to the controlling board for approval;
4. Work with lenders;
5. Require each applicant to provide a farm business plan and documents that demonstrate the absence of restrictions to use the property for the purpose intended;
6. Inform agricultural organizations of the existence of the program;
7. By the 13^{th} of June of each year, report to the Governor, the President of the Senate, the Speaker of the House of Representatives and the Minority Leaders of the Senate and House, the activities of the program. The report shall include the number of loans made that year, the amount of each loan, the county in which the farm is located.
8. Adopt rules for the program, including the areas of application procedures, criteria for evaluation, reporting requirements, establishment of fees, charges, interest rates, etc., and criteria for determining eligible sites.

The director of agriculture, the administration of this program will mostly involve processing information to satisfy Controlling Board procedures, executing contract agreements to award financial assistance, and reporting program statistics. The department currently has the capacity to perform these functions and unless processing fee is shared with Development, no additional fiscal impact is anticipated.

Rural Industrial Park Loan Program

The Rural Industrial Park Loan Program, created by Am. Sub. H.B. 440 of the 121st General Assembly, was designed to serve specifically designated cities, counties and other areas facing signs of economic distress. The program provides financial assistance to eligible areas for 1) a variety of on-site improvements, land acquisition and infrastructure development associated with underdeveloped industrial park sites, or 2) the construction, renovation or improvement of industrial park buildings.

Under current law, the Rural Industrial Park Loan Program will sunset January 1, 1999. The bill would extend the program operations for an additional 6 months, until June 30, 1999.

Also, current law permits port authorities, community improvement corporations, community-based organizations and other nonprofit entities to be designated as an "eligible applicant" acting on behalf of the governing body of the area seeking assistance. The bill would expand the definition of "eligible applicant" to include a private developer that has experience and notable success in developing industrial properties. The bill would limit the participation of a private developer as an eligible applicant for the purposes of this program to just one time. In addition, the bill would require the board of county commissioners for a county that has been declared an eligible area to pass a resolution stating that no existing industrial park is located in the county that would compete with an industrial park developed or improved with funds from this program. Guidelines regarding conditions under which industrial parks would be considered to compete against one another would be established by rule.

For 1997, the Department of Development designated 23 counties as eligible areas (now called "Priority Investment Areas") for participation in the Rural Industrial Park Loan Program as follows:

> Counties: Adams, Allen, Ashtabula, Athens, Belmont, Gallia, Guernsey, Harrison, Hocking, Huron, Jackson, Jefferson, Lawrence, Meigs, Mercer, Monroe, Morgan, Noble, Ottawa, Perry, Pike, Scioto, and Vinton.

While Priority Investment Areas are designated annually each January, the 1998 designations are not available at this time.

A spokesperson from the Department of Development testified that the inclusion of private developers as eligible applicants for this program would attract additional financial resources for projects in counties with few or no resources available for economic development assistance. The department also stated that it plans to target eligible counties that have only one industrial park within the county.

Of the 23 counties listed for 1997, the number of counties with only one industrial park is not known at this time.

The Department of Development currently administers many programs that provide direct assistance to private businesses for the enhancement of economic development. Most of these programs require job creation, job retention or job training as measures of the state's investment. Participation in the Rural Industrial Park Loan Program requires the presence of local matching funds (an amount to be determined by the Director of Development); no other requirements are contained in law. (See Appendix for a program comparison.) In its current form, state funding for the Rural Industrial Park Loan Program is secured by placing project ownership and responsibility with a local government entity. The changes in law proposed by this bill would place project ownership and responsibility with a private developer, under the discretion provided by the Director of Development.

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APPENDIX: Comparison of Urban and Rural Initiative with Existing 166 Guidelines

	Direct Loan (166) Program	Urban and Rural Initiative
Eligible Applicant	Ongoing manufacturing concern, which has included warehouse/distribution facilities - owner occupied	Port Authority, Community Improvement Corp, Community Based Organization, other economic development entity, OR PRIVATE DEVELOPER designated by the local governing body
Maximum/ Minimum	$1 million/$350,000; 30% of eligible costs	None specified, however DEV suggested a maximum of $500,000; and no minimum referenced
Financing	Private lender required; 10 percent owner equity mandatory. Experience with one spec building required 20% owner commitment	Local match (to be determined by Development) plus private lender Required; ONE TIME PARTICIPATION FOR PRIVATE DEVELOPER
Eligible Project	Land and building acquisition, new construction, building renovation, acquisition of new and or used machinery and equipment, and project related soft costs	Land acquisition, construction, reconstruction, rehabilitation, remodeling, renovation, enlargement, or improvements to industrial park buildings and infrastructure improvements in eligible industrial parks
Term	Up to 15 years for real estate; up to 10 years machinery and equipment	Unspecified, however DEV suggested a term of 10-15 yrs as typical
Rate	2/3 of prime; currently fixed at 5% plus 1/4% servicing fee. Many loans for distressed areas have used a lower rate, some with zero interest for several years and then having balloon payment at end	Unspecified, however likely to use distressed area rates of 1-4%, or even 0% if needed
Job/$ Investment	$15,000/job created or retained; jobs must be created within 3 years after project completion	None
Collateral/ Security	Personal guarantee of owner; corporate guarantee; shared collateral position with bank; key person life insurance; additional covenants	To be determined by Director of Development
Prevailing Wage	Applies to all new construction, renovation, and installation of machinery and equipment	Same
Fees	$1,500 non-refundable application fee; accountant fees (if any); and 2% non-refundable commitment fee	To be determined by Director of Development
Review/Approval	Company submits preapplication; loan package presented to Development Financing Advisory Board (DFAB); State Controlling Board presentation; the DEV commitment letter to begin project.	DFAB not addressed in bill, however DEV states these loans will have DFAB review. State Controlling Board approval <u>will be needed</u> to transfer funds to this program <u>and</u> also to release funding for specific projects