Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 134 (Substitute S-1 as reported) *(as passed by the Senate)*
Sponsor: Senator Gerald Van Woerkom
Committee: Agriculture and Bioeconomy

Date Completed: 3-2-09

RATIONALE

The Agricultural Development Fund was created under the Julian-Stille Value-Added Act in 2000 to encourage the development of value-added agricultural processing and production in the State. A portion of the Fund is designated for grants, which may be awarded to individuals, farmer-owned cooperatives, businesses, and local units of government, to be used for land, buildings, or equipment; improvements to physical infrastructure; marketing research; business plan development; and other purposes. There have been two rounds of grants issued under the program; the first was in 2000, and was funded by Federal block grants. The second round of grants was in 2006, funded by money from the 21st Century Jobs Trust Fund. Because money for the program was appropriated only from one-time sources, amendments were enacted in 2006 to require the Michigan Department of Agriculture (MDA) to establish a low-interest loan or loan guarantee program, to stretch the Agricultural Development Fund's limited resources. A portion of the allocation from the 21st Century Jobs Trust Fund was designated for low-interest loans or loan guarantees, although the MDA has not yet implemented such a program. Since the demand for grants far exceeds the amount of money available and there does not appear to be as much demand for government loans, it has been suggested that the loan provisions be eliminated and the money designated for loans instead be made available for grants.

In addition, separate provisions of the Act require the Michigan Clean Air Fund to be used for both grants and loans for programs or projects to help reduce air pollution. It has been suggested that money in that Fund be used for grants only.

CONTENT

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

- **-- Allow the Agricultural Development Fund to be used for grants only, eliminating provisions under which the Fund also may be used for low-interest loans and loan guarantees for qualified agricultural loans.**
- **-- Require the Michigan Clean Air Fund to be used for grants only, rather than grants and loans.**
- **-- Transfer the administration of the agricultural value-added grant program from the Agriculture Commission to the Michigan Department of Agriculture.**
- **-- Designate the MDA as the administrator of the Agricultural Development Fund and the Department of Environmental Quality (DEQ) as the administrator of the Michigan Clean Air Fund for audit purposes.**

Value-Added Grant Program

The Act requires the MDA to establish and administer an agricultural value-added grant program. The Agriculture Commission must award grants from the Fund for projects designed to establish, retain, expand, attract, or develop value-added agricultural processing and related agricultural production operations in the State. Under the bill, the MDA Director, with the consent of the Commission, would have to award those grants.

In approving a grant, the Agriculture Commission must state the specific objective reasons supporting the selection of the applicant over competing applicants. The bill, instead, would require the MDA Director to provide supporting documentation on the selection of approved applicants to the Commission.

The Act requires a joint evaluation committee to assist and provide recommendations to the Commission in identifying high-quality projects for funding based upon the selection criteria and scoring system approved by the Commission. Under the bill, the committee would have to assist and make recommendations to the MDA, rather than the Commission.

The MDA must establish a competitive process to award grants. The process must include, among other provisions, a preference for proposals that are attempting to secure a license for agricultural-related intellectual property to be produced in Michigan. The bill would permit, but not require, a preference to be made for proposals that had secured such a license.

<u>Low-Interest Loans, Loan Guarantees</u>

The Act requires the MDA, in cooperation with the Department of Treasury and Michigan financial institutions, to establish a low-interest loan program in a manner similar to the qualified agricultural loan program established in Section 2a of Public Act 105 of 1855, or a loan guarantee program to provide qualified agricultural loans.

(The 1855 Act governs the disposition of surplus State funds. Section 2a provides for loans to agricultural producers or businesses engaged in buying, selling, or trading agricultural products that have suffered significant losses in one agricultural commodity because of an agricultural or natural disaster.)

The Department of Treasury must give the MDA any necessary assistance required to establish the program. The MDA must work with financial institutions in the State to establish a certification system to verify that loan applicants are requesting qualified agricultural loans.

As part of a low-interest loan program or a loan guarantee program, the MDA must work with the Department of Treasury to establish agreements with participating financial institutions, and ensure that they do not refinance prior debt.

Also as part of a low-interest loan program, the MDA must ensure that a loan does not exceed a term of five years, that the first payment made by the recipient occurs within 24 months after the date of the loan, and that the interest rate charged by participating financial institutions does not exceed 50% of the prime lending rate in Michigan plus 1%.

As part of a loan guarantee program, the MDA must maintain a list of financial institutions that will participate in the program, and ensure that participating financial institutions require adequate collateral and fully liquidate all collateral before calling on the loan guarantees. The MDA also must establish a loan guarantee of not more than 90% of a financial institution's loss after all alternatives to collect have been exhausted.

The bill would delete all of these provisions, as well as a requirement that the State Treasurer credit to the Agricultural Development Fund any money representing loan repayments and interest on the loans.

The bill would designate the MDA as the administrator of the Fund for audit purposes, and would refer to the Fund as being within the State Treasury, rather than within the Department of Treasury.

The bill also would rename the Fund the "Agricultural Development Grant Fund".

<u>Clean Air Fund</u>

The Value-Added Act created the Michigan Clean Air Fund within the Department of Treasury, to be administered by the DEQ. Money in the Fund must be used to provide grants and loans to individuals, private and public corporations, and local units of government for programs or projects established to reduce nitrogen oxides and volatile organic compounds, and for the administration of the grant and loan program.

The bill would remove the references to loans in these provisions. The bill also would designate the DEQ as the administrator of the Fund for auditing purposes, and would refer to the Fund as being within the State Treasury, rather than within the Department of Treasury.

Definitions

The bill would delete the definitions of "qualified agricultural loan" and "specialty crops".

"Qualified agricultural loan" means a loan for projects designed to establish, retain, attract, or develop value added agricultural processing and related agricultural production operations in the State. "Specialty crops" include any agricultural commodity except wheat, feed grains, oil seeds, cotton, rice, peanuts, and tobacco, as well as products derived from those commodities.

MCL 285.302-285.303

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The Agricultural Development Fund has been successful in spurring innovation among agricultural operators across the State, helping them to develop new technologies, invest in improvements, or commercialize practices that improve the efficiency of their operations or open up new markets for their products. The program has funded a wide variety of projects, issuing grants for both small and large operations, including the development of a mechanical pruner for wine vineyards, construction of a gasification plant that uses turkey litter as an energy source, and the development of automated feeding systems and water treatment processes in a shrimp farming operation. Of the 40 projects funded under the latest round of grants, about 19 had been completed as of May 2008, according to the MDA. The Department estimates that the grants led to additional private investment at about an eight-to-one ratio, and created over 67 new jobs in the State.

Those investments go beyond the immediate creation of jobs, however. The program also has supported small pilot projects that do not create many jobs directly, but if successful can lead to the widespread adoption of new technologies across the State. For example, the previous round of grants included funding for one anaerobic digester that aggregated hog manure from many nearby small hog operations. Anaerobic digesters have been installed successfully at many large operations, providing a way of safely handling manure, controlling odor, and producing electricity and natural gas. Despite those benefits, the capital costs make anaerobic digesters unpractical for small operations. The pilot project has demonstrated a way for small operators to take advantage of the benefits of anaerobic digesters at a lower cost, by hauling manure to a digester at a central location. This and other innovations can improve agricultural efficiency in the State while minimizing the environmental impact of agricultural operations. The bill would build upon those successes, by making additional money available for grants.

The MDA has not implemented the low-interest loan program required under the Act and there appears to be less demand among agricultural operators for low-interest loans than for government grants. While there are other sources of loans from the private sector and from the Federal government, the agricultural development program is one of the few sources of grant money available. The MDA reports that when it announced its second round of grants in 2006 with $5.0 million available, it received 225 grant requests totaling over $36.0 million. Many agricultural producers continue to express interest in the program. To help meet that demand, the bill would eliminate the loan program and the allocation of money to it; thus, the $5.0 million currently designated for loans would be available for grants to innovators in the agricultural community.

Response: The bill should include measures to provide for proper oversight of the program, and ensure that grants under the program were awarded to a variety of applicants, particularly small operations. Grants also should be issued in economically distressed areas across the State, not concentrated in certain areas.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

In fiscal year 2005-06, $10.0 million was appropriated from the 21st Century Jobs Trust Fund to the Agricultural Development Fund, with $5.0 million designated for a value-added grants program and $5.0 million for low-interest agricultural loans. The loan program has not been implemented and the bill would revise the statute to allow the entire $10.0 million to be spent through the grants program. The loans were designed to function as a revolving loan program to continue the program indefinitely. This function would be eliminated under the bill since the grantees would not have to repay the grant awards.

Fiscal Analyst: Jessica Runnels