Legislative Analysis

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EXTEND LOAN FOR SUGAR BEET COOPERATIVE

House Bill 4108
Sponsor: Rep. Jeff Mayes
Committee: Agriculture

Complete to 2-26-07

A SUMMARY OF HOUSE BILL 4108 AS INTRODUCED 1-24-07

The bill would amend Public Act 105 of 1855 (MCL 21.142e), which addresses how the state treasurer may invest surplus state funds, to extend from five years to ten years the term of a $5 million zero-interest loan to a sugar beet growers' cooperative authorized by Public Act 123 of 2001, and modified by Public Act 342 of 2004. This would have the effect of extending an outstanding loan to the Michigan Sugar Company, due on February 7, 2007, for five more years.

(As introduced, House Bill 4108 and Senate Bill 14 were identical but Senate Bill 14 has subsequently been amended to add a requirement that the loan be repaid in full immediately if the borrower misses a quarterly payment after February 15, 2007.)

FISCAL IMPACT:

Public Act 123 of 2001 provided a $5 million zero-interest loan of state surplus funds to Michigan Sugar Beet Growers, Inc. for the purchase of Michigan Sugar Company. The loan currently has a maturity date of February 1, 2007. The original repayment schedule, as provided for in the loan agreement, called for quarterly payments of $250,000 from April 2005 to October 2006 and a lump sum payment of $3.25 million in February 2007. Michigan Sugar Company made the quarterly payments, as required, through October 2006 as well as a $250,000 payment in January 2007 and a $150,000 payment in Feb 2007, providing for an outstanding balance of $2.85 million. (It is assumed that quarterly payments of $150,000 would be made in January, April, July, and October of each year, beginning in April 2007. This would pay off the loan in October 2011.)

There are two costs associated with the bill. First, by extending repayment of the loan for five years, the bill reduces earnings of the General Fund's common cash pool in FY 2008 by $2.55 million (i.e. the current outstanding balance of $2.85 million, less two quarterly payments of $150,000 in April and July). However, over the course of the next five years, the loan is to be repaid. Second, there is the lost opportunity cost (i.e., reduced state surplus funds interest earnings) by providing a zero-interest loan. Assuming a common cash earnings rate of 5.25%, this cost is estimated at $361,594 over the course of the next five fiscal years.

BACKGROUND INFORMATION:

Public Act 123 of 2001 amended Public Act 105 of 1855 to provide a $5 million zero-interest loan of state surplus funds to Michigan Sugar Beet Growers, Inc.—a grower-owned cooperative—for the purchase of Michigan Sugar Company, then a subsidiary of Texas-based Imperial Sugar, which had filed for bankruptcy. The $63.5 million sale was finalized in February 2002.

Public Act 342 of 2004 (Senate Bill 1349) further amended Public Act 105 to require the state treasurer, as part of a modification of the loan, to subordinate the state's interest in the loan to the primary loan of the cooperative. The modification authorized by Public Act 342 helped the Michigan Sugar Company to purchase Monitor Sugar (located in Monitor Township, Bay County) from its parent company, Illova Sugar Ltd. of South Africa. The purchase of Monitor Sugar, completed in October 2004 for about $40 million, combined the sugar beet growers of Michigan Sugar Company and Monitor Sugar into one larger cooperative operating under the name Michigan Sugar Company with about 1,300 grower-members, 450 permanent employees and 1,750 seasonal workers. The company, headquartered in Saginaw Township, operates processing facilities in Bay City (Monitor Township), Caro, Sebewaing, and Croswell. The company produces nearly one billion pounds of sugar annually marketed under the Pioneer and Big Chief brand names.

There were several previous legislative efforts to either forgive or extend the repayment period of this loan in the 2005-2006 legislative session. As introduced, House Bill 4558 would have had the state forgive the $5 million loan. That bill was later amended to require annual $500,000 installment payments of the loan until it was repaid (effectively extending the term of the loan), instead of forgiveness. House Bill 4558, as amended, passed the House but died in the Senate. Other legislative proposals concerning this loan in the last legislative session were Senate Bill 285 of 2005 and House Bill 4462, identical bills that would have extended the repayment period of the loan. House Bill 1391 of 2006, identical to the current bill, likewise would have extended the term of the loan to 10 years.

In the current 2007-2008 session, this bill and Senate 14 contained identical language as introduced. A Senate substitute for Senate Bill 14 has added language providing for immediate repayment upon default.

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