SFA BILL ANALYSIS
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Senate Bill 81 (as enrolled)(Public Act 27 of 1987)
Sponsor: Nick Smith
Senate Committee: Finance
First House Committee: Agriculture and Forestry
Second House Committee: Appropriations

Date Completed: 3-17-88

SUMMARY OF SENATE BILL 81 as enrolled:

The bill would amend Public Act 105 of 1855, which regulates the disposition of surplus State funds, to do the following:

- **Increase the amount that certain financial institutions may receive from the State for making agricultural loans, in order to reimburse the institutions for their administrative costs.**
- **Allow loans under the farm loan program to be made to qualified agricultural businesses.**
- **Increase the aggregate amount of farm loans allowed by $10 million, and allocate up to $10 million for agricultural business loans.**
- **Authorize the State Treasurer to certify farmers' losses.**

Administrative Costs

Under the Act's 1986 farm loan program, a participating financial institution may make State-subsidized loans to qualified farmers by using existing deposits for the loans and receiving from the State Treasurer an amount equal to interest that otherwise would have been charged by the financial institution under certain circumstances. The bill provides that a financial institution could receive the amount of interest that would have been charged "on an amount equal to 100% or more of the qualified agricultural loan as determined by the Department of Treasury".

The bill also would allow the State Treasurer to take any necessary action to ensure the successful operation of the Act's farm loan section, including making investments with financial institutions to cover the administrative and risk-related costs associated with a qualified agricultural loan. This language would replace the current requirement that the State Treaurer take any necessary action to ensure that money for purposes of qualified agricultural loans is fully invested and used for such loans.

Agricultural Business Loans

In addition to loans to qualified farmers, the bill would allow loans to an individual, sole proprietorship, partnership, corporation, or other legal entity that is engaged in an agricultural business of buying, exchanging, or selling farm produce, or engaged in the business of making retail sales directly to farmers and has 75% or more of its gross retail sales volume exempted from the sales tax under the Michigan agricultural sales tax exemption. Businesses engaged in the buying, exchanging, or selling of farm produce would have to have suffered a 50% or greater loss in volume of one commodity as compared with the average volume of that commodity handled by the business over the last three years. Businesses engaged in making retail sales directly to farmers would have to have suffered a 50% or greater reduction in gross retail sales volume subject to the sales tax exemption over the last three years. All losses claimed by businesses attempting to qualify for farm loans would have to be directly attributable to a natural disaster occurring after July 1, 1986, and before December 31, 1986, as determined by the Department of Treasury.

A qualified agricultural business loan could not exceed the lesser of:

- $200,000 per facility (which would mean a plant designed for receiving or storing farm produce or a retail sales establishment of a business that is engaged in making retail sales directly to farmers and that has 75% or more of its gross retail sales volume exempted from sales tax).
- An amount equal to 60% of the direct loss of the individual, sole proprietorship, partnership, corporation, or other legal entity applying for the loan, as determined by the Department of Treasury.
- $400,000 per individual, sole proprietorship, partnership, corporation, or other legal entity applying for the loan.

The Act provides that, until June 30, 1988, the aggregate amount of farm loan investments cannot exceed $339 million, and beginning July 1, 1988, the aggregate amount of investments made and outstanding cannot exceed $200 million. The bill would increase those amounts to $349 million and $210 million, respectively, and provides that no more than $10 million of that amount could be allocated to agricultural business loans. An investment to which an agricultural business loan was attributable could not be made after June 30, 1987, and could not be made with a term extending beyond June 28, 1992.

Additional Provisions

The Act provides that an investment agreement between the State and a financial institution must provide that the financial institution does not have to repay any principal within the first three years after the investment is made. Under the bill, however, repayment of principal could be required within the first three years if the investment were no longer being used to make a qualified agricultural loan or to the extent the loan had been repaid. (Those provisions apply only to loans to farmers.) The bill also provides for approval by the State Treasurer of the terms of the loans.

The bill would allow the State Treasurer to certify a farmer's loss of 25% in major enterprises or 50% in production in any one crop. Currently, only the Agricultural Stabilization and Conservation Service can certify a loss.

The bill would amend the definition of "financial institution" to include a bank for cooperatives.

MCL 21.142a

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