

MEMORANDUM



DATE: March 5, 2009
TO: House Committee on Agriculture
FROM: William E. Hamilton
RE: Agricultural Development Fund

Background – In 2000, the Legislature enacted Senate Bill 1340 (2000 PA 322), the "Julian-Stille Value-Added Act," to create an "Agricultural Development Fund" in the Michigan Department of Treasury, to be administered by the Michigan Department of Agriculture. The bill directed the Department of Treasury to deposit \$5.0 million from the Clean Air Fund to the Agriculture Development Fund. The ultimate revenue source for the Clean Air Fund money was a utility company "uncollectables allowance recovery fund."¹

Uncollectables allowance recovery fund revenue never materialized, and the \$5.0 million deposit provided for in Julian-Stille Act was not made.² However, the Agricultural Development Fund was used to collect and distribute funds from other fund sources as appropriated in a supplemental appropriations bill.

Senate Bill 291 (2001 PA 120), a FY 2000-01 supplemental, appropriated \$5.0 million for *Value-adding processing: ethanol*, and \$5.0 million to the *Agricultural development fund*. There were two fund sources supporting these appropriations – \$5.0 million GF/GP, and \$5.0 million from Agricultural Development Fund revenue. Although this would appear to represent an appropriation of \$10.0 million, the actual net appropriation was, in fact, only \$5.0 million. Section 1303 of the bill indicated that the \$5.0 million GF/GP was appropriated to the Agricultural Development Fund created by the Julian-Stille Value-Added Act. The section then directed the department to award the \$5.0 million from the Agricultural Development Fund for a "value-adding processing: ethanol plant." This appropriation, subsequently reduced to \$4.8 million, was used to provide a grant to Broin Companies to construct an ethanol processing plant in Caro, Michigan. The ethanol plant is known as Michigan Ethanol LLC.

Senate Bill 291 also included a \$4.1 million appropriation of federal Department of Agriculture specialty crop program grant revenue. Boilerplate Section 1301 of the bill directed how the funds were to be expended. The distribution included \$1.15 million to the Agricultural Development Fund "for the support of grants for value added processing and agricultural production ventures for specialty crops in accordance with the Julian-Stille Value-Added Act."

¹ Prior to the enactment of the Julian-Stille Value-Added Act, the Legislature appropriated \$5.0 million for a new Agriculture line item, *Agriculture development initiatives* in Senate Bill 968 (PA 291 of 2000), a FY 1999-2000 supplemental appropriations bill. The fund source for the appropriation was identified as "Uncollected allowance recovery fund." In his message to the Senate in signing the bill, Governor Engler indicated that "*the funds cannot be spent until legislation is enacted to establish and define the program.*"

² At the end of the FY 2004-05 fiscal year, there was no balance in the Agricultural Development Fund.

21st Century Jobs Fund Appropriations – In 2005, the Legislature passed House Bill 5047, an amendment to the Michigan Strategic Fund Act. The bill appropriated \$10.0 million from the 21st Century Jobs Fund (money from the securitization of the tobacco settlement) for the Agricultural Development Fund. However, in signing the bill, the Governor also vetoed a \$5.0 million earmark for specialty crops. As a result, the enacted bill, enacted as 2005 PA 225, provided only \$5.0 million in spending authority – none of which could be used for specialty crops. The Legislature subsequently passed Senate Bill 242, (2006 PA 153) a FY 2005-06 supplemental appropriations bill, which restored the \$5.0 million in vetoed funds. The related boilerplate indicated that it was the intent of the Legislature that the \$5.0 million appropriated in Senate Bill 242, be combined with the \$5.0 million appropriated in 2005 PA 225 "to provide a total of \$10.0 million from the 21st Century Jobs Trust Fund to the Agriculture Development Fund."

Money from the initial \$5.0 million FY 2005-06 appropriation was used to provide Julian-Stille agriculture innovation grants. As of September 30, 2006, the Michigan Department of Agriculture had recommended to the State Administrative Board 40 grant contracts for funding, totaling \$4.7 million. However, use of the second \$5.0 million, from the supplemental appropriation made in 2006 PA 153, was restricted. Senate Bill 1169 (2006 PA 424), which amended the Julian-Stille Value-Added Act, permitted no more than 10% of the supplemental funding to be used for grants. The bill required that at least 90% of the funds appropriated in 2006 PA 153, i.e. the second \$5.0 million, be used for loans and loan guarantees. However, no loans have been made under the revolving loan program established in Senate Bill 1169.

The second \$5.0 million was set up as a work project, as provided in Section 451a of the Management and Budget Act (MCL 18.145a). This allowed the funds to carry forward for 48 months after the initial appropriation year (FY 2005-06). The funds are available through September 30, 2010.

Fiscal Impact of Senate Bill 134 and House Bill 4116 – Senate Bill 134 and House Bill 4116 would eliminate the references to a loan program and would effectively reauthorize the program as a grant program. To the extent that the funds for the program have already been appropriated and have been carried forward as a work project, the bill would have no direct fiscal impact. However, under a revolving loan program, as established in the 2006 PA 424, loans would be repaid to the state; grants would not.

Legislative History

Julian-Stille Enactment and Amendment		
Senate Bill 1130 (2000 PA 322) Julian-Stille Value Added Act	Amended by: Senate Bill 1167 (2006 PA 422) Senate Bill 1168 (2006 PA 423) Senate Bill 1169 (2006 PA 424)	The 2006 amendments established loan program; selection process. Amendments limit use of supplemental appropriation made in 2006 PA 153: no more than 10% in grants; not less than 90% for loans. [See below]
Appropriations		
House Bill 5047 (2005 PA 225) Amends the Michigan Strategic Fund Act	Appropriates \$10.0 million from 21st Century Jobs Fund to the Agricultural Development Fund. The Governor vetoed a \$5.0 million boilerplate earmark, leaving only \$5.0 million available.	Initial \$5.0 million largely expended in grant program by the end of FY 2005-06.
Senate Bill 242 (2006 PA 153) FY 2005-06 supplemental appropriation.	Restores \$5.0 million appropriation in FY 2005-06.	Use limited by Julian-Stille Act amendment: no more than 10% in grants; not less than 90% for loans. [See above] Carried forward through work project designation.