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BILL ANALYSIS

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Senate Bill 953 (Substitute S-1 as reported)
Sponsor: Senator Cameron S. Brown
Committee: Agriculture, Forestry and Tourism

CONTENT

The bill would amend Public Act 105 of 1855, which regulates the disposition of surplus State funds, to permit the State Treasurer to invest up to $25 million in certificates of deposit (or other instruments of qualified financial institutions) for the purpose of facilitating loans of up to $5 million to eligible farmers for the construction and operation of agricultural ethanol plants, methane digesters, and other equipment used to generate electricity from agricultural biomass.

MCL 21.142g Legislative Analyst: Claire Layman

FISCAL IMPACT

The bill would have a negative impact on the State's ability to earn higher returns on its cash investments, by authorizing the deposit of up to $25 million into financial institutions for up to 15 years. It is assumed that the State would have to accept below-market interest rates on its investments in order to encourage financial institutions to participate in the agricultural energy production loan program. The financial institutions then would be required (within 90 days of accepting the State investment) to make the funding available to eligible farmers as loans. The actual fiscal impact would be contingent on the term (number of years) of the investments made by the State with participating financial institutions, the interest rate received by the State on those investments, the total value of the loans made to farmers, and the interest rate that the State would receive on its cash reserves in the absence of the loan program. Assuming that the entire $25 million would be deposited in financial institutions with equal repayments each year for 15 years, it is estimated that the State would realize lost interest earnings of $1.6 million over the 15-year investment period.

In addition, the Michigan Department of Treasury would experience increased administrative costs associated with the proposed loan program. These costs would have to be covered by existing appropriations available to the Department.

As a point of reference, the General Fund has realized negative interest earnings for eight of the last nine quarters, suggesting a need for the General Fund to borrow from other State funds to meet its cash flow requirements over this period. It is unknown at this time whether the State would have the $25 million in "surplus funds" available to invest in financial institutions, as the bill would allow.

Date Completed: 5-28-04 Fiscal Analyst: Craig Thiel