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BILL ANALYSIS

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Senate Bill 228 (Substitute S-4 as reported by the Committee of the Whole)
Sponsor: Senator Gerald Van Woerkom
Committee: Agriculture, Forestry and Tourism

CONTENT

The bill would create the "Rural Agricultural Recruitment Act" to require the Michigan Higher Education Assistance Authority to establish a loan repayment program that would reimburse a percentage of educational loans incurred by up to 1,000 eligible agricultural employees in rural areas per year.

Specifically, the Authority would have to administer a partial repayment program for agricultural employees who had incurred eligible debt. The bill would define "eligible debt" as the total unpaid principal balance, accrued interest, and accrued expenses owed by an agricultural employee for qualified loans he or she obtained after July 1, 2001, to attend an associate's degree, bachelor's degree, or vocational education program, calculated at the time he or she first applied for a repayment under the bill.

After every year of continuous eligible agricultural employment, for up to 10 years, the Authority could repay up to 2.5% of the agricultural employee's eligible debt, or $750, whichever was less. The Authority could not provide repayment of eligible debt to more than 1,000 recipients in the 2005-06 State fiscal year or to more than 1,000 new recipients in each subsequent fiscal year.

"Eligible agricultural employment" would mean full-time employment at an agricultural facility located in a rural area or engaging in veterinary practice in a rural area, primarily as a large animal veterinarian. "Rural area" would be defined as a county in the State with a population of 70,000 or less. "Agricultural facility" would mean land, or a building or other improvement on or to land, used for "agricultural processing".

Legislative Analyst: Claire Layman

FISCAL IMPACT

The bill could create an obligation for the State of up to $750,000 in the 2005-06 fiscal year. The obligation could increase by as much as an additional $750,000 each year in future years. After 10 years, the State's obligation would reach a maximum and could be as much as $7.5 million per year. The actual fiscal impact of the bill would depend upon the amount the Legislature chose to appropriate to fund the proposed loan repayment program and participation rates for the program. Secondary impacts, such as retaining certain graduates or postponing a date in which they might move from the State, are likely to be minimal. It is impossible to estimate how many individuals would enroll under the proposed program.

This analysis is based on a number of assumptions, some of which concern issues not addressed in the bill. For example, "full-time employment" in the definition of "eligible agricultural employment" is not defined, nor is "engaging in veterinary practice." It is unclear if an individual owning a small plot of land in a rural county would qualify if he or she operated a small storage facility, farmed the land at any level, or purchased a backhoe, chainsaw, or wood chipper and established a business to supplement his or her existing income, or even enrolled the property in a farm program to leave the land fallow. Similarly, any involvement in a veterinary practice in a rural area would apparently be sufficient to qualify for benefits under the bill. Furthermore, determining eligible debt could be difficult, particularly when consolidation or partial repayment had occurred and/or the borrower had obtained education eligible for loans but not for repayment under the bill. An example is a borrower who had $3,000 in loans as an undergraduate and another $5,000 in graduate loans and had consolidated the loans into an $8,000 loan, of which $4,000 had been repaid. It is unclear what portion of the borrower's outstanding debt would be eligible for repayment under the bill.

The bill would provide the Authority with rule-making power, but the requirements that would be imposed by those rules presently are unknown. Therefore, any ambiguous aspects of the bill could cause the fiscal impact to vary drastically from the sample impact illustrated above. The costs of administering the program are currently unknown.

This estimate is preliminary and will be revised as new information becomes available.

Date Completed: 4-12-05 Fiscal Analyst: David Zin