SFA BILL ANALYSIS

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

Senate Bill 808 (as reported without amendment)
Sponsor: Senator James A. Barcia
Committee: Agriculture and Forestry

Date Completed: 6-7-88

RATIONALE

In response to the difficulty farmers were having in obtaining the operating credit they needed to get crops in the ground in the spring of 1985, the Legislature enacted Public Act 12 of 1985 to create a low- interest loan program for eligible farmers. That Act authorized the State Treasurer to invest up to $70 million (later increased to $139 million by Public Act 90 of 1985) in certificates of deposit or other instruments of financial institutions to enable them to make the farm loans. The 1985 program was seen as a short-term emergency measure and a deadline of June 28, 1988, was set foi banks to repay the State's investments. The farmers have continued to experience economic difficulty, however, resulting from floods in 1986 as well as two doughts over the last couple years, and farmers have been unable to regain the financial stability that was anticipated in 1985. Since this year's rainfall also has been inadequate, and spring is a costly time of the year for farmers, it has been suggested that the loan repayment date be postponed.

CONTENT

The bill would amend Public Act 105 of 1855, which regulates the disposition of surplus State funds, to extend from June 28, 1988, to June 28, 1989, the maximum term of an investment attributable to an agricultural loan made under a program created by Public Act 12 of 1985.

MCL 21.142a

FISCAL IMPACT

Senate Bill 808 would extend the terms of $125 million of agricultural loans made to farmers from State surplus funds. The bill would extend the terms of the loans for one year. The bill would reduce General Fund investment earnings by approximately $2.5 million in FY 1988-89. This revenue loss is the difference between the interest rate charged on the loans and the average interest rates earned on other surplus funds investments.

ARGUMENTS

Supporting Argument

Extending the financial institutions' repayment date for State investments under the 1985 farm loan program would enable those banks in turn to extend their loans to farmers, if those loans were due this June. Consequently, the bill could give Michigan farmers the additional time they need to regain the financial stability that has eluded them in recent years. While in 1985 it may have seemed that three years would be long enough before the investments had to be repaid and the loans came due, no one could have foreseen the flooding and droughts that subsequently ensued (and which necessitated still another farm loan program in 1986 and its extension to agricultural businesses in 1987). In addition to these unfortunate weather problems, spring is typically a high cash flow time for farmers, when they must get their new crops in the ground and would have enhanced difficulty in paying off their loans.

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