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SFA BILL ANALYSIS

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House Bill 4009 (Substitute S-2 as reported)
Sponsor: Representative Ron Jelinek
House Committee: Appropriations
Senate Committee: Appropriations

**CONTENT**

The bill would amend Public Act 105 of 1855, which governs the disposition of the State's surplus funds, to require the State Treasurer to invest up to $30,000,000 of surplus funds in certificates of deposit of financial institutions in order to provide them with funds to make zero-interest "qualified agricultural loans" to farmers and agri-businesses adversely affected by drought conditions throughout the State during the summer of 2001. The bill also would authorize financial institutions, using their own funds, to make State-subsidized zero-interest loans totaling $180,000,000 to farmers affected by the weather, and receive a reimbursement for the costs of the loans. The bill would appropriate an amount sufficient to allow financial institutions to make zero-interest loans totaling $210,000,000.

The bill is modeled after a 1986 program by authorizing lending institutions to make three types of State-subsidized qualified agricultural loans. All of the loans would have a maximum term of five years at 0%. Repayment of the loans would not be required until the beginning of the third year.

Under the first type of loan, an institution could make a loan to a farmer who is experiencing financial stress and difficulty meeting existing debt obligations. The stress would have to be the result of an agricultural disaster as requested by the Governor. Farmers would have to certify that they would not have more than $150,000 in outstanding qualified agricultural loans. The amount of the loan would be reduced by 30% or $50,000, whichever was less, if crop insurance were available for a particular crop and the producer did not purchase the insurance.

The second type of qualified agricultural loan authorized under the bill would be made to a farmer who has suffered a 25% or more loss in major enterprises or a 50% or more production loss in any one crop due to an agricultural disaster as requested by the Governor and certified by the producer by means of an affidavit. The loan amount would be limited to 100% of the proven loss, up to $200,000, as certified by the affidavit. The loan amount would be reduced by the amount of Federal disaster assistance or crop insurance indemnity payments received. The amount of the loan would be reduced by 30% or $50,000, whichever was less, if crop insurance were available for a particular crop and the producer did not purchase the insurance.

The third type of loan would be made to agri-businesses that have at least 75% or more of the gross retail sales volume exempted from sales tax. Under this loan, the person must have suffered a 50% or greater loss in volume of one commodity compared with the average volume over the last three years. The losses would have to be directly attributable to a natural disaster occurring after January 1, 2001, as requested by the Governor and certified by an affidavit demonstrating loss. The loan amount would be limited to the lesser of: a) $300,000 per facility, b) the value of the direct loss of the applicant, or c) $400,000 per applicant. The bill would allocate not more than $10,000,000 for these loans.

Financial institutions would have the option to use their own funds for making zero-interest loans. Under this scenario, the institutions would receive from the Treasurer an interest rate subsidy of 120% of the State's earnings on its short-term investments. Loan subsidy payments to financial institutions would not be made before October 1, 2002.

MCL 21.142a

**FISCAL IMPACT**

There are two methods proposed by the bill to allow financial institutions to make zero-interest loans. The bill would require the State Treasurer to deposit up to $30,000,000 with financial institutions to make the loans. The bill also would authorize up to $180,000,000 in zero-interest loans to be made under the interest subsidy method. The cost to the State of the bill's requirement to invest $30,000,0000 would be equivalent to the amount of interest earnings that the State would forgo in order to provide the money to financial institutions to make interest-free loans. Assuming $30,000,000 would be invested in the first year for five years and no repayments made until the third year, the total estimated lost interest income would be $4,500,000 over the five-year period. If the State did not have sufficient funds in surplus to deposit, then it would have to issue short-term notes, which must be repaid by the end of the fiscal year.

Under the interest subsidy method, institutions would be eligible to receive 120% of the State's earnings on its short-term investments multiplied by the amount of the outstanding loans issued by the financial institutions. The loans would not have to be repaid until the third year. The estimated cost to the State under this scenario would be $32,400,000 over a five-year term.

To the extent that the bill would require loan recipients to pledge Federal assistance to the repayment of a qualified loan (after all Federal obligations were met), the State fiscal impact would be reduced. Currently, there is no Federal disaster grant program available.

Date Completed: 2-19-02 Fiscal Analyst: Craig Thiel