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# MICHIGAN FARM EXPORT ACT

**Senate Bill 925 as passed by the Senate**
**Senate Bill 926 with House committee amendments**
**First Analysis (11-28-90)**

**Sponsor: Sen. John M. Engler**
**Senate Committee: Economic Development**
**House Committee: Agriculture**

## THE APPARENT PROBLEM:

The agriculture industry reportedly generates $24 billion worth of commodities and products annually, making it the second largest industry in the state. Reportedly, $13 billion worth of Michigan products are exported each year, of which $484 million are agricultural commodities and products. Some people believe that the state should do more to increase the amount of agricultural commodities exported, and legislation has been introduced to promote the export of Michigan's agricultural products and other commodities.

## THE CONTENT OF THE BILLS:

The bills would create a Michigan farm export loan program to promote the export of Michigan farm products by providing credit to buyers, and allow the state to invest surplus funds in undivided participating interests in certain federally guaranteed loans. The bills are tie-barred.

Senate Bill 925 would create the Michigan Farm Export Act, establishing a Michigan farm export loan program to allow the export buying of Michigan agricultural commodities and other products on credit. The program would be administered by the Department of Agriculture (MDA), and the director of the department would be responsible for promoting, identifying, and facilitating "export sale opportunities" of Michigan agricultural commodities and products.

The bill would set up certain requirements for loans to be made in the program, and if the director of the MDA found that a proposed export sale met these requirements and that the potential buyer was eligible for a loan from a "qualifying financial institution" (formerly defined in Senate Bill 926, prior to House committee amendments to the bill), the state treasurer would be able to invest surplus state funds in that institution to participate in the loan. Loans made under the program would have to be issued through a qualifying financial institution, the amount invested by the state would have to be fully guaranteed by the federal government or a qualifying institution, the commodities bought with the loan would have to be produced or processed in Michigan, and the terms of the loan would have to help make the sale competitive with the sale of agricultural commodities from other states or foreign countries.

Export sales under the act could be "identified, proposed, developed, originated, or administered" by or through a number of entities: exporters, importers, agricultural trade associations, the U.S. or the Michigan Department of Agriculture, a world trade center, the Michigan export development authority, any legally created agricultural commodity commission, or any other legal entity.

(Note: Changes to Senate Bill 926 made by the House Committee on Agriculture eliminated the definition of "qualifying financial institutions" and changed the funding basis of the program in ways that would require amendments to Senate Bill 925.)

Senate Bill 926 (MCL 21.142c) would amend Public Act 105 of 1855, which regulates what the state does with surplus funds in the state treasury, by adding a section:

- to allow the state treasurer to invest surplus funds in "undivided participating interests" in certain federally guaranteed loans (basically, the 98 percent portion of Commodity Credit Corporation loans guaranteed by the federal government), and
- to require that the general fund be credited or reduced if interest from such investments exceeded or fell below the average rate of interest earned during the same period on other surplus funds. (If principal were lost from such an investment, the earnings of the general fund would be reduced by the amount of that loss, amortized over the remaining term of the investment.)

## FISCAL IMPLICATIONS:

The Senate Fiscal Agency says that Senate Bill 925 would result in costs of about $70,000 to the Department of Agriculture to decide whether proposed export sales met the bill's requirements and whether buyers would be eligible for loans under the bill. The money would be used for one FTE, contractual services, travel, and supplies and material. (6-20-90)

Fiscal information on Senate Bill 926 as amended by the House Agriculture Committee is unavailable. (11-28-90)

## ARGUMENTS:

### For:

In a highly competitive world market, any edge that can be given to agricultural exporters is extremely valuable for successful exporting. The bills would help promote the export of Michigan agricultural products and commodities and other products (such as, for example, manufactured products) by providing capital for loans to purchasers of such products. Since the federal Commodity Credit Corporation guarantees 98 percent of the loan amounts, and Senate Bill 926 would limit state investments to only those portions of loans guaranteed by the federal government, the state would not be placed at any financial risk by participating in such a program. In fact, the state could earn



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a more competitive rate of return on its investment of surplus funds in the program than it earns on some short term investments, while promoting Michigan agricultural exports, by being in the position to make loan conditions more favorable to potential buyers of Michigan products.

## *POSITIONS:*

Manufacturers' Bank of Detroit supports the bills. (11-28-90)

The Michigan Farm Bureau supports the bills. (11-28-90)

A representative of the Department of Treasury testified in support of the bills before the House Agriculture Committee. (11-27-90)