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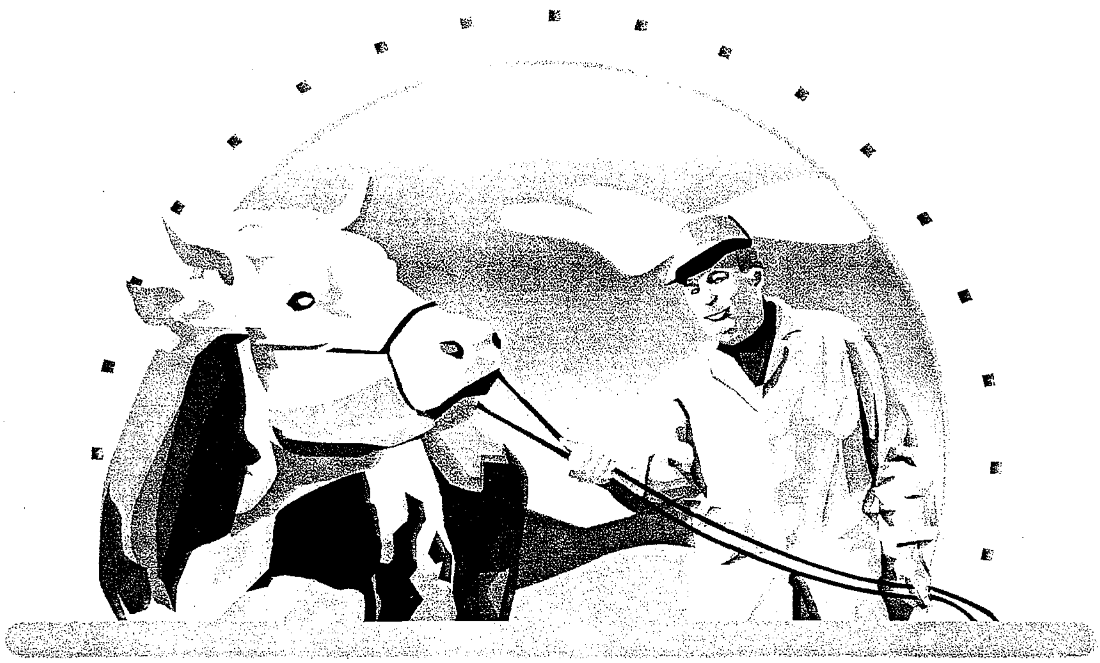

Beginning Dairy Producer Payment

MINNESOTA DEPARTMENT OF
AGRICULTURE
FROM THE FARM TO YOUR FAMILY

Introduction

Minnesota Laws, 2004, chapter _254, section 47, directed as follows:

By January 15, 2005, the commissioner [of agriculture] shall report to the senate and house policy and finance committees with jurisdiction over agriculture on a value-added agriculture program to pay beginning dairy farmers based on the amount of milk production. The report shall include suggested language to create the program.

Goal

The goal of this initiative is to ease entry of producers into dairy production, and, in the long term, increase milk production in Minnesota.

Entry Into the Dairy Business

Most dairy producers enter the dairy industry through the purchase or inheritance of the farm from another family member. A minority purchase facilities from non-relations. Regardless of how they enter dairy production, beginning producers just like any business will struggle to show positive cash flow during the start-up phase of their operation.

In the case of beginning dairy producers, a typical entrant may need to address:

1. expenses related to bringing a facility up to code;
2. insufficient capital to purchase animals in order to fill the barn or replace underperforming animals;
3. poorer performance than expected (lower than expected production resulting in reduced cash flow); and
4. market price fluctuations.

Feedback from Industry

In conducting this study, the Minnesota Department of Agriculture solicited input from producers and industry representatives including Minnesota Dairy Initiative Teams, Minnesota State Colleges and Universities (MnSCU) Farm Business instructors, University of Minnesota Extension Educators and producer focus groups.

Comments were solicited based upon the original language of SF 1941 (2004), authored by Senator Dille, which provided for a $1/hundredweight (cwt) subsidy for the first 10,000 hundredweight produced annually by a beginning producer. A beginning producer was defined as one who had not owned more than 20 lactating dairy cows five years prior to June 30, 2005, or who would be forced to rebuild milk production resulting from a barn fire after June 30, 2005.

The focus groups were asked to give their opinions on the proposed legislation and to suggest alternatives to achieve the same goal. Following are the discussion questions and responses:

1. **Is $1/cwt a proper level of financial support for beginning producers?**
   $1.00/cwt seems like a fair amount, but a guaranteed minimum price ($12 or something reasonable) for at least a year or two would be another option.

2. **What are your thoughts on a cap of $10,000 per producer?**
   The $10,000 cap is acceptable; a larger incentive may be seen as unfair to existing producers.

3. **Is the ownership of 20 lactating cows the right threshold for involvement in the program?**
   Reaction to this question varied from dropping the restriction completely to increasing the threshold to 50 head. New enterprises and the conversion of existing dairies from traditional to organic operations were factors in deciding the ideal number of cows for the program.

4. **Should involvement in the program be tied to milk quality or some other herd performance measure?**
   While some of the participants favored incentives, premiums are already paid for low Somatic Cell Count (SCC), volume, protein and fat and the rewards are evident for reproductive performance, cow comfort improvements, etc. The greatest challenge of adding incentives into the qualification of participation is that it makes the program more difficult to administer.

5. **Should there be minimum standards to receive this incentive payment?**
   i.e. (<400,000 SCC, etc.)
   See above explanation about the program being incentive based.

6. **Is there value in requiring participants to be Farm Business Management (FBM) students and/or have a Minnesota Dairy Initiative (MDI) team involved?**
   Most of the responses favored some participation with FBM or MDI dairy profit team. A definite factor to raising the level of success of a beginning producer is a good relationship with a mentor or team of professionals to gain perspective and offer support.

7. **Can we develop a standard that will ensure participants remain in business following the three-to-five year program period?**
   There are too many variables that can determine if someone stays in the industry to develop a consistent standard.

8. **How many farms would participate in such a program?**
   The group felt 100 farms per year would be a reasonable number for planning purposes. There are already approximately 60-90 new dairy operations started each year according the MDA Dairy, Food and Meat Inspection division. The majority of these operations are the result of transferring ownership, repopulating barns or starting from new construction.

Financial Analysis

Jim Kelm, MNSCU Farm Business Management instructor, completed a number of financial projections of a beginning producer at various herd sizes (20, 40, 60, 80 cows). The assumptions were based on a beginning producer renting a barn and 140 acres for $16,500 per year, getting an annual production average of 19,459 pounds of milk per cow, getting an average milk price of $13.75/cwt, and paying $1,800 to purchase each cow and $700 to purchase each heifer.

The financial analysis compared farms with the grant and those without (See below table). Each scenario compared farms receiving the extra $1 per hundredweight with those farms not receiving the grant, capped at $10,000/farm. Each scenario also assumed the farm was the sole source of family income and that $30,000 per year (pre tax) was needed to cover family living expenses. Principal and interest payments increased progressively with each increase in the number of cows. The cash surplus or deficit was what remained after all operating expenses, income tax and social security payments, and family living withdrawals were factored in. Since there was not sufficient income to cover operating expenses, taxes, and family living, any replacement of assets would need to be paid out of savings, additional borrowing, or other financial resources. This is reflected in the net worth change.

Every producer shows a positive cash flow excluding principal and interest payments but an operation will not show sufficient cash flow to cover operating expenses, family living, and debt payents until they reach the 65-70 cow level. Since they are only slightly above average in milk production and price, additional farm or off-farm income would be needed to sustain the businesses with less than 65 cows.

	Amount of Grant	Net Cash Farm Income	Depreciation	Net Farm Income	Difference	Family Living	Principal + Interest Payment	Cash Surplus/ Deficit	Difference	Net Worth Change
20 Cows		33,076	7,000	26,076		30,000	17,732	-13,243		-9,213
20 Cows										
W/Grant	3,892	36,968	7,000	29,968	3,892	30,000	17,732	-10,693	2,550	-6,663
40 Cows		41,997	13,000	28,997		30,000	28,135	-10,375		-6,741
40 Cows										
W/Grant	7,784	49,781	13,000	36,781	7,784	30,000	28,135	-5,274	5,101	-1,641
60 Cows		48,596	22,000	26,596		30,000	36,552	-6,817		-7,756
60 Cows										
W/Grant	10,000	58,596	22,000	36,596	10,000	30,000	36,552	-265	6,552	-1,204
80 Cows		58,390	30,000	28,390		30,000	46,253	-2,294		-6,022
80 Cows										
W/Grant	10,000	68,390	30,000	38,390	10,000	30,000	46,253	4,258	6,552	530

Fiscal note

The fiscal note completed regarding this program assumed that there would be a fiscal requirement in FY 2006 of $1 million, FY 2007 of $2 million, FY 2008 of $3 million and $3 million every year after that, assuming that 100 farms each year for three years take advantage of this program. In addition there would also be a $58,000 per year operating expense to run the program (see appendix).

Other states

Other states have programs that assist beginning dairy producers. A list and short description of these programs is in the appendix.

Conclusion

Any additional funds available to a beginning dairy farmer will ease the very tight cash flow situation all new businesses face, but as the financial projections show, a program designed to assist producers achieve a positive cash flow would need to reach producers in the 65-70 cow herd size. According to the study described above, herds smaller than 60 cows cannot be the sole source for a dairying family without off-farm income or other contributions. Therefore, a program should be directed toward getting operations up to 65 or more cows in order to have the greatest impact in establishing a self-sustainable dairy business and providing a solid basis for an expanding dairy industry.

Suggested Options
Legislative Language

Option 1

Proceed with the beginning dairy producer payment while encouraging producers to increase their herd size to 70 cows or greater in order to become self sufficient in accord with SF 1941 (2004). This option would assist in reducing the market price fluctuations, and would provide additional revenue during the startup phase of the dairy operation when cash flow is the tightest.

Legislative Language

A bill for an act relating to agriculture; providing milk producer payments to beginning milk producers; establishing a dairy modernization grant program; proposing coding for new law in Minnesota Statutes, chapters 41A; 116J.
BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1

[41A.10] [MILK PRODUCTION DEVELOPMENT PROGRAM.]

Subdivision 1. [DEFINITIONS.]

A. For the purposes of this section, the terms de fined in this subdivision have the meanings given them.

B. "Beginning milk producer" means a natural person who has:

1) not owned more than 20 lactating dairy cattle in the five years prior to June 30, 2005, or has rebuilt milk production capacity after June 30, 2005, that was destroyed by a barn fire; and

2) purchased dairy cows after June 30, 2005.

3) "Commissioner" means the commissioner of agriculture.

Subdivision 2. [MILK PRODUCER PAYMENTS.]

A. The commissioner shall make cash payments to a beginning milk producer located in the state. The amount of the payment for each beginning milk producer's annual production is $1 per hundred pounds of milk for the first one million pounds produced each year on the dairy farm for the first five years from the start of milk production.

B. The total payments to a dairy producer under paragraph in any fiscal year may not exceed $10,000.

C. By the last day of October, January, April, and July, each dairy producer shall file a claim for payment for milk production during the preceding three calendar months. A producer that files a claim under this subdivision shall include a statement of the producer's total milk production in Minnesota during the quarter covered by the claim. The volume of milk production on the claim must be certified by a farm management program instructor approved by the commissioner.

D. Payments shall be made November 15, February 15, May 15, and August 15.

Subdivision 3. [FARM MANAGEMENT PROGRAM.]

A. As a condition of receiving the payments under subdivision 2, a beginning milk producer must agree to participate in a farm management program approved by the commissioner.

Option 2.

Provide financial assistance to beginning producers help finance the purchase of breeding stock, meet feedlot and other environmental regulations, purchase dairy-related equipment, and make dairy facilities improvements, also known as the Dairy Upgrade Loan program. This program would provide additional capital allowing producers to replace animals that are performing poorly, as well as capital to upgrade facilities that are in need of modernization and environmental updates.

Legislative Language

A bill for an act relating to agriculture; providing for a dairy upgrade loan program; establishing an account; transferring balances; appropriating money; amending Minnesota Statutes 2002, sections 41B.036; 41B.046, subdivision 5; 41B.049, subdivision 2; proposing coding for new law in Minnesota Statutes, chapter 41B; repealing Minnesota Statutes 2002, section 41B.046, subdivision 3. BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1

Minnesota Statutes 2002, section 41B.036, is amended to read: 41B.036 [GENERAL POWERS OF THE AUTHORITY.] For the purpose of exercising the specific powers granted in section 41B.04 and effectuating the other purposes of sections 41B.01 to 41B.23 the authority has the general powers granted in this section.

A. It may sue and be sued.

B. It may have a seal and alter the seal.

C. It may make, and from time to time, amend and repeal rules consistent with sections 41B.01 to 41B.23.

D. It may acquire, hold, and dispose of real or personal property for its corporate purposes.

E. It may enter into agreements, contracts, or other transactions with any federal or state agency, any person and any domestic or foreign partnership, corporation, association, or organization, including contracts or agreements for administration and implementation of all or part of sections 41B.01 to 41B.23.

F. It may acquire real property, or an interest therein, in its own name, by purchase or foreclosure, where such acquisition is necessary or appropriate.

G. It may provide general technical services related to rural finance.

H. It may provide general consultative assistance services related to rural finance.

I. It may promote research and development in matters related to rural finance.

J. It may enter into agreements with lenders, borrowers, or the issuers of securities for the purpose of regulating the development and management of farms financed in whole or in part by the proceeds of qualified agricultural loans.

K. It may enter into agreements with other appropriate federal, state, or local governmental units to foster rural finance. It may give advance reservations of loan financing as part of the agreements, with the understanding that the authority will only approve the loans pursuant to normal procedures, and may adopt special procedures designed to meet problems inherent in such programs.

I. It may undertake and carry out studies and analyses of rural financing needs within the state and ways of meeting such needs including: data with respect to geographical distribution; farm size; the distribution of farm credit needs according to debt ratios and similar factors; the amount and quality of available financing and its distribution according to factors affecting rural financing needs and the meeting thereof; and may make the results of such studies and analyses available to the public and may engage in research and disseminate information on rural finance.

M. It may survey and investigate the rural financing needs throughout the state and make recommendations to the governor and the legislature as to legislation and other measures necessary or advisable to alleviate any existing shortage in the state.

N. It may establish cooperative relationships with such county and multicounty authorities as may be established and may develop priorities for the utilization of authority resources and assistance within a region in cooperation with county and multicounty authorities.

O. It may contract with, use, or employ any federal, state, regional, or local public or private agency or organization, legal counsel, financial advisors, investment bankers or others, upon terms it deems necessary or desirable, to assist in the exercise of any of the powers granted in sections 41B.01 to 41B.23 and to carry out the objectives of sections 41B.01 to 41B.23 and may pay for the services from authority funds.

P. It may establish cooperative relationships with counties to develop priorities for the use of authority resources and assistance within counties and to consider county plans and programs in the process of setting the priorities.

Q. It may delegate any of its powers to its officers or staff.

R. It may enter into agreements with qualified agricultural lenders or others insuring or guaranteeing to the state the payment of all or a portion of qualified agricultural loans.

S. It may enter into agreements with eligible agricultural lenders providing for advance reservations of purchases of participation interests in restructuring loans, if the agreements provide that the authority may only purchase participation interests in restructuring loans under the normal procedure. The authority may provide in an agreement for special procedures or requirements designed to meet specific conditions or requirements.

T. It may allow farmers who are natural persons to combine programs of the federal Agriculture Credit Act of 1987 with programs of the Rural Finance Authority.

U. It, after providing notice to the State Board of Investment, may transfer funds from the security account created under section 41B.19, subdivision 5, in such amounts and for such time as funds may be available, to a special revenue account for qualified agricultural loans or for participation in qualified agricultural loans created through agreements under paragraph (k).

V. From within available funds generated by program fees, it may provide partial or full tuition assistance for farm management programs required under section 41B.03, subdivision 3, clause (7).

Section 2

[41B.041] [DAIRY UPGRADE LOAN PROGRAM.]

Subdivision 1. [ESTABLISHMENT.]

The authority shall establish and implement a dairy upgrade loan program to help finance the purchase of breeding stock, meet feedlot and other environmental regulations, purchase dairy-related equipment, and make dairy facilities improvements.

Subdivision 2. [ELIGIBILITY.]

Notwithstanding section 41B.03, to be eligible for this program, a borrower must:

A. be a resident of Minnesota or general partnership or a family farm corporation, authorized farm corporation, family farm partnership, or authorized

B. farm partnership as defined in section 500.24, subdivision 2; be the principal operator of a dairy farm;

C. have a total net worth, including assets and liabilities of the borrower's spouse and dependents, no greater than the amount stipulated in section 41B.03, subdivision 3;

D. demonstrate an ability to repay the loan; and

E. hold an appropriate feedlot registration or be using the loan under this program to meet registration requirements.

Subdivision 3. [LOANS.]

A. The authority may participate in a dairy upgrade loan with an eligible lender to a farmer who is eligible under subdivision 2. Participation is limited to 45 percent of the principal amount of the loan or $50,000, whichever is less. The interest rates and repayment terms of the authority's participation interest may differ from the interest rates and repayment terms of the lender's retained portion of the loan. The authority may review the interest annually and make adjustments as necessary. Participation interest on loans made under this section before July 1, 2006, must not exceed four percent.

B. Standards for loan amortization must be set by the rural finance authority and must not exceed ten years.

C. Security for the dairy upgrade loans must be a personal note executed by the borrower and whatever other security is required by the eligible lender or the authority.

D. Refinancing of existing debt is not an eligible purpose.

E. The authority may impose a reasonable, nonrefundable application fee for a dairy upgrade loan. The authority may review the fee annually and make adjustments as necessary. The initial application fee is $50. Application fees received by the authority must be deposited in the revolving loan account established in section 41B.06.

F. Dairy upgrade loans under this program must be made using money in the revolving loan account established in section 41B.06.

Section 3

Minnesota Statutes 2002, section 41B.046, subdivision 5, is amended to read: Subdivision 5. [LOANS.]

A. The authority may participate in a stock loan with an eligible lender to a farmer who is eligible under subdivision 4. Participation is limited to 45 percent of the principal amount of the loan or $24,000, whichever is less. The interest rates and repayment terms of the authority's participation interest may differ from the interest rates and repayment terms of the lender's retained portion of the loan, but the authority's interest rate must not exceed 50 percent of the lender's interest rate.

B. No more than 95 percent of the purchase price of the stock may be financed under this program.

C Security for stock loans must be the stock purchased, a personal note executed by the borrower, and whatever other security is required by the eligible lender or the authority.

D. The authority may impose a reasonable nonrefundable application fee for each application for a stock loan. The authority may review the fee annually and make adjustments as necessary. The application fee is initially $50. Application fees received by the authority must be deposited in the value-added agricultural product revolving fund.

E. Stock loans under this program will be made using money in the ~~value-added agricultural product~~ revolving ~~fund~~ loan account established under ~~subdivision 3~~ in section 41B.06.

F. The authority may not grant stock loans in a cumulative amount exceeding $2,000,000 for the financing of stock purchases in any one cooperative.

G. Repayments of financial assistance under this section, including principal and interest, must be deposited into the revolving loan account established in section 41B.06.

Section 4

Minnesota Statutes 2002, section 41B.049, subdivision 2, is amended to read:

Subdivision 2. [~~REVOLVING FUND~~ DEPOSIT OF REPAYMENTS.]

~~There is established in the state treasury a revolving fund, which is eligible to receive appropriations and the transfer of funds from other services.~~ All repayments of financial assistance granted under subdivision 1, including principal and interest, must be deposited into ~~this fund. Interest earned on money in the fund accrues to the fund, and money in the fund is appropriated to the commissioner of agriculture for purposes of the manure digester loan program, including costs incurred by the authority to establish and administer the program~~ the revolving loan account established in section 41B.06.

Section 5

[41B.06] [RURAL FINANCE AUTHORITY REVOLVING LOAN ACCOUNT.]

There is established in the rural finance administration fund a rural finance authority revolving loan account that is eligible to receive appropriations and the transfer of loan funds from other programs. All repayments of financial assistance granted from this account, including principal and interest, must be deposited into this account. Interest earned on money in the account accrues to the account, and the money in the account is appropriated to the commissioner of agriculture for purposes of the rural finance authority dairy upgrade, methane digester, and value-added agricultural product loan programs, including costs incurred by the authority to establish and administer the programs.

Section 6

[TRANSFER OF FUNDS; DEPOSIT OF REPAYMENTS.]

The remaining balances in the revolving accounts in Minnesota Statutes, sections 41B.046 and 41B.049, that are dedicated to rural finance authority loan programs under those sections, are transferred to the revolving loan account established in Minnesota Statutes, section 41B.06, on the effective date of this section. All future receipts from value-added agricultural product loans and methane digester loans originated under Minnesota Statutes, sections 41B.046 and 41B.049, must be deposited in the revolving loan account established in Minnesota Statutes, section 41B.06.

Section 7

[REPEALER.]

Minnesota Statutes 2002, section 41B.046, subdivision 3, is repealed.

Section 8
[EFFECTIVE DATE.]

<u>This act is effective the day following final enactment.</u>

Option 3

Provide Renters Credit to beginning producers who rent dairy barns. The refund should be in reference to the property taxes payable exclusive towards the facilities.

Legislative Language

A bill for an act relating to taxes, agriculture; providing milk producer refund property tax payments to milk producers who rent facilities. BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA: Renters Credit for agricultural facilities. [MILK PRODUCTION DEVELOPMENT PROGRAM.]

<u>Subdivision 1.</u> [DEFINITIONS.]

A. <u>For the purposes of this section, the terms defined in this subdivision have the meanings given them.</u>

B. <u>"milk producer" means a natural person who has:</u>

   1) <u>owns lactating dairy cattle in Minnesota, harvests milk and rents these facilities from another entity.</u>

C. <u>"Commissioner" means the commissioner of revenue.</u>

<u>Subdivision 2.</u> [RENT CREDIT PAYMENTS.]

A. <u>The commissioner shall make cash payments to a milk producer located in the state who are renting milking facilities. The amount of the payment to each milk producer would receive a refund for the amount of property taxes or rent exceeding the percentage of household income. This would be similar to the rent credit devised for rental/homeowners credit under Minnesota Statutes 2004, Chapter 290A.04.</u>

<u>Subdivision 3.</u> [FARM MANAGEMENT PROGRAM.]

<u>As a condition of receiving the payments under subdivision 2, a beginning milk producer must agree to participate in a farm management program approved by the commissioner.</u>

Appendix 1

Programs available in Minnesota

Loan programs

Basic Farm Loan (Rural Finance Authority - RFA)
This loan program enables beginning farmers to purchase farm real estate. The RFA participation is limited to 45 percent of the loan up to $125,000 and the farmer must not have a total net worth exceeding $269,000.

Seller-Assisted Loan (RFA)
Similar to the Basic Farm Loan except the program allows sellers of a farm to fund a portion of the financing essential to the completion of the sale.

Agricultural Improvement Loan (RFA)
Financing for improvements to farms which could include grain handling, facilities, machinery storage, erosion control, wells and manure systems. The same net worth and participation levels apply.

Restructure II Loan (RFA)
RFA works with local lenders to help farmers who are having cash flow challenges reorganize their debt. Only agricultural debt is eligible under this program. The RFA participates on 45 percent of the loan up to $150,000 and the borrower cannot have a net worth greater than $439,000, indexed for inflation.

Livestock Expansion Loan (RFA)
Financing for livestock production, including purchase, construction or installation of improvements of land, buildings, and other permanent structures. RFA participates on a loan up to 45 percent of the loan up to $250,000 and the borrower can not have a net worth not exceeding $439,000 indexed for inflation.

Agricultural Development Bond (RFA)
Creates federal tax exemption for banks and a federal and state tax exemption on interest income in exchange for offering below market interest rates to the buyer. Loans may be used to purchase agricultural land, agricultural improvements, breeding livestock and machinery.

Methane Digester Loan (RFA)
This program helps finance the purchase of a necessary equipment and the construction of a system that will use manure to produce electricity.

Agricultural Best Management Practices (Ag BMP) (MDA)
Provides loans for such improvements as manure storage basins, manure stacking areas, clean water diversions and filter strips. This program has a $50,000 for 10 years at 3 percent interest and is most often administered locally by Soil and Water Conservation District offices.

Cost-Share Programs

Clean Water Partnership Grant Program (MPCA)
Provides funds to local governments to address non-point source pollution problems. Recipients must have completed a watershed diagnostic investigation and provide 50 percent non-state match in order to receive funding.

Section 319 of Clean Water Act (MPCA)
The program awards federal grants to local government units and others to implement the state non-point source management plan, including feedlot pollution abatement and manure management pilot projects. A 50 percent non-federal match is required.

Local Water Planning Challenge Grants (BWSR)
This program awards grants to local government units to accelerate implementation of comprehensive local water plans. A 50 percent non-state match is required. Some local governments use these grants for high-priority feedlot pollution abatement.

Regular State Cost-Share Program (BWSR)
This grant funding to private landowners through SWCD's for a wide variety of erosion control and water quality improvement practices including feedlot pollution abatement. Cost-share is only for solutions to existing pollution problems.

Feedlot Water Quality Management Cost-Share (BWSR)
This grant funding is available to feedlot owners through SWCD's for feedlot pollution abatement. Cost-share is only for solutions to existing pollution problems.

Environmental Quality Incentive Program (EQIP) (NRCS)
Cost-share funding is available on a competitive basis for solutions to existing pollution problems.

Grant Programs

Dairy Business Planning Grants (MDA)
This will cover half the cost of a business plan for a dairy producer up to $5,000 with a one-to-one match of grant funds.

Dairy Development and Profitability Enhancement Program (MDA)
Assists producers in eliminating bottlenecks and improving profitability, productivity and efficiency on their operations.

Appendix 2

Ideas from Focus Group Input

Need for Environmental Upgrades

The feedlot financial assessment report, revised in 2004, estimates that there are 2,158 dairy operations that will require improvements prior to 2010. This will become a greater factor for future operations as 2010 approaches. An operation that is permitted and meets environmental regulations will be more attractive to beginning producers than an operation that is in need of significant environmental upgrades to meet the 7020 feedlot rules. Currently the Board of Water and Soil Resources (BWSR) will cover 75 percent, capped at $50,000, for 500 Animal Units (AU) and smaller. Environmental Quality Incentive Program (EQIP) funds are under the same constraints, while Agriculture Best Management Practices (Ag BMP) loans have a smaller loan amount and are ineligible for operations with more than 1,000 animal units. It is estimated that to bring all the dairy operations up to code and meet the 7020 feedlot rules, including manure handling and application equipment, the amount needed would be $77 million.

Interest buy-down

While interest expense can strain an operation, this does not significantly restrict an operation or entry of new producers until the interest rates are double digits. Generally, new dairy operations are a higher credit risk or have a low equity position and lenders may charge additional interest in an effort to protect their investment. Current interest rates are still at 20-30 year lows.

Renters credit

This concept is based on the idea that there are good operations that are very useable for producers to get started in, but there is no incentive to rent these facilities to beginning producers. Under this proposal, renters would receive a refund for the amount that property taxes or rent exceed the percentage of the household income in which the rent was paid. This amount would need to be specified in a table similar to rental/homeowner credit. If the amount of property taxes or rent is equal to or less than the percentage of the household income, the claimant shall not be eligible for a state refund. Financial implications would need to be investigated and a different table would need to be developed in comparison to rental/homeowners credit in Minnesota Statutes 2004, Chapter 290A.04.

Dairy Financing Options:

Minnesota Homeownership Assistance Fund (HAF)

First time home owners in rural areas are eligible for The Homeownership Assistance Fund. The Homeownership Assistance Fund (HAF) assists low to moderate income first time homebuyers participating in an MHFA program to purchase a home by providing zero interest, deferred loans to help with down payment and closing costs. Loans do not accrue any interest and are paid back when home is sold, refinanced, or when the 1st mortgage is paid in full. Producer representatives suggested similar program for rural livestock facilities. This model may have significant fiscal costs since livestock facilities or farm building sites are not sold or refinanced as often as residential properties.

Farm Service Agency (FSA)

FSA offers several loan programs for "first-time" farmers. Among them are: Farm ownership Loans, Operating Loans, Beginning Farmer Loans, and Down Payment Farm Ownership Loans.

Farm Ownership Loans can be used for the purchase of farmland, construct or repair buildings and other fixtures, and promote soil and water conservation. Operating Loans may be used to purchase items such as livestock, farm equipment, feed, seed, fuel, farm chemicals, insurance, and other operating expenses. Operating Loans may also be used to pay for minor improvements to buildings, costs associated with land and water development, family subsistence, and to refinance debts under certain conditions.

FSA may make loans directly to a farmer or FSA may also guarantee loans made by commercial lenders. The maximum amount of direct Operating and Farm Ownership loans is $200,000. The maximum amount of guaranteed loans is $813,000.

Beginning Farmer and Rancher Loans

FSA targets a portion of direct and guaranteed loan funds to beginning farmers who are unable to meet commercial lending standards. To qualify as a beginning farmer for a direct or guaranteed Operating Loan, the applicant must be an individual or entity who:

- has participated in the business operations of a farm or ranch for less than 10 years, and
- if the applicant is a business entity (e.g. a corporation, partnership,, etc.) all members must be related by blood or marriage and all members must be eligible beginning farmers.

To qualify as a beginning farmer for a direct or guaranteed Farm Ownership Loan, the applicant must be an individual or entity who:

- has participated in the business operations of a farm or ranch for less than 10 years,
- does not own a farm greater than 30 percent of the average size farm in the county, and
- if the applicant is a business entity (e.g. a corporation, partnership,, etc.) all members must be related by blood or marriage and all members must be eligible beginning farmers.

Downpayment Farm Ownership Loans for Beginning Farmers

FSA has a special Downpayment Farm Ownership Loan Program to help beginning farmers and ranchers purchase a farm or ranch. This program also provides a way for retiring farmers to transfer their land to a future generation of farmers and ranchers.

Here's how the program works:

- An applicant must make a cash down payment of at least 10 percent of the farm or ranch's purchase price.
- FSA may finance up to 40 percent of the purchase price or appraised value, whichever is less. The loan term is 15 years at a fixed interest rate of 4 percent.
- The remaining balance, may be obtained from a commercial lender or a private party. FSA can provide up to a 95 percent guarantee if financing is obtained from an eligible commercial lender.
- The purchase price or appraised value, whichever is lower, may not exceed $250,000.

Agricultural lenders determine credit risk by evaluating several factors. Among them are repayment capacity and collateral coverage. Loans that exhibit potential weaknesses due to marginal repayment capacity, lack of credit history, high debt to worth ratios, or unproven management capabilities are candidates for RFA participation and FSA guarantee.

Farmers may utilize both FSA and RFA programs by making a credit request through their local lender. For example, a dairy farmer would originate a loan request with their agricultural lender. The lender may submit an application to the RFA for a 45% participation of the eligible amount. The 55% portion carried by the agricultural lender may be submitted for an FSA guarantee.

Protecting land from development

Michigan has passed legislation allowing farmers and other landowners to move land into an Open Space Preservation Program – more commonly known as "P.A. 116" and to the state's Purchase of Development Rights (PDR) program. These efforts are designed to slow the conversion of farmland to non-farm uses.

PA 116 agreements ensure that enrolled lands remain in agricultural use for a minimum of 10 years while PDR agreements permanently protect the land from non-agricultural development. Michigan holds more than 50,000 farmland agreements, preserving more than 4.3 million acres of farmland or about 40 percent of the Michigan's total agricultural production land of 10.4 million acres. In fact, Michigan ranks third in the nation in the number of acres protected by these types of agreements. Michigan has also acquired 56 permanent development rights easements protecting more than 13,600 acres at an investment of more than $25 million.

The financial implication for this program is unknown, but it may make land closer to municipalities more affordable to producers. Financial implications to Minnesota could be assumed to be similar to that of Michigan's.

Purchase cows and get a grant for additional cows

Another proposal would be for a producer to purchase four cows and get a state grant for the cost of the fifth animal. This proposal would be size-neutral and would assist producers in getting established as well as help those producers who need to repopulate their barns. There are a number of questions that would need to be addressed before implementation; These issues include: Who owns the fifth animal if state tax dollars were utilized to purchase the animal? (an asset number would need to be assigned to the asset); Who would ensure that the animals were actually purchased?; Where would the funds for such a program come from?; How much would be needed? How many producers would take advantage of the program and to what depth?

Tuition reimbursement

MNSCU Farm Business Management (FBM) is considering a proposal to help reduce the cost of tuition for their students. FBM has helped a number of producers understand their cost of production, assisted in expansion planning, developed business plans and served as instructors on a number of topics. While the value of their service is greater than the tuition paid, a tuition reduction would allow additional participation as well as serve those most in need to take advantage of this program.

Appendix 3

Programs available in other states

There are other states with programs to help producers get established in farming. Each program has a different approach but the overall goal is the same to assist in the establishment of beginning producers. Following are some of the new farmer programs offered in other states. Additionally, to our knowledge no other state offers a subsidy to beginning producers increasing the price they receive for their end product.

Wisconsin

The goal of the Milk Volume Program (MVP) program of Wisconsin is to provide qualifying dairy producers with the type of financing necessary to fill the equity gap and to partner with local communities to increase dairy production in Wisconsin. Reducing the initial capital outlay assists in the beginning producer's cash flow. The application process is competitive and not all applications are funded. Applicants need to have a comprehensive business plan and demonstrate that they will have a long term sustainable impact upon Wisconsin's milk production. The state's participation is limited to no more than $500 for each cow added to the operation, capped at $1 million and is limited to the cost of acquiring cows. The loan terms are a 7 year loan fixed at 2 percent for the life of the loan. Repayment is deferred for the first year followed by interest-only payments in the second year. The loan is then amortized during years three through seven with equal monthly payments of principal and interest.

Wisconsin also has a Dairy 2020 Early Planning Grant program that encourages and stimulates the start up, modernization, and expansion of Wisconsin dairy farms. Minnesota's Dairy Business Planning grant is patterned after this program.

South Dakota

South Dakota has the Value Loan Guaranty Program, designed to enable farmers and ranchers of limited equity to procure livestock loans and thereby use their available feed, facilities, labor, and management skills. The guaranty amount may not exceed $50,000, or exceed 50 percent of the outstanding principal balance amount. The Livestock Loan Participation Program enables farmers and ranchers of limited equity to procure livestock loans at rates and terms which the applicant can reasonably be expected to meet and thereby use available feed, facilities, labor, and management skills. The South Dakota Department of Agriculture participation amount will not exceed an aggregate outstanding balance of $100,000. These two loan programs may allow a beginning producer an entry point and/or an opportunity to maintain cattle numbers. Access to capital was mentioned as a constraint to being able to continue dairy operations after higher than expected culling.

Pennsylvania

Pennsylvania has an Agricultural Development and Agricultural Loan Program that includes new farmers. This loan, in collaboration with agricultural and commercial organizations, is to improve the business of agriculture. Services eligible under this loan include planning, marketing, and financing and coordination services.
This collaborative program uses federal tax exempt finances to reduce interest rates, and may be used for both direct and contract purchases. The loan lending limit is $250,000.

North Dakota

North Dakota has a Beginning Farmer Loan Program that helps with first-time purchase of real estate, livestock, or equipment. This low-interest loan is available up to $150,000 for real estate and up to $150,000 for livestock or equipment.

Iowa

In Iowa the Linked Investments for Tomorrow (LIFT)--Traditional Livestock loan program increases the availability of low cost loans to traditional livestock producers. The loans are for a maximum of $100,000, but are currently suspended due to budgetary constraints.

Illinois

In Illinois the Young Farmer Guarantee Program allows farmers to make purchases that will expand or upgrade operations, with loan amounts for up to $500,000. Illinois also has the Specialized Livestock Guarantee Program that provides family-sized livestock operations the access to capital needed to construct or remodel facilities or to purchase equipment. Loans are available for up to $ 1 million.

Appendix 4

Fiscal Note Request Worksheet

Bill #: S1941-1E

Title: MILK PRODUCER PYMTS & MODERN GRANTS

Comp #: -

Author: DILLE, STEVE

Agency: Agriculture Dept

Urgent: No

Due Date: 03/08/04

Committee: ENVIRONMENT, AGRI., ECON. DEV. BUDGE

Consolidated: Yes

Lead Agency: Agriculture Dept

Contact Person: Wayne Marzolf

What version of the bill are you working on? S1941-1E
(Changing the version of the bill will automatically create a new fiscal note request.)

(The following four fiscal impact questions must be answered before an agency can sign off on a fiscal note.)

Fiscal Impact	**YES**	**NO**
State (Does this bill have a fiscal impact to your Agency?)	X	
Local (Does this bill have a fiscal impact to a Local Gov Body?)		X
Fee/Dept Earnings (Does this bill impact a Fee or Dept Earning?)		X
Tax Revenue (Does this bill impact Tax Revenues?)		X

Dollars (in thousands)	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**
Expenditures					
Fund 100 – Producer payments			0	305	1,300
Fund 100 - Administration					
Fund					
Less Agency Can Absorb					
Fund 100 – Producer payments			0	0	0
Fund 100 – Administration			0	0	0
Fund					
Net Expenditures					
Fund 100 – Producer payments			0	305	1,300
Fund 100 – Administration					
Fund					
Revenues					
Fund					
Fund					
Fund					
Net Cost <Savings>					
Fund 100 – Producer payments			0	305	1,300
Fund 100 - Administration					
Fund					
Total Cost <Savings> to the State					
Full-Time Equivalents					
Fund 100			.33	1.0	1.0
Fund					
Fund					
Total FTE			.33	1.0	1.0

Bill Description

Section 1 provides milk producer payments to beginning milk producers. Eligibility is restricted to natural persons purchasing dairy cows after June 30, 2005.

Section 2: Chapter 116J provides certain powers and duties to the Department of Employment and Economic Development (DEED). This bill expands the list of eligible economic development activities that may access funds already available. It provides that the Department of Agriculture (MDA) work with DEED to establish a process by which an eligible dairy producer could access development funds to make facilities improvements and purchase dairy related equipment.

Assumptions

Section 1: Based on data the Department of Agriculture has on dairy farms, it is projected that about 70 farms a year would be eligible for this program under normal circumstances. If this proposal does become law, it is projected that another 50 producers will be enticed into dairy production or figure out a way to become eligible. Over time, this number will decline. A dairy herd of 56 cows producing 18,000 lbs. of milk per cow annually (current state average) would max out at the one million pounds of milk. This also assumes that there will be a sufficient supply of quality dairy cows available at an affordable price to meet the eligible producers needs.

Section 2: There is a basic system already in place that can handle the general processing of applications. There are funds available at the local level to provide some loans for the activities delineated. It is assumed that actual loan processing, closing and servicing will remain at the local level or with DEED.

Expenditure and/or Revenue Formula

Section 1: Because not all herds will max out the program, we used a herd average of 50 cows times the 18,000 lbs. per cow per year to arrive at 900,000 lbs. of production, or $9,000 per farm.

The program begins July 1, 2005. A full time person should be hired about March 1 to have the process worked out, application forms and information materials designed, publicity on the program disseminated, etc. Applications will come in over time as farms become available and eligible milk producers purchase cows and put them into production.

Section 2: It is assumed that up to 20 hours per fiscal year of staff time will be spent working with DEED to establish the specific process involved with making loans to dairy producers and following through to verify that the process is effective, reasonably efficient and providing appropriate financing to eligible producers.

Long-Term Fiscal Considerations

Section 1: In Fiscal Year 2007, over 600 producer payments will be made totally more than of $1.3 mil. It is projected that the producer payment total could reach $2.2 mil. in FY 2008 and over $2.9 mil. in 2009.

Local Government Costs

NONE

References/Sources

I have reviewed the content of this fiscal note and believe it is a reasonable estimate of the expenditures and revenues associated with this proposed legislation.

Fiscal Note Coordinator Signature

Date