

# FCS MONDAY MORNING

## Legislative Update

\*\*\*\*\*

March 8, 2010

\*\*\*\*\*

### ***BILL CREATING PRIORITY LIEN FOR FEED SUPPLIED DURING MEDIATION MOVES FORWARD IN HOUSE AG COMMITTEE***

HF 2889 which creates a priority lien position for suppliers who provide feed during farmer-lender mediation, was heard in the House Agriculture Finance committee on Tuesday (3/2/10) and held over for possible inclusion in an omnibus agriculture policy bill. The bill's author, Ag Committee Chair Al Juhnke, took pains to assure members of the committee that the bill was designed to deal with a very few and unique situations.

Juhnke noted that the lien is only good for 45 days worth of feed and did not apply to existing debts owed to the feed supplier. He also said that it is obvious that most lenders would do everything reasonably possible to protect livestock involved. "That is the lender's collateral," said Juhnke. "This bill won't have any effect in situation where the lender continues to pay for the feed needed to take care of those animals."

Proponents of the bill, however, argued that it was still needed. Representing the Minnesota Pork Producers (MPPA), Jerry Schoenfeld said there have been instances in the last year where banks have refused to continue to provide feed. Only after the head of a pork organization threatened to send media to the bank for an explanation were the animals given feed, he said.

"There is no incentive to keep feeding the livestock unless there is some form of security that allows the feed mill to get paid for providing feed to keep these animals alive," said Laura Lemke, member services representative for the Minnesota Grain and Feed Association (MFGA). Many feed mills are now forced to write off unpaid transactions, she said

FCS lobbyist, John Apitz, worked with officials from MPPA and MGFA, as well as the Minnesota Bankers and Independent Community Bankers Associations to craft compromise language that was adopted by the committee

The Senate bill, SF 2465, authored by Senate Ag Committee Chair Jim Vickerman (DFL-Tracy) waits its next hearing the Senate Judiciary Committee.

### ***BUDGET BATTLE BEGINS WITH NEWS OF \$1 BILLION SHORTFALL Senate Takes a "First Cut" with Cuts Larger Than Proposed by Pawlenty***

On Tuesday (3/2/10), Minnesota Management & Budget (MMB), released the February 2010 Economic Forecast predicting a \$994 million deficit for the current biennium. As large as it is, the projection represents a \$209 million improvement over the state's last economic forecast in November, 2009.

MMB Commissioner Tom Hanson called it "good news," and said the forecast proves the so-called Great Recession is at an end. "I think this is continued evidence that our economy has bottomed out, and we are in the long, slow road to recovery," Hanson said.

But the forecast also projects a \$5.8 billion deficit in the next biennium, which is \$363 million worse than November's prediction. Moreover, Hanson said the smaller short-term deficit is due mostly to spending reductions and help from the federal government — not to an improving economy.

State Economist Tom Stinson said the February forecast shows no real change from November. He said the real measure of economic recovery will be how quickly the state's employment numbers grow. "Even under the optimistic scenario, it's going to take until mid-2012 for employment to reach its prior (pre-recession) levels," Stinson said.

Governor Pawlenty used the occasion to warn lawmakers that now is the time to start dealing with the problem looming into the next biennium. "While this represents some much needed good news, we are a long way from being out of the woods," Pawlenty said. "Legislators need to keep in mind that we still face a \$994 million deficit. State government should be fiscally responsible with the new money on the table today. It should be used to strengthen our cash flow account, not spent on unsustainable programs." Governor Pawlenty called on the legislature's DFL leadership to present a balanced budget plan as soon as possible, but no later than March 17, two months before the end of the legislative session.

House and Senate leaders, however, responded that cutting state programs was only part of the solution. "This forecast once again shows us that we have a very long-term problem in this state," said House Speaker Margaret Anderson Kelliher (DFL-Mpls).

Depending on how it's calculated, the \$5.8 billion budget gap lawmakers face could actually be more like \$8.5 billion — a figure that includes inflation, as well as the cost of restoring programs eliminated last year by Governor Pawlenty..

In all, between 15 percent and 20 percent of the state budget may be in jeopardy when the Legislature convenes next year. Kelliher blames much of that shortfall on Pawlenty, arguing that his budget policies, which have included the use of accounting shifts and other one-time solutions, have pushed the state's financial problems off into the future.

The governor's supplemental budget plan would solve the current \$994 million biennial deficit through budget cuts and by using federal aid. It would leave at least a \$2.8 billion budget hole in the 2012-13 biennium. DFL'ers argue that a more "balanced approach" — that is, one that includes some tax increases — is more realistic, and would help reduce future deficits.

### ***Senate Ag Committee Offers Scaled Back Cuts After Vickerman Succeed in Persuading His Colleagues of the Importance of Agriculture***

Going into this week, Senate Ag Committee Chair was looking at ways to cut nearly \$18 million out of the budgets for the MN Dept. of Ag, Board of Animal Health and the Agricultural Utilization and Research Institute (AURI). By the time he finished arguing the "case of Minnesota agriculture" with Senate leadership, the figure had been cut back to about \$8 million. As a result of his efforts, Vickerman was able to limit his budget cutting, significantly.

The changes in the 2010-2011 budget that the Senate Ag Committee adopted on Thursday (3/4/10) were much along the line as those proposed by Pawlenty except in the area Ethanol Producer Payments. Rather than a 7 percent reduction in these payments over this biennium, the Senate would reduce them by nearly 30 percent and push out the repayment into 2014. By doing so, the Senate budget was able to protect the Sustainable Ag Grants program, the Second Harvest Milk Grant program and, most importantly, continue state support for AURI.

The Governor's budget would have slashed nearly 30 percent of the AURI budget in this biennium, The Senate alternative resulted in only a 5 percent reduction.

Next week, the full Senate Finance Committee will take up the ag committee budget along with others as it set about crafting a final bill to sent to the Governor. However, it will only be the first volley in what is likely to become a protracted budget battle over the next many weeks.

