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**TESTIMONY BEFORE THE JOINT STANDING COMMITTEE ON AGRICULTURE,  
CONSERVATION AND FORESTRY**

**IN SUPPORT OF LD 219**

*An Act To Enhance the Agricultural Marketing Loan Fund by Establishing a Variable Interest  
Rate for Loans and To Allow Participants in the Maine Farms for the Future Program To  
Borrow at That Rate*

**January 25, 2022**

Senator Dill, Representative O'Neil, and honorable members of the Joint Standing Committee on Agriculture, Conservation and Forestry, my name is Nancy McBrady. I am the Director of the Bureau of Agriculture, Food and Rural Resources for the Department of Agriculture, Conservation and Forestry. I am speaking in support of LD 219, An Act To Enhance the Agricultural Marketing Loan Fund by Establishing a Variable Interest Rate for Loans and To Allow Participants in the Maine Farms for the Future Program To Borrow at That Rate. We thank Representative Pluecker for sponsoring this bill.

The original purpose of LD 219 was to update the interest rate of the Agricultural Marketing Loan Fund (AMLF) program to be more competitive. Following further review, DACF requested that LD 219 be carried over to allow additional time to conduct a thorough evaluation of the sustainability of the AMLF and the related Agricultural Development Grant (ADG) program, which is funded through the interest of the AMLF's revolving loan fund. This testimony will provide an overview of our proposed amendment to the original bill.

The AMLF is a revolving loan fund that provides financing to help Maine agricultural businesses undertake projects to enhance the viability and vitality of farms and improve the manufacturing, marketability, and production of farm products. However, DACF's internal assessment of the AMLF revealed a notable decline in the loan fund's utilization over the past ten years. This decline negatively impacts the overall sustainability of this fund. Furthermore, AMFL's interest earned does not keep up with the demand for ADG grants because of the decrease in its utilization. The ADG is an annual grant program DACF offers that helps provide cost-share grants to conduct market promotion, market research and development, value-added processing, and new technology demonstration projects. The ADG is very popular, and applicant demand always exceeds the \$250,000 annual cap on the ADG grant. Please note that the AMLF and the ADG are both very different from the recent funding opportunities provided to agricultural



producers due to federal pandemic funding. The CARES Act and American Rescue Plan funds administered by the Mills administration have been designed as *one-time* grant opportunities for Maine agriculture, whereas the AMLF and the ADG were established in 1996 and 1999, respectively, and were intended to be long-standing funding mechanisms for our agricultural producers.



DACF wanted to further examine the AMLF and the ADG programs in a manner that focused on stakeholder financial needs and compatibility within Maine’s funding landscape. We held a roundtable discussion on August 12, 2021, with several financial lending experts in Maine to solicit ideas about improving the AMLF to refine its scope, maximize its impact, and complement the current mix of agriculture-specific financial instruments in Maine.<sup>1</sup>

Roundtable findings indicated that, while the AMLF remains relevant, it is not competitive or sustainable as currently structured. To make the AMLF a more competitive offering, participants suggested lowering its interest rates, expanding the fund’s scope to match current needs, and reevaluating aspects that may pose barriers for prospective borrowers (e.g., contribution requirements). Decoupling the AMLF and the ADG and establishing a new independent and permanent funding stream for the ADG was also recommended as the most productive path forward.

As a result of our assessment, DACF requests that LD 219 be amended to:

1. Separate ADG from the AMLF.
  - a. This popular grant program requires permanent, consistent funding that is not contingent upon the performance of the AMLF. We request the Legislature approve dedicated annual funding of \$750,000 to support the ADG.
  - b. LD 219 will also make the rules governing the ADG routine technical instead of major substantive. The program’s rules outline the grant application process and review criteria. We do not believe that they rise to the level of major substantive, and also note that AMLF’s own rules are routine technical.
2. Make the AMLF program more accessible and competitive.
  - a. Adjust the scope of eligible expense categories to include climate-related projects, land acquisition for new farmers, and irrigation water resources.
  - b. Increase the percent coverage provided for loans over \$200,000 from 75% to 90% to decrease the contribution burden for borrowers from 25% to 10%.
  - c. Reduce the interest rate of the loans to the federal prime rate on the date of loan commitment but not be greater than 5% (this is the same rate as for the Potato

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<sup>1</sup> Attendees included Coastal Enterprises Inc. (CEI), Farm Service Agency (FSA), Machias Savings Bank, Farm Credit East, (Former) Slow Money Maine, Maine Harvest Federal Credit Union, the Department of Economic and Community Development, the Finance Authority of Maine (FAME), and USDA Rural Development.

- Marketing Loan Fund approved by the Legislature in 2021) and to allow existing loan holders to refinance at that new rate.
- d. Adjust the existing interest rate for Farms for the Future participants to be the federal prime rate on the date of loan commitment but not greater than 2%.

The consequence of not passing this bill likely means sporadic, as opposed to annual, issuance of ADG grants. Relying on the AMLF to accrue enough interest could result in irregular calls for ADG proposals. Our bill offers to stabilize funding for the ADG by no longer having it rely on the AMLF's performance. Moreover, our bill will significantly increase the amount of grant funding available to the agricultural community. DACF is currently limited to making \$250,000 in grants annually. Yet, in 2021, we received \$1.3 million in ADG grant requests. Permanently funding the ADG at \$750,000 per year through LD 219 would be a remarkable boost to our producer community seeking marketing and technical assistance.

Further, not passing LD 219 means that the AMLF loan program continues to languish with its non-competitive interest rate. The high level of capital investment necessary in agricultural businesses, coupled with the level of risk perceived by traditional lenders about agricultural investments, makes having accessible capital for our ag producers all the more critical. By lowering the AMLF's interest rate, expanding its scope, and decreasing the contribution burden on borrowers, the AMLF will have higher utilization and be far more relevant to the needs of Maine agriculture.

Thank you for your time. I am happy to answer any questions now and at the work session.