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Resources, Community, and
Economic Development Division

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June 1, 1994

The Honorable Dale L. Bumpers
Chairman
The Honorable Thad Cochran
Ranking Minority Member
Subcommittee on Agriculture, Rural
Development, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Richard J. Durbin
Chairman
The Honorable Joe Skeen
Ranking Minority Member
Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
House of Representatives

In the conference report for the fiscal year 1994 U.S. Department of Agriculture (USDA) appropriations act (P.L. 103-111), we were asked to review the Agricultural Resource Conservation Demonstration Program, also known as the Farms for the Future Program. This program, administered by USDA's Farmers Home Administration (FmHA), is intended to assist states in financing the preservation of farmland for future generations. Under the program, FmHA guarantees loans made by lending institutions to states and pays interest on these loans. The loans may be used, among other things, to purchase agricultural land or the rights to develop that land (development rights), or they may be invested to generate earnings for future farmland preservation efforts. This correspondence identifies the states that are participating in the program; the amount of the loans guaranteed, and the interest paid, by FmHA; the use of the loans; and the status of the regulations implementing the program.

In summary, as of May 15, 1994, Vermont was the only state that had applied for participation and was participating in

the program. FmHA had guaranteed three loans totaling \$23,548,465 to Vermont and paid over \$2 million in interest on these loans. Vermont had invested the loans in U.S. government securities/obligations and received earnings of over \$2.2 million on these investments. As of February 28, 1994, Vermont had used about \$1.2 million of the earnings, primarily to purchase development rights. FmHA expects to issue final regulations for operating the program by September 30, 1994.

BACKGROUND

The Farms for the Future Act of 1990 authorized the Agricultural Resource Conservation Demonstration Program to guarantee loans and subsidize interest payments to help states finance efforts to protect farmland. The program became operational on February 4, 1992, and will expire on September 30, 1996. Although no new loans will be guaranteed after that date, guarantees and interest assistance payments will continue until all program agreements end.

The program subsidizes the borrower's (a state trust fund's) interest payments fully for the first 5 years and by at least 3 percent for an additional 5 years. Under the program, FmHA guarantees for 10 years the timely payment of the principal and interest due on the loans made by a lending institution to the borrower. The borrower must prepare a State Farmland Preservation Plan describing the intended uses of the guaranteed loans. The state may use the loans for such purposes as (1) purchasing development rights, easements, or agricultural land and paying reasonable costs associated with these purchases;¹ (2) making investments to generate earnings to be used for future farmland preservation efforts; (3) paying the loan guarantee fee charged by FmHA;² and (4) paying the costs to enforce easements. Interest rates on loans may not exceed 10 percent.

Each eligible state may receive up to \$10 million in loan guarantees each fiscal year but must contribute a matching

¹An easement is the vehicle by which development rights are passed from the owner of farmland to the borrower.

²Under the program, the guarantee fee is a one-time charge paid by the lender to FmHA and reimbursed by the borrower to the lender. The fee is 1 percent of the loan amount.

amount equal to at least one-half of the amount of the loan guaranteed by FmHA. The matching amount must be used towards preserving farmland. The act identifies Vermont as an eligible state and specifies that, at the option of the Secretary of Agriculture and subject to appropriations, the Secretary may designate other states as eligible, provided that they have met certain conditions. These conditions include a requirement that the state operate a land preservation fund.

For fiscal year 1992, the Congress appropriated \$10 million in loan funds and \$3.617 million in subsidy funds. For fiscal year 1993, it appropriated \$10 million and \$3.644 million, respectively, and for fiscal year 1994, it appropriated \$6.799 million and \$3.599 million, respectively. The subsidy funds cover the total anticipated cost of the loan throughout its life.

STATE PARTICIPATION, LOANS
GUARANTEED, AND INTEREST PAID

As of May 15, 1994, Vermont was the only state participating in the Agricultural Resource Conservation Demonstration Program. No other states have applied for participation in the program. The Vermont Housing and Conservation Board, acting as the state trust fund, received three loans totaling \$23,548,465 from three different lending institutions in Vermont.³ Table 1 presents selected terms of these loans.

³The Vermont Housing and Conservation Board is a public instrumentality of the state of Vermont created in 1987 to, among other things, conserve farmland.

Table 1: Selected Terms of Loans Made Under the Agricultural Resource Conservation Demonstration Program

<u>Selected terms</u>	<u>FY 92 loan</u>	<u>FY 93 loan</u>	<u>FY 94 loan</u>
Loan amount	\$10,000,000	\$6,875,000	\$6,673,465
Length of loan	10 yrs.	10 yrs.	10 yrs.
Date loan closed	7/10/92	2/19/93	5/12/94
Annual interest rate	10%	10%	10%
Interest paid by FmHA	\$1,476,712	\$563,185	0
Annual date interest due	12/31	12/15	12/15
Guarantee fee	\$100,000	\$68,750	\$66,735
Rate-of-return on invested loan	9.2%	8.75%	9.1%
Earnings received	\$1,613,151	\$601,562	0

Note: Data are as of May 15, 1994.

USE OF LOANS

In accordance with the Vermont Farmland Preservation Plan, the Vermont Housing and Conservation Board has used the loans to generate earnings. For each of the three loans, the lender, on behalf of the Board, invests the loan in direct and guaranteed obligations of the United States and holds the investments as collateral for the loan. The earnings from these investments are transferred quarterly to the Board. The rate of return on the invested loans was negotiated between the lender and the Board before the loan closing. As of May 15, 1994, the Board had received earnings of \$2,214,713. As of February 28, 1994, the Board had spent about \$1.2 million of the earnings, primarily to purchase development rights and pay the associated costs. Earnings were also used to pay program administration costs and loan guarantee and legal fees. According to the Board, earnings have been used to protect 5,377 acres of farmland in Vermont.

In addition, as required by law, Vermont provided matching funds of at least half the amount of each year's loan for farmland protection. The matching funds were about \$5.9 million, \$3.8 million, and \$3.8 million for fiscal years 1992, 1993, and 1994, respectively. The Board combines the matching funds with the earnings to purchase development rights.

STATUS OF PROGRAM REGULATIONS

FmHA proposed program regulations in the Federal Register on September 24, 1991. Before the regulations were made final,

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the Congress amended the Farms for the Future Act in December 1991 and required the Secretary to publish interim regulations no later than December 31, 1991. The law did not specify when the final regulations must be issued.

On February 4, 1992, FmHA published interim regulations in the Federal Register. As of May 15, 1994, FmHA expected to issue final regulations for operating the program by September 30, 1994.

To determine the status of the program, we interviewed responsible program officials, including the Branch Chief and a Loan Officer in the Funds Management Branch of the Loan Making Division, Farmer Programs, FmHA, Washington, D.C.; and the Chief, Farmer Programs, in the FmHA Vermont State Office. We also interviewed the General Counsel of the Vermont Housing and Conservation Board. We reviewed pertinent loan documents, program regulations, and legislation. We did not independently verify the fees paid, earnings generated, matching funds provided, or acres of farmland protected. We conducted our review in April and May 1994.

We discussed the information in this correspondence with officials at FmHA headquarters in Washington, D.C., and at the FmHA Vermont State Office, as well as with the General Counsel of the Vermont Housing and Conservation Board. They agreed with the facts presented, and we have included their comments where appropriate.

We are sending copies of this correspondence to the appropriate congressional committees and the Secretary of Agriculture. We hope that this information is helpful to you. Please contact me at (202) 512-5138 or Bob Robinson, Associate Director, at (202) 512-9894, if you or your staff have any questions.

for Robert C. Rob
John W. Harman
Director, Food and
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