SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bills 925 and 926 (as passed by the Senate)
Sponsor: Senator John M. Engler
Committee: Economic Development

Date Completed: 6-20-90

RATIONALE

Reportedly, agriculture constitutes the second largest industry in Michigan, generating approximately $24 billion worth of commodities and products annually. Some contend that this volume of production combined with the industry's apparent immunity to the "boom and bust" cycle that afflicts manufacturing makes agriculture an ideal target for efforts to diversify and strengthen the State's economy. For example, much could be done, some say, to promote the export of Michigan's agricultural products and other commodities. According to the U.S. Departments of Agriculture and Commerce, agricultural commodities and products account for only $484 million of the $13 billion worth of Michigan products that are exported each year. Some have suggested that one way to increase the amount of agricultural commodities exported would be to establish an agricultural export loan program to provide credit to purchasers of Michigan products.

CONTENT

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 investment of surplus State funds in financial institutions that participated in such loans. The bills are tie-barred.

Senate Bill 925

The bill would create the "Michigan Farm Export Act" to establish the Michigan farm export loan program for the purpose of enhancing and promoting the export sale of agricultural commodities and other products of the State by making it possible for buyers to purchase on credit terms. The program would be administered by the Department of Agriculture and the Director of the Department would be required to promote, identify, and facilitate export sale opportunities of agricultural commodities and other products of the State. If the Director found that a proposed export sale met the requirements of the bill and the buyer was eligible for a loan from a qualifying financial institution, the Director would be required to notify the State Treasurer of the proposed export sale, and the State Treasurer could invest surplus funds of the State in the lending financial institution to participate in such a loan. "Qualifying financial institution" would mean a "state or national chartered bank, a state or federal chartered credit union, a state or federal chartered savings and loan association, or an institution under the Federal Farm Credit Act of 1971".

A loan for an export would have to meet the following requirements:

-- The amount invested by the State was fully guaranteed by a qualifying financial institution or an agency or instrumentality of the United States government, including, but not limited to, the Federally chartered commodity credit corporation.
-- The loan was issued through a qualifying financial institution.
-- The agricultural commodities or other products purchased through the loan were produced or processed, in whole or

in part, within the State.

- The terms of the loan would help make the sale competitive with the sale of agricultural commodities or other products of other states or foreign countries.

An export sale could be identified, proposed, developed, originated, or administered by or through an exporter, importer, agricultural trade association, the United States Department of Agriculture, a world trade center, the Michigan Department of Agriculture, a statutorily created agricultural commodity commission, the Michigan Export Development Authority, or any other individual, corporation, association, partnership, governmental agency, or other legal entity.

Senate Bill 926

The bill would amend Public Act 105 of 1855, which provides for the disposition of State surplus funds, to allow the State Treasurer to invest surplus State funds in qualifying financial institutions to participate in loans that enhanced and promoted the export sale of agricultural commodities and other products of the State as provided for in Senate Bill 925.

Senate Bill 926 specifies that such an investment would be found and declared to be for a valid public purpose. Earnings from a loan participation under the bill would have to be credited to the General Fund of the State, and any loss of principal or interest sustained through such an investment would reduce the earnings of the General Fund on an amortized basis over the remaining term of the loan.

Proposed MCL 21.142c

FISCAL IMPACT

Senate Bill 925

The bill would result in costs to the Department of Agriculture to determine whether proposed export sales met the requirements of the bill and whether the buyers would be eligible for a loan under the bill. The costs would be about $70,000 for 1.0 FTE, contractual services, supplies and material, and travel.

There could be some loss of revenue from lower interest on surplus funds if the State Treasurer invested State surplus funds in a financial institution that made a loan pursuant to the Senate Bill 925 in lieu of investing the surplus funds at the highest interest rate. There could be indirect revenues to the State resulting from increased sales that could be achieved through loans to foreign buyers. It is not known to what extent this bill's provisions might be used.

Senate Bill 926

The bill would have an indeterminate fiscal impact on the State General Fund. The amount of earnings or losses as a result of the loan program proposed under the bill cannot be determined at this time.

ARGUMENTS

Supporting Argument

The bills would help promote the export of Michigan agricultural products and commodities by providing capital for loans to purchasers of the products. Further, there would be no financial risk to the State to participate in the type of program proposed by the bill, since as a matter of practice, the Federal Commodity Credit Corporation would guarantee 98% of the loan amount and the lender would guarantee the remaining 2% of the loan. In fact, the State could earn a more competitive rate of return on its investment of surplus funds in the farm export loan program than it earns on some short-term investments. And since the lender would be at risk for only 2% of the total loan, the lender would be able to offer more favorable credit terms to purchasers of Michigan's products than perhaps might otherwise be available.

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