

Legislative Analysis



AGRICULTURAL DEVELOPMENT FUND

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Senate Bill 1167 as passed by the Senate
Sponsor: Sen. Ron Jelinek

Senate Bill 1168 as passed by the Senate
Sponsor: Sen. Michelle A. McManus

Senate Bill 1169 as passed by the Senate
Sponsor: Sen. Cameron S. Brown
House Committee: Agriculture
Senate Committee: Agriculture, Forestry, and Tourism

Complete to 6-5-06

A SUMMARY OF SENATE BILLS 1167 – 1169 AS PASSED BY THE SENATE 5-4-06

The bill would amend the Julian-Stille Value-Added Act to do the following:

- Establish an Agricultural Value-Added Commercialization Roundtable.
- Permit the Agricultural Development Fund to provide loans and loan guarantees, in addition to the grants currently provided for under the act.
- Establish a competitive process to award grants and loans from the fund.
- Establish a joint evaluation committee to review grant and loan applications.
- Prohibit Agriculture Commission members or members of the Joint Evaluation Committee from maintaining a conflict of interest in a matter pending before the department.
- Re-establish the Agricultural Development Fund as a revolving fund within the Department of Treasury.
- Lower the maximum amount of the fund that can be used for administrative purposes from five percent to four percent.
- Specify that of the funds appropriated in FY 2006 from the 21st Century Jobs Fund not more than one-half may be used for grants.
- Limit the maximum grant award to \$250,000.
- Limit the maximum loan amount to \$500,000.

The bills are tie-barred to each other, meaning none can take effect unless all are enacted.

Senate Bill 1167

The bill would amend the Julian-Stille Value-Added Act to require the director of the Department of Agriculture to convene *an Agricultural Value-Added Commercialization Roundtable* to discuss the commercialization of agricultural products, processes, and services, including the availability of capital, innovation infrastructure, and university licensing of intellectual property. The roundtable would be convened for the purpose of promoting innovation in Michigan agriculture and for providing more early-stage capital to

the agriculture industry. The roundtable would include 13 individuals representing farmers, food processors, agribusiness, lending institutions, higher education, the USDA-Rural Development Agency, the Michigan Strategic Fund, and the Rural Development Council of Michigan.

The first meeting would have to be convened within 90 days after the bill's effective date, and the roundtable would generally meet at least two times in each calendar year, unless the MDA director determines that more frequent meetings are necessary. Meetings would be open to the public, and at least one meeting held each year would have to be in a "rural community." Summaries of roundtable meetings would have to be posted on the department website, with copies provided to the roundtable participants, the standing committees of the House and Senate dealing primarily with agricultural issues, and to members of the public requesting a copy. The bill would be repealed two years after its effective date.

Senate Bill 1168

Fund Uses. Under the Julian-Stille Value-Added Act, the Agricultural Development Fund provides grants to individuals, farmer-owned cooperatives, partnerships, limited liability companies, private or public corporations, and local units of government for projects designed to establish, retain, expand, attract, or develop value-added agricultural processing and related agricultural production operations in this state. Grant money shall be used only for land, buildings, equipment, and property acquisition and assembly, demolition, site development, utility modifications and improvements, transportation improvements, infrastructure improvements, telecommunications infrastructure, technical assistance, marketing research, business plan development, and utilization of technology designed to establish, retain, expand, attract, or develop value-added agricultural processing and related agricultural production operations in the state.

The bill would expand this program to allow the Agriculture Commission to award loans and loan guarantees for similar purposes. The bill deletes much of the language concerning what entities may receive grants and for what purposes grants may be used. The bill's definition of "eligible grantee," however, includes the list of grantees included in the act. The bill doesn't state specifically what a grant or loan may be used for (land, buildings, etc) and simply states that grants and loans are made for projects designed to establish, retain, expand, or develop value-added agricultural processing and related agricultural production operations in the state. Grant or loan recipients could not use the money for the development of a casino regulated under the Michigan Gaming Control and Revenue Act or the federal Indian Gaming Regulatory Act.

The bill further requires the Agriculture Commission to establish a low-interest loan program in cooperation with financial institutions in the state similar to the agricultural loan program provided under Public Act 105 of 1855 (State Surplus Funds Act). The program would have to ensure that financial institutions do not refinance prior debt and would prohibit officers and their immediate family from receiving loans.

Competitive Process. The bill would require the Department of Agriculture to establish a competitive process to award grants and loans. The process would include the following:

- A requirement that applications must be reviewed by the joint evaluation committee.
- A preference for proposals that demonstrate a high level of innovation for value-added agricultural processing and related production ventures that benefit producers.
- A preference for proposals that attempt to secure a license for agricultural value-added technology through an institution of higher education.
- A requirement that the program will utilize contracts with measurable milestones, clear objectives, and will revoke awards for breach of contract.
- Require a cash-match of at least 10 percent of the grant, with a dedicated funding source identified before the grant is awarded. (This provision is currently part of the act.)
- Limit overhead rates for grant recipients to reflect actual overhead, but not exceeding 15 percent of the grant.
- A preference for proposals that forecast revenue within two years or have outside investments with experience and management teams with experience in the area targeted by the proposal, or both.

The bill specifies that scientific and technical merit, commercial merit, and the ability to leverage additional funding would be given equal weight in the review and scoring process. The bill also adds that, in approving a grant or loan, the Agriculture Commission would be required to state the specific objective reasons supporting the selection of the applicant over competing applicants.

Selection Criteria. The act requires the Department of Agriculture to develop a selection criteria and scoring system in conjunction with the Michigan Economic Development Corporation; Michigan State University; the USDA-Rural Development Agency; the Rural Development Council of Michigan; three producers, including one plant agricultural producer, one animal agricultural producer, and one at-large producer; and other industry and professional organizations as the MDA deems appropriate.

The bill largely retains this provision, although it replaces the references to MSU with any institution of higher education, and eliminates the specific number of producers to be consulted. The bill retains a requirement that the director of the MDA and the Agriculture Commission approve the selection criteria.

The bill adds that the joint evaluation committee would provide recommendations to, and assist, the Agriculture Commission in identifying high-quality projects for funding based on the selection criteria. The joint evaluation committee would consist for at least three agricultural producers, including one plant producer, one animal producer, and another at-large producer.

Conflict of Interest. The bill provides that a member of the Agriculture Commission or the Joint Evaluation Committee cannot make or participate in making or attempt to influence a matter before the MDA concerning a loan, loan guarantee, grant, or expenditure under the act, and prohibits a member from having a financial interest in a grant or loan recipient and engaging in any conduct that constitutes a conflict of interest. If a conflict of interest arises, the member would have to immediately advise the commission in writing before the commission or department takes an action regarding the matter. The member with a conflict of interest could not vote in any proceedings related to the matter, participate in the

discussion on the matter, be present at the meeting when the matter is being discussed or voted on, or discuss the matter with any other peer review expert.

Senate Bill 1169

The bill would re-establish the Agricultural Development Fund within a separate section of the act. (Language concerning the creation of the fund would be deleted in SB 1168.) The bill re-creates the fund as a revolving fund within the Department of Treasury. Under the act, the MDA may use up to five percent of the fund for administrative purposes. The bill limits this amount to four percent. The act currently requires the state treasurer to credit appropriations and money and other assets from any source into the fund. The bill adds to that, any money representing principal and interest payments on loans.

The bill adds that of the money appropriated during FY 2005-2006 from the 21st Century Jobs Fund, not more than half would have to be used for grants and the remaining balance would be used for loans and loan guarantees. The maximum grant award would be \$250,000 and the maximum loan and loan guarantee would be \$500,000.

The bill also adds that, upon request of the Agriculture Commission, the state treasurer will invest money in the fund in a manner similar to the qualified agricultural loan program established in Public Act 105 of 1855.

FISCAL IMPACT:

The Agricultural Development Fund was first established under Section 2 of the Julian-Stille Value-Added Act, Public Act 322 of 2000. Section 4 of Public Act 322 authorized the department to make grants from the fund only. Senate Bill 1168 as passed the Senate would authorize the department to make loans and loan guarantees, as well as grants. Senate Bill 1169 would amend Section 2 of the act to indicate that the Agricultural Development Fund is created as a revolving fund within the Department of Treasury. The bills do not define revolving fund. However, Section 404 of the Management and Budget Act, Public Act 431 of 1984, defines "revolving fund" as "a self-supporting fund which provides services or sells goods to state agencies, other government jurisdiction, or the public."

The designation of the Agriculture Development Fund as a revolving fund, and related language in Senate Bill 1169, provides for the fund to receive interest and loan repayments for subsequent use as grants, loans, and loan guarantees.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.