

CHAPTER 41C

AGRICULTURAL DEVELOPMENT

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41C.01 SHORT TITLE.

This chapter shall be called and may be cited as the "Minnesota Agricultural Development Act."

History: 1991 c 332 s 6

41C.02 DEFINITIONS.

Subdivision 1. **Scope.** The definitions in this section apply to this chapter.

Subd. 2. **Agricultural business enterprise.** "Agricultural business enterprise" means a small business, as defined in section 645.445, subdivision 2, which owns or plans to own properties, real or personal, used or useful in connection with the general processing of agricultural products or in the manufacturing, assembly, or fabrication of agricultural or agriculture-related equipment. "Agricultural business enterprise" does not include an operation that involves the breeding or raising of livestock.

Subd. 3. **Agricultural improvements.** "Agricultural improvements" means improvements, buildings, structures, or fixtures suitable for use in farming located on agricultural land, including a single-family dwelling located on agricultural land that is or will be occupied by a beginning farmer and structures attached to or incidental to the use of the dwelling.

Subd. 4. **Agricultural land.** "Agricultural land" means land suitable for use in farming.

Subd. 5. **Authority.** "Authority" means the Minnesota Rural Finance Authority established in section 41B.025.

Subd. 6. **Beginning farmer.** "Beginning farmer" means an individual or partnership with a low or moderate net worth who engages in farming or plans to engage in farming.

Subd. 7. **Bonds.** "Bonds" means bonds, notes, or other evidence of indebtedness issued by the authority under this chapter.

Subd. 8. **Conservation farm equipment.** "Conservation farm equipment" means the specialized planters, cultivators, and tillage equipment used for reduced tillage or no-till planting of row crops.

Subd. 9. **Depreciable agricultural property.** "Depreciable agricultural property" means personal property suitable for use in farming for which an income tax deduction for depreciation is allowable in computing federal income tax under the Internal Revenue Code of 1986, as amended.

Subd. 10. **Farming.** "Farming" means the cultivation of land for the production of agricultural crops, the raising of poultry, the production of eggs, the production of milk, the production of fruit or other horticultural crops, grazing, the production of livestock, aquaculture, hydroponics, or the production of forest products.

Subd. 11. **Lending institution.** "Lending institution" includes "eligible lender" as defined in section 41B.02 and individuals.

Subd. 12. **Low or moderate net worth.** "Low or moderate net worth" means:

(1) for an individual, an aggregate net worth of the individual and the individual's spouse and minor children of less than \$350,000 in 2004 and an amount in subsequent years

which is adjusted for inflation by multiplying that amount by the cumulative inflation rate as determined by the United States All-Items Consumer Price Index; or

(2) for a partnership, an aggregate net worth of all partners, including each partner's net capital in the partnership, and each partner's spouse and minor children of less than twice the amount set for an individual in clause (1). However, the aggregate net worth of each partner and that partner's spouse and minor children may not exceed the amount set for an individual in clause (1).

History: 1991 c 332 s 7; 1992 c 532 s 3,4; 1996 c 347 s 1; 2004 c 254 s 23

41C.03 GUIDING PRINCIPLES.

(a) In the performance of its duties, implementation of its powers, and selection of specific programs and projects to receive its assistance under this chapter, the authority must be guided by the principles in paragraphs (b) to (e).

(b) The authority shall not become an owner of real or depreciable property, except on a temporary basis if it is necessary in order to implement its programs, to protect its investments by means of foreclosure or other means, or to facilitate transfer of real or depreciable property for the use of beginning farmers.

(c) The authority shall exercise diligence and care in selection of projects to receive its assistance and shall apply customary and acceptable business and lending standards in selection and subsequent implementation of the projects. The authority may delegate primary responsibility for determination and implementation of the projects to any federal governmental agency that assumes any obligation to repay the loan, either directly or by insurance or guarantee.

(d) The authority shall establish a beginning farmer and agricultural business enterprise loan program to aid in the acquisition of agricultural land and improvements and depreciable agricultural property by beginning farmers and real and personal property for an agricultural business enterprise.

(e) The authority shall develop programs for providing financial assistance to agricultural producers in this state.

History: 1991 c 332 s 8

41C.04 COMBINATION PROGRAMS.

Programs authorized in this chapter may be combined with any other programs authorized in this chapter or under another state or federal program in order to facilitate as far as practicable the acquisition of agricultural land and property by beginning farmers, to facilitate the implementation of permanent soil and water conservation practices and the acquisition of conservation farm equipment, and to encourage the development of agricultural business enterprises.

History: 1991 c 332 s 9

41C.05 AGRICULTURAL DEVELOPMENT BOND BEGINNING FARMER AND AGRICULTURAL BUSINESS ENTERPRISE LOAN PROGRAM.

Subdivision 1. **Development of program.** The authority shall develop an agricultural development bond beginning farmer and agricultural business enterprise loan program to facilitate the acquisition of agricultural land and improvements and depreciable agricultural property by beginning farmers and real and personal property by an agricultural business enterprise. The authority shall exercise the powers granted to it in this chapter in order to fulfill the goal of providing financial assistance to beginning farmers and agricultural business enterprises in the acquisition of agricultural land, agricultural improvements, depreciable agricultural property, and real and personal property for an agricultural business enterprise. The authority may participate in and cooperate with programs of the Farmers Home Administration, Federal Land Bank, or any other agency or instrumentality of the federal government or with any program of any other state agency in the administration of the agricultural develop-

ment bond beginning farmer and agricultural business enterprise loan program and in the making or purchasing of mortgage or secured loans under this chapter.

Subd. 2. **Eligibility; beginning farmers.** The authority shall provide in the agricultural development bond beginning farmer and agricultural business enterprise loan program that a mortgage or a contract on behalf of a beginning farmer may be provided if the borrower qualifies under authority rules and under federal tax law governing qualified small issue bonds and must:

- (1) be a resident of Minnesota;
- (2) have sufficient education, training, or experience in the type of farming for which the loan is desired;
- (3) have a low or moderate net worth, as defined in section 41C.02, subdivision 12;
- (4) certify that the agricultural land to be purchased will be used by the borrower for agricultural purposes;
- (5) certify that farming will be the principal occupation of an individual borrower;
- (6) agree to participate in a farm management program approved by the commissioner of agriculture for at least the first five years of the loan, if an approved program is available within 45 miles from the borrower's residence. The commissioner may waive this requirement for any of the programs administered by the authority if the participant requests a waiver and provides justification; and
- (7) agree to file an approved soil and water conservation plan with the Soil Conservation Service office in the county where the land is located.

Subd. 3. **Eligibility; agricultural business enterprises.** (a) The authority shall provide in the agricultural development bond beginning farmer and agricultural business enterprise loan program that a mortgage or contract on behalf of an agricultural business enterprise may be provided if the borrower qualifies under this chapter and rules of the authority and under federal tax law governing qualified small issue bonds.

(b) An agricultural business enterprise is eligible for a program loan in an aggregate amount not exceeding \$250,000.

(c) An agricultural business enterprise is eligible for program loans only for new or expanded operations located in a community with a population of 5,000 or less.

Subd. 4. **Loans and contracts for beginning farmers and agricultural business enterprises.** (a) The authority may:

(1) make loans to qualified beginning farmers for the acquisition of agricultural land, agricultural improvements, depreciable agricultural property, and real and personal property for an agricultural business enterprise. Each loan made by the authority under this program and all collateral securing the loan may be assigned as security for the authority's bond.

(2) enter into contracts to purchase agricultural land, agricultural improvements, depreciable agricultural property, and real and personal property for an agricultural business enterprise. Each contract entered into by the authority under this program and all obligations of the authority under the contract shall be assigned to the beginning farmer or agricultural business enterprise without recourse.

(b) Loan documents and contracts entered into by the authority shall contain such terms and conditions of repayment as may be agreed to between the beginning farmer or agricultural business enterprise and the individual or agricultural lender involved, and such terms and conditions as the authority may deem necessary.

(c) Each individual or agricultural lender purchasing a bond from the authority under this program is responsible for making their own independent credit evaluation of the beginning farmer or the agricultural business enterprise involved, and for the creation and perfection of any security interest which they deem necessary for the loan or contract to be made on behalf of the beginning farmer or the agricultural business enterprise.

(d) The authority shall bear no continuing responsibility for repayment of any bond issued under the program other than the assignment of its interests under the loan document made with the proceeds of the bond or the contract entered into in connection with the bond.

Subd. 5. **Other terms.** The authority may provide that loans and contracts made under this program may not be assumed or any interest in the agricultural land or improvements or depreciable agricultural property or real or personal property of an agricultural business enterprise may not be leased, sold, or otherwise conveyed without its prior written consent and may provide a due-on-sale clause with respect to the occurrence of any of the foregoing events without its prior written consent. The authority may provide by rule the grounds for permitted assumptions of loans and contracts or for the leasing, sale, or other conveyance of any interest in the agricultural land or improvements or real or personal property of an agricultural business enterprise. However, the authority shall provide and state in its loan documents and contracts that the interest rate of the loan or contracts shall increase to the then prevailing market rate if the loan or contract is assumed by anyone other than a qualified beginning farmer or agricultural business enterprise. This subdivision controls with respect to a loan or contract made under this program, notwithstanding other law.

History: 1991 c 332 s 10; 1993 c 342 s 13

41C.06 LOAN ALLOCATION.

Not more than 25 percent of the total bond allocation available for beginning farmer and agricultural business enterprise loans may be used for agricultural business enterprise loans. However, any portion of the bond allocation that remains unencumbered on November 1 of each year may be made available for agricultural business enterprise loans.

History: 1991 c 332 s 11

41C.07 BONDS.

Subdivision 1. **Authority.** The authority may issue its negotiable bonds in principal amounts which, in the opinion of the authority, are necessary to provide sufficient funds for achievement of its corporate purposes, the payment of interest on its bonds, the establishment of reserves to secure its bonds, and all other expenditures of the authority incident to and necessary or convenient to carry out its purposes and powers. The bonds are investment securities and negotiable instruments within the meaning of and for all purposes of the Uniform Commercial Code.

Subd. 2. **Payment of bonds.** Bonds are payable solely and only out of the money, assets, or revenues of the authority and as provided in the agreement with bondholders pledging any particular money, assets, or revenues. Bonds are not an obligation of this state or any political subdivision of this state other than the authority within the meaning of any constitutional or statutory debt limitations, but are special obligations of the authority payable solely and only from the sources provided in this chapter, and the authority shall not pledge the credit or taxing power of this state or any political subdivision of this state other than the authority or make its debts payable out of any money except that of the authority.

Subd. 3. **Resolution of authority.** Bonds must be authorized by a resolution of the authority. However, a resolution authorizing the issuance of bonds may delegate to an officer of the authority the power to negotiate and fix the details of an issue of bonds by an appropriate certificate of the authorized officer.

Subd. 4. **Requirements.** Bonds must:

(1) state the date and series of the issue, be consecutively numbered and state on their face that they are payable both as to principal and interest solely out of the assets of the authority and do not constitute an indebtedness of this state or any political subdivision of this state other than the authority within the meaning of any constitutional or statutory debt limit; and

(2) be either registered, registered as to principal only, issued in denominations as the authority prescribes, fully negotiable instruments under the laws of this state, signed on behalf of the authority with the manual or facsimile signature of the chair or vice-chair, attested by the manual or facsimile signature of the secretary, have impressed or imprinted on them the seal of the authority or a facsimile of it, be payable as to interest at rates and at times as the

authority determines, be payable as to principal at times over a period not to exceed 50 years from the date of issuance, at places and with reserved rights of prior redemption as the authority prescribes, be sold at prices, at public or private sale, and in a manner as the authority prescribes, and the authority may pay all expenses, premiums, and commissions that it considers necessary or advantageous in connection with the issuance and sale, and be issued under and subject to the terms, conditions, and covenants providing for the payment of the principal, redemption premiums, if any, interest and other terms, conditions, covenants, and protective provisions safeguarding payment, not inconsistent with this chapter, as are found to be necessary by the authority for the most advantageous sale.

Subd. 5. Refunding. The authority may issue its bonds for the purpose of refunding any bonds of the authority then outstanding, including the payment of any redemption premiums and any interest accrued or to accrue to the date of redemption of the outstanding bonds. Until the proceeds of bonds issued for the purpose of refunding outstanding bonds are applied to the purchase or retirement of outstanding bonds or the redemption of outstanding bonds, the proceeds may be placed in escrow and be invested and reinvested in accordance with the provisions of this chapter. The interest, income, and profits earned or realized on an investment may also be applied to the payment of the outstanding bonds to be refunded by purchase, retirement, or redemption. After the terms of the escrow have been fully satisfied and carried out, any balance of proceeds and interest earned or realized on the investments may be returned to the authority for use by it in any lawful manner. All refunding bonds shall be issued and secured and are subject to the provisions of this chapter in the same manner and to the same extent as other bonds.

Subd. 6. Anticipation notes. The authority may issue negotiable bond anticipation notes and may renew them from time to time, but the maximum maturity of the notes, including renewals, must not exceed ten years from the date of issue of the original notes. Notes are payable from any available money of the authority not otherwise pledged or from the proceeds of the sale of bonds in anticipation of which the notes were issued. Notes may be issued for any corporate purpose of the authority. Notes must be issued in the same manner as bonds and notes and the resolution authorizing them may contain any provisions, conditions, or limitations, not inconsistent with the provisions of this subdivision, which the bonds or a bond resolution of the authority may contain. Notes may be sold at public or private sale. In case of default on its notes or violation of any obligations of the authority to the noteholders, the noteholders have all the remedies provided in this chapter for bondholders. Notes are as fully negotiable as bonds of the authority.

Subd. 7. Filing. A copy of each pledge agreement by or to the authority, including without limitation each bond resolution, indenture of trust or similar agreement, or any revisions or supplements to it must be filed with the secretary of state and no further filing or other action under article 9 of the Uniform Commercial Code or any other law of the state is required to perfect the security interest in the collateral or any additions to it or substitutions for it and the lien and trust so created are binding from and after the time made against all parties having claims of any kind in tort, contract, or otherwise against the pledgor.

Subd. 8. Personal liability limited. Members of the authority and any person executing its bonds are not liable personally on the bonds or subject to personal liability or accountability by reason of the issuance of the authority's bonds.

Subd. 9. Notice. The authority shall publish a notice of intention to issue bonds in a newspaper published and of general circulation in the state. The notice shall include a statement of the maximum amount of bonds proposed to be issued and, in general, what net revenues will be pledged to pay the bonds and interest on them. An action may not be brought questioning the legality of the bonds or the power of the authority to issue the bonds or the legality of any proceedings in connection with the authorization or issuance of the bonds after 60 days from the date of publication of the notice.

History: 1991 c 332 s 12

41C.08 RESERVE FUNDS AND APPROPRIATIONS.

Subdivision 1. **Authority.** The authority may create and establish one or more special funds, each to be known as a “bond reserve fund” and shall pay into each bond reserve fund any money appropriated and made available by the state for the purpose of the fund, any proceeds of sale of bonds to the extent provided in the resolutions of the authority authorizing their issuance, and any other money that is available to the authority for the purpose of the fund from any other sources. Money held in a bond reserve fund, except as otherwise provided in this chapter, must be used as required solely for the payment of the principal of bonds secured in whole or in part by the fund or of the sinking fund payments with respect to the bonds, the purchase or redemption of the bonds, the payment of interest on the bonds, or the payments of any redemption premium required to be paid when the bonds are redeemed prior to maturity.

Subd. 2. **Withdrawals.** Money in a bond reserve fund may not be withdrawn from it in an amount that will reduce the amount of the fund to less than the bond reserve fund requirement established for the fund, as provided in this section, except for the purpose of making payment when due of principal, interest, redemption premiums, and the sinking fund payments with respect to the bonds for the payment of which other money of the authority is not available. Any income or interest earned by, or incremental to, a bond reserve fund due to the investment of it may be transferred by the authority to other funds or accounts of the authority to the extent the transfer does not reduce the amount of that bond reserve fund below the bond reserve fund requirement for it.

Subd. 3. **Issuance of secured bonds.** The authority may not at any time issue bonds, secured in whole or in part by a bond reserve fund if, upon the issuance of the bonds, the amount in the bond reserve fund will be less than the bond reserve fund requirement for the fund, unless the authority at the time of issuance of the bonds deposits in the fund from the proceeds of the bonds issued or from other sources an amount which, together with the amount then in the fund will not be less than the bond reserve fund requirement for the fund. For the purposes of this section, the term “bond reserve fund requirement” means, as of any particular date of computation, an amount of money required to be on deposit therein in the bond reserve fund, as provided in the resolutions of the authority authorizing the bonds with respect to which the fund is established.

Subd. 4. **Repayment.** Amounts paid over to the authority by the state under this section constitute and must be accounted for as advances by the state to the authority and, subject to the rights of the holders of any bonds of the authority, must be repaid to the state without interest from all available operating revenues of the authority in excess of amounts required for the payment of bonds, the bond reserve fund, and operating expenses.

Subd. 5. **Annual report.** The authority shall cause to be delivered to the finance committees in the legislature within 90 days of the close of its fiscal year its annual report certified by an independent certified public accountant, who may be the accountant or a member of the firm of accountants who regularly audits the books and accounts of the authority selected by the authority. In the event that the principal amount of any bonds deposited in a bond reserve fund is withdrawn for payment of principal or interest thereby reducing the amount of that fund to less than the bond reserve fund requirement, the authority shall immediately notify the legislature of this event and take steps to restore the fund to its bond reserve fund requirement from any amounts available, other than principal of a bond issue, that are not pledged to the payment of other bonds.

History: 1991 c 332 s 13

41C.09 REMEDIES OF BONDHOLDERS.

Subdivision 1. **Default.** If the authority defaults in the payment of principal or interest on an issue of bonds at maturity or upon call for redemption and the default continues for a period of 30 days or if the authority fails or refuses to comply with the provisions of this chapter, or defaults in an agreement made with the holders of an issue of bonds, the holders of 25 percent in aggregate principal amount of bonds of the issue then outstanding, by instrument

filed in the office of the clerk of the county in which the principal office of the authority is located and proved or acknowledged in the same manner as a deed to be recorded, may appoint a trustee to represent the holders of the bonds for the purposes provided in this section.

Subd. 2. **Actions.** The authority or any trustee appointed under the indenture under which the bonds are issued may, but upon written request of the holders of 25 percent in aggregate principal amount of the issue of bonds then outstanding shall:

(1) enforce all rights of the bondholders including the right to require the authority to carry out its agreements with the holders and to perform its duties under this chapter;

(2) bring suit upon the bonds;

(3) by action require the authority to account as if it were the trustee of an express trust for the holders;

(4) by action enjoin any acts or things which are unlawful or in violation of the rights of the holders; and

(5) declare all the bonds due and payable and, if all defaults are made good, with the consent of the holders of 25 percent of the aggregate principal amount of the issue of bonds then outstanding, annul the declaration and its consequences.

Subd. 3. **Trustee's powers.** The trustees may exercise functions specifically set forth or incident to the general representation of bondholders in the enforcement and protection of their rights.

Subd. 4. **Notice.** Before declaring the principal of bonds due and payable, the trustee shall first give 30 days' notice in writing to the governor, to the authority, and to the attorney general of the state.

Subd. 5. **Jurisdiction.** The district court has jurisdiction of any action by the trustee on behalf of bondholders. The venue of the action is in the county in which the principal office of the authority is located.

The bondholders may, to the extent provided in the resolution to which the bonds were issued or in its agreement with the authority, enforce any of the remedies in subdivision 2, clauses (1) to (5), or the remedies provided in the proceedings or agreements for and on their own behalf.

History: 1991 c 332 s 14

41C.10 BONDS AS LEGAL INVESTMENTS.

Bonds are securities in which public officers, state departments and agencies, political subdivisions, insurance companies, and other persons carrying on an insurance business, banks, trust companies, savings associations, investment companies, and other persons carrying on a banking business, administrators, executors, guardians, conservators, trustees, and other fiduciaries and other persons authorized to invest in bonds or other obligations of this state may properly and legally invest funds including capital in their control or belonging to them. The bonds are also securities which may be deposited with and may be received by public officers, state departments and agencies, and political subdivisions for any purpose for which the deposit of bonds or other obligations of this state is authorized.

History: 1991 c 332 s 15; 1995 c 202 art 1 s 25

41C.11 CONFLICTS OF INTEREST.

Subdivision 1. **Disclosure; prohibitions.** If a member or employee of the authority has an interest, either direct or indirect, in a contract to which the authority is or is to be a party or in a mortgage lender requesting a loan from or offering to sell mortgage or secured loans to the authority, the interest must be disclosed to the authority in writing and must be set forth in the minutes of the authority. The member or employee having the interest may not participate in action by the authority with respect to that contract or mortgage lender.

Subd. 2. **Certain interests.** This section does not limit the right of a member, officer, or employee of the authority to acquire an interest in bonds or notes or to limit the right of a

member or employee other than the executive director to have an interest in a bank or other financial institution in which the funds of the authority are deposited or which is acting as trustee or paying agent under a trust indenture to which the authority is a party.

Subd. 3. Executive director's interest. The executive director may not have an interest in a bank or other financial institution in which the funds of the authority are deposited or which is acting as trustee or paying agent under a trust indenture to which the authority is a party. The executive director may not receive, in addition to fixed salary or compensation, any money or valuable thing, either directly or indirectly, or through any substantial interest in any other corporation or business unit, for negotiating, procuring, recommending, or aiding in any purchase or sale of property or loan made by the authority, nor shall the executive director be pecuniarily interested, either as principal, co-principal, agent, or beneficiary, either directly, indirectly, or through any substantial interest in any other corporation or business unit, in any purchase, sale, or loan.

History: 1991 c 332 s 16

41C.12 APPLICATION AND ORIGINATION FEE.

The authority may impose a reasonable application and origination fee for each loan issued under the beginning farmer and agricultural business enterprise loan program. The origination fee initially shall be set at 1.5 percent and the application fee at \$50. The authority shall review the fees annually and make adjustments as necessary. The fees must be deposited in the state treasury and credited to the general fund.

History: 1991 c 332 s 17

41C.13 RULES.

The authority may adopt rules for the efficient administration of this chapter.

History: 1991 c 332 s 18; 1997 c 187 art 1 s 3