

**Committee Name:**  
**Joint Committee – Finance**  
**(JC–Fi)**

**Appointments**

99hr\_JC–Fi\_Appt\_pt00

**Committee Hearings**

99hr\_JC–Fi\_CH\_pt00

**Committee Reports**

99hr\_JC–Fi\_CR\_pt00

**Clearinghouse Rules**

99hr\_JC–Fi\_CRule\_99–

**Executive Sessions**

99hr\_JC–Fi\_ES\_pt00

**Hearing Records**

99hr\_ab0000

99hr\_sb0000

**Misc.**

99hr\_JC–Fi\_\_Misc\_\_s.13.10\_pt03

**Record of Committee Proceedings**

99hr\_JC–Fi\_RCP\_pt00

32

~~LOUISIANA CIVIL SERVICE BOARD~~

S. 13.10 Meeting  
January 21, 1999



# Al Ott

State Representative • 3rd Assembly District

January 14, 1999

Sen. Brian Burke, Co-Chair  
Joint Finance Committee  
316 South, State Capitol  
Rep. John Gard, Co-Chair  
Joint Finance Committee  
315 North, State Capitol  
Madison, WI 53708

Chairman Burke, Chairman Gard and Joint Finance Committee Members:

As you all are aware, the hog industry in Wisconsin is currently in a crisis situation due to numerous factors which have negatively affected the industry. The Assembly Agriculture Committee held a public hearing on December 17, 1998 in an attempt to gather information and public input which could help alleviate the critical situation facing pork producers.

Several legislators have worked to find a way for the state to assist its pork producers in addition to the proposed federal assistance. After several meetings with legislators, agriculture experts and Wisconsin Housing and Economic Authority (WHEDA) staff, an initiative to modify the CROP program to assist independent pork producers was developed. Attached is the WHEDA memorandum outlining this initiative.


Today Governor Thompson has issued an Executive Order declaring a hog market emergency situation and authorizing WHEDA to modify the CROP Program in response. The next step is for WHEDA to submit a s.13.10 request to the co-chairs of the Joint Committee on Finance for approval of the emergency eligibility criteria.

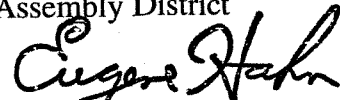
**This brings us to the point of this letter. All members of the Assembly Agriculture Committee are respectfully requesting the Joint Finance Committee meet as soon as possible to review and, hopefully, approve the emergency criteria so that the guaranteed loan assistance could be made available to pork producers by the end of this month.**

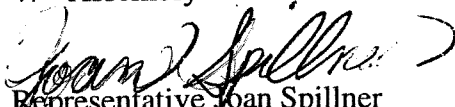
We urge you to consider and respond to this request as soon as possible in light of its importance to agriculture in Wisconsin. If you have any further questions, please feel free to contact Rep. Alvin Ott or Jim Langdon at WHEDA (telephone: 266-3529).


Sen. Brian Burke  
Rep. John Gard  
Page Two  
January 14, 1999

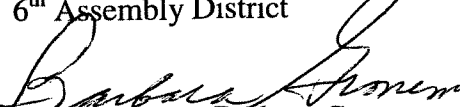
Sincerely,

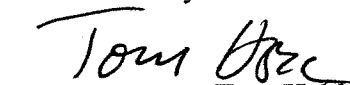
  
Representative Al Ott  
3<sup>rd</sup> Assembly District


  
Representative Eugene Hahn  
47<sup>th</sup> Assembly District

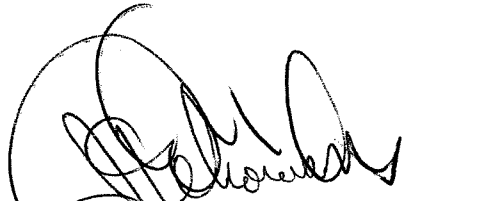
  
Representative Joan Spillner  
42<sup>nd</sup> Assembly District

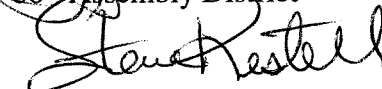
  
Representative John Ainsworth  
6<sup>th</sup> Assembly District

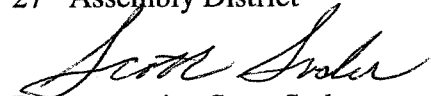
  
Representative Barbara Gronemus  
91<sup>st</sup> Assembly District


  
Representative Tom Hebl  
46<sup>th</sup> Assembly District

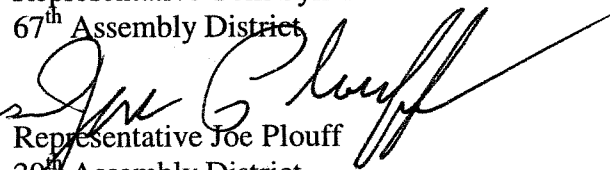
  
Representative John Steinbrink  
65<sup>th</sup> Assembly District

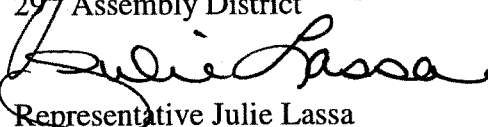
  
Representative Jerry Petrowski  
86<sup>th</sup> Assembly District

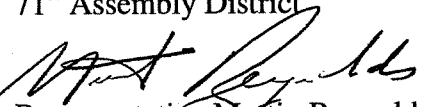
  
Representative Steve Kestell  
27<sup>th</sup> Assembly District

  
Representative Scott Suder  
69<sup>th</sup> Assembly District

  
Representative Tom Sykora  
67<sup>th</sup> Assembly District

  
Representative Joe Plouff  
29<sup>th</sup> Assembly District

  
Representative Julie Lassa  
71<sup>st</sup> Assembly District

  
Representative Martin Reynolds  
87<sup>th</sup> Assembly District



## Memorandum

To: Interested Legislators  
From: Fritz Ruf, Executive Director  
Re: Hog Market Crisis  
Date: January 14, 1999

WISCONSIN  
HOUSING AND  
ECONOMIC  
DEVELOPMENT  
AUTHORITY

### ISSUE

Modifying the CROP Program in response to the hog market crisis.

### BACKGROUND

Tommy G. Thompson  
Governor

Edwin J. Zagzebski  
Chairman

Fritz Ruf  
Executive Director

American hog farmers are in the midst of a market crisis. According to the National Pork Producers Council:

"What we really have confronting us is a case of hog supplies exceeding U.S. packing plant slaughter capacity. That has created the massive bottleneck at the nation's packing plants and driven live hog prices down to disastrous levels."

Hog farmers across the nation and in Wisconsin are suffering huge losses that may drive many from the industry. Industry experts believe that emergency measures taken now can help pork producers survive:

"The recent low hog prices have generated the largest losses in history during December. The red ink that started in November 1997 is expected to end in mid-summer 1999. The liquidation that is occurring will result in higher hog prices particularly in 2000. However, many of the surviving producers will need to restructure the accumulated short-term debt over a longer period of time and their cost of production will increase. Loan guarantees or interest buy-downs will be helpful (and possibly necessary) for survival of many independent pork producers."

John D. Lawrence, Associate Professor  
Iowa State University  
Testimony to the Democratic Hearing on  
the Crisis in the American Livestock  
Sector  
January 5, 1999

### AN EMERGENCY LOAN GUARANTEE PROGRAM

In December, Governor Thompson directed WHEDA to examine ways in which our financing programs could be used to help Wisconsin pork producers. Our review resulted in a proposed emergency loan guarantee program that would require no additional state money and no statutory changes.

201 West Washington Avenue  
Suite 700  
PO Box 1728  
Madison, WI 53701-1728  
tel 608/266-7884  
fax 608/267-1099

101 West Pleasant Street  
Suite 100  
Milwaukee, WI 53212-3962  
tel 414/227-4039  
fax 414/227-4704

www.wheda.state.wi.us  
wheda@mail.state.wi.us

WHEDA supports equal  
housing opportunities for  
all persons



The basis of the emergency program is a modification to the CROP guarantee program. WHEDA provides 90 percent guarantees on loans made by Wisconsin lenders. The program has been available since 1985. The standard CROP Program would continue to be available to the general agricultural community while the emergency criteria are in effect.

Sec. 234.90 (3j) authorizes WHEDA to develop emergency eligibility criteria under CROP as follows:

(3j) EMERGENCY ELIGIBILITY CRITERIA. The authority may guarantee a loan to a farmer using eligibility criteria determined by the authority that differ from the criteria under subs. (2) to (3g) if all of the following apply:

(a) The governor has determined that an emergency situation exists and that the criteria under subs. (2) to (3g) prevent the authority from making an adequate response to the emergency situation.

(b) The authority has submitted to the joint committee on finance for review under s. 13.10 the emergency eligibility criteria that it proposes to use, and the joint committee on finance has approved the use of the criteria for the emergency situation.

The emergency criteria we propose would include the following:

- Targeted to hog producers (CROP is available to all farmers).
- The maximum loan limit would be \$50,000 including other CROP loans (CROP is \$20,000).
- The loan term would require repayment within three years (CROP is one year).
- The borrower must apply for the guarantee before July 31, 1999 (CROP is ongoing).
- The emergency program guarantees would be no more than \$5,000,000 and available on a first-come, first-served basis (CROP is \$30,000,000).

#### **ACTION NEEDED**

1. Governor issues an Executive Order declaring a hog market emergency situation and authorizing WHEDA to modify the CROP Program in response.
2. WHEDA submits a s.13.10 request to the co-chairs of the Joint Committee on Finance for approval of the emergency eligibility criteria. WHEDA's request will describe the nature of the emergency and ask that the Committee take up the issue at the earliest opportunity.
3. Joint Committee on Finance reviews and approves the emergency eligibility criteria.
4. WHEDA implements the emergency eligibility criteria immediately.

1/15/99

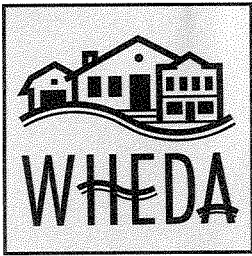
Brian—

We got a request today from WHEDA for an emergency JFC s.13.10 meeting to address the hog market crisis. I got a call from someone at WHEDA on Wednesday on this issue, and I told him to submit the request to the co-chairs in writing so we could take a look at it. There's an article in the Journal Sentinel today explaining the crisis and the need for emergency action.

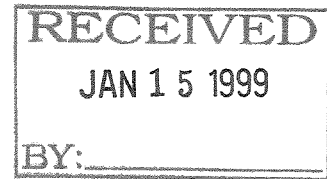
I checked with LFB, and they say there is an actual need for meeting within the next couple weeks. So, I was thinking, if it's okay with you and with Rep. Gard, how about meeting upon adjournment of both houses on January 28<sup>th</sup>? Doug and Rep. Jensen's office assure me that it will be a light day for both houses. We could just go to 411S after we're done with the calendar for the day.

Let me know what you think. If it's okay, I'll get it set up. Thanks.

--Julie



January 14, 1999



Honorable Brian Burke  
Room LL1, 119 Martin Luther King Jr. Blvd.  
Madison 53707-7882

Honorable John Gard  
Room 315 North, State Capitol  
Madison 53708-8952

Mr. Robert Lang, Director  
Legislative Fiscal Bureau  
One East Main Street, Suite 301  
Madison, Wisconsin 53703

**WISCONSIN  
HOUSING AND  
ECONOMIC  
DEVELOPMENT  
AUTHORITY**

Re: Action Under s. 13.10 in Response to the Hog Market Crisis

Tommy G. Thompson  
Governor

Edwin J. Zagzebski  
Chairman

Fritz Ruf  
Executive Director

Dear Senator Burke, Representative Gard and Director Lang:

WHEDA respectfully asks the Joint Committee on Finance to review and approve emergency eligibility criteria under the CROP Program in response to the hog market crisis. This request is made pursuant to s. 13.10 and s. 234.90(3j) of the Wisconsin Statutes, and Executive Order 359 dated January 13, 1999 (Attachment 1).

**BACKGROUND**

201 West Washington Avenue  
Suite 700  
PO Box 1728  
Madison, WI 53701-1728  
tel 608/266-7884  
fax 608/267-1099

American hog farmers are in the midst of a market crisis. According to the National Pork Producers Council:

“What we really have confronting us is a case of hog supplies exceeding U.S. packing plant slaughter capacity. That has created the massive bottleneck at the nation's packing plants and driven live hog prices down to disastrous levels.”

Hog farmers across the nation and in Wisconsin are suffering huge losses that may drive many from the industry. Industry experts believe that emergency measures taken now can help pork producers survive:

“The recent low hog prices have generated the largest losses in history during December. The red ink that started in November 1997 is expected to end in mid-summer 1999. The liquidation that is occurring will result in higher hog prices particularly in 2000. However, many of the surviving producers will need to restructure the accumulated short-term debt over a longer period of time and their cost of production will increase. Loan guarantees or interest buy-downs will be helpful (and possibly necessary) for survival of many independent pork producers.”

John D. Lawrence, Associate Professor  
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Testimony to the Democratic Hearing on the  
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January 5, 1999

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fax 414/227-4704

www.wheda.state.wi.us  
wheda@mail.state.wi.us

WHEDA supports equal  
housing opportunities for  
all persons





## **SUMMARY OF PROPOSED EMERGENCY PROGRAM**

In December, Governor Thompson directed WHEDA to examine ways in which our financing programs could be used to help Wisconsin pork producers. Our review resulted in a proposed emergency loan guarantee program that would require no additional state money and no statutory changes.

The basis of the emergency program is a modification to the CROP guarantee program. CROP provides 90 percent guarantees on loans made by Wisconsin lenders. The program has been available since 1985. The standard CROP Program would continue to be available to the general agricultural community while the emergency criteria are in effect.

Sec. 234.90 (3j) authorizes WHEDA to develop emergency eligibility criteria under CROP as follows:

(3j) EMERGENCY ELIGIBILITY CRITERIA. The authority may guarantee a loan to a farmer using eligibility criteria determined by the authority that differ from the criteria under subs. (2) to (3g) if all of the following apply:

(a) The governor has determined that an emergency situation exists and that the criteria under subs. (2) to (3g) prevent the authority from making an adequate response to the emergency situation.

(b) The authority has submitted to the joint committee on finance for review under s. 13.10 the emergency eligibility criteria that it proposes to use, and the joint committee on finance has approved the use of the criteria for the emergency situation.

The emergency criteria we propose is summarized in the following points. The specific criteria are included in Attachment 2.

- Targeted to hog producers (CROP is available to all farmers).
- The maximum loan limit would be \$50,000 including other CROP loans (CROP is \$20,000).
- The loan term would require repayment within three years (CROP is one year).
- The borrower must apply for the guarantee before July 31, 1999 (CROP is ongoing).
- The emergency program guarantees could total no more than \$5,000,000 and would be available on a first-come, first-served basis (CROP is \$30,000,000).

Like CROP, this program will be supported by the Wisconsin Development Reserve Fund (WDRF). No additional resources are needed for the emergency program. Our analysis indicates that \$5,000,000 of guarantee authority is available within CROP for this purpose. Guarantee authority under other WDRF programs will not be affected by implementing this emergency program.

The proposed emergency criteria were developed in consultation with and are endorsed by:

- Department of Agriculture, Trade and Consumer Protection
- Wisconsin Pork Producers
- WHEDA agriculture lenders
- University of Wisconsin-Extension

Letter to Senator Burke, Representative Gard and Director Lang  
January 14, 1999  
Page Three

**URGENT ACTION REQUESTED**

We respectfully ask that this request be taken up at the earliest practical time. We understand that the next normally scheduled 13.10 meeting will convene in March. However, we are advised by legislative and industry leaders that the nature of this crisis is such that Wisconsin risks losing producers if action is delayed. We will be prepared to make these guarantees available to hog farmers on the same day the Joint Committee on Finance approves the emergency eligibility criteria.

Should you have any questions or concerns, please feel free to contact me at 266-2893 or James Langdon, WHEDA Executive Assistant, at 266-3529. Mr. Langdon and I will represent WHEDA at the 13.10 hearing.

Thank you for your consideration.

Sincerely,



Fritz Ruff  
Executive Director

Attachments

cc: Mr. Dan Caucutt, Department of Administration



EXECUTIVE ORDER NO. 359

Relating to a Finding of a Pork Producing Industry Emergency Situation

WHEREAS, the pork producing industry is of great importance to the Wisconsin economy; and

WHEREAS, many members of the Wisconsin pork producing industry are suffering major losses due to low prices resulting from a national hog market crises; and

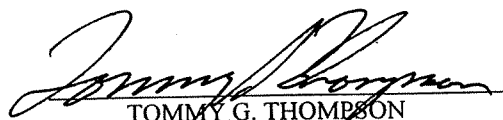
WHEREAS, there is great risk that many members of the Wisconsin pork producing industry will be forced out of business unless adequate debt options are made available;

WHEREAS, the criteria under sections 234.90(2) to (3g) of the Wisconsin Statutes does not allow the Wisconsin Housing and Economic Development Authority to provide the loans now needed by members of the Wisconsin pork producing industry;

NOW, THEREFORE, I, TOMMY G. THOMPSON, Governor of the State of Wisconsin, by the authority vested in me by the Constitution and the laws of this State, and specifically by section 234.90(3j) of the Wisconsin Statutes, do hereby:

- (1) Determine that an emergency situation exists in the Wisconsin pork producing industry.
- (2) Find that the criteria under sections 234.90(2) to (3g) of the Wisconsin Statutes prevent the Wisconsin Housing and Economic Development Authority from responding to this emergency situation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the Great Seal of the State of Wisconsin to be affixed. Done at the Capitol in the City of Madison this thirteenth day of January in the year one thousand nine hundred and ninety-nine.

  
TOMMY G. THOMPSON  
Governor

By the Governor:

\_\_\_\_\_  
DOUGLAS LA FOLLETTE  
Secretary of State

## Attachment 2

### Hog Production Emergency Loan Guarantee Criteria\*

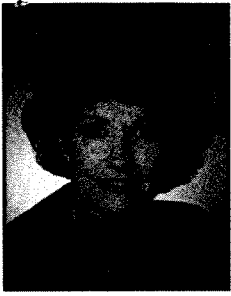
**ELIGIBLE LOANS** A hog production emergency loan made by a participating lender is eligible for guarantee of collection from the Wisconsin development reserve fund under s. 234.93 if all of the following apply:

- (a) The loan is to finance production of a swine commodity.
- (b) The total outstanding principal amount of all loans to the borrower that are guaranteed under this section will not exceed \$50,000.
- (c) The rate of interest on the loan, including any origination fees or other charges relating to the loan, does not exceed a rate determined by the authority after considering the conditions of the financial market.
- (d) The participating lender shall pay directly any supplier of fertilizer, seed, fuel, pesticides, tillage services, crop insurance, animal feed or other service or consumable good necessary to produce a swine commodity, if the borrower obtains the loan to pay that supplier.
- (e) The participating lender obtains a security interest for repayment of the loan in the swine commodity resulting from use of the loan proceeds or other assets.
- (f) Unless waived by the authority, the borrower procures an insurance policy which protects the swine commodity to be financed with the proceeds of the loan against risk of loss, and the proceeds of which are payable to the participating lender.
- (g) The term of the loan does not extend beyond three years after the date on which the lender disburses the loan.
- (h) The proceeds of the loan may not be applied to the outstanding balance of any other loan.
- (i) The borrower applies for the loan on or before July 31, 1999.
- (j) The total outstanding principal amount of all loans which the authority may guarantee may not exceed \$5,000,000.

**ELIGIBLE FARMERS** A farmer is eligible for a guaranteed loan if all of the following apply:

- (a) The farmer does not meet the participating lender's minimum standards of creditworthiness to receive an agricultural production loan in the normal course of the participating lender's business.
- (b) The amount of the farmer's debts totals at least 40% of the amount of the farmer's assets.
- (c) In the judgment of the participating lender, it is reasonably likely that if the farmer receives a guaranteed loan the farmer's assets, cash flow and managerial ability are sufficient to preclude voluntary or involuntary liquidation within the term of the loan.
- (d) The authority has not received a certification under s. 49.855 (7) that the farmer is delinquent in making child support or maintenance payments or owes past support, medical expenses or birth expenses.

\*Criteria based upon s. 234.90(2) to (3g), Wisconsin Statutes



# Alice Clausing

WISCONSIN STATE SENATOR



December 18, 1998

Dan Glickman, Secretary  
U.S. Department of Agriculture  
1400 Independence Ave., S.W.  
Washington, D.C. 20250

Dear Secretary Glickman:

I am concerned about the difficult economic times Wisconsin pork producers are currently facing.

I would like to thank you for accelerating USDA purchase of pork products and for including pork in federal export packages. Decisive federal government action should provide assistance to producers as well as encourage others in the pork industry to move more pork through the marketing system.

Despite USDA's aggressive actions, hog prices are now 60% to 70% below last year's levels, and hog farmers may continue to receive record low prices. When producers need at least 40 to 45 cents per pound to cover their cost of production, prices as low as 10 to 14 cents a pound put small and medium-sized hog farms out of business. Pork producers have seen their share in retail prices decline from 44% in the 1980s to about 30% this year.

I recently attended a legislative hearing in Wisconsin on the crisis in the pork industry. Comments at the hearing emphasized that somewhere between the farm gate and the grocery store huge financial windfalls are being reaped. A major concern at the hearing purported that the market power of the processing industry allows it to extract excess profit.

I understand you are convening a meeting with meat packers and processors on December 21<sup>st</sup>. I encourage you to discuss the importance small hog producers play in the industry and how continued low prices will drive out many family farmers. If the situation can not be resolved at that level, I request that you conduct an investigation of possible predatory pricing practices that may be a cause of the decline of our nation's pork industry.

In addition, I urge you to investigate the impacts of large, corporate hog farms on the smaller, independent sustainable producers. Studies have shown that small to medium-sized hog farms can achieve low production costs and high efficiency without large numbers of animals.

Finally, many of the hog farmers I represent have smaller operations and are not as likely to forward contract with packers. This means they are forced to accept the going market price. However, larger producers forward contract for higher prices. What can be done to give the smaller, independent producer an equal chance at a fair price for their product?

Due to circumstances beyond their control, Wisconsin's independent pork producers face a grave situation. I urge you and your department to take immediate action and investigate these and all other options to save our family hog farming operations from bankruptcy or corporate control.



Thank you in advance for your consideration of this matter and for your continued assistance.

Sincerely,

A handwritten signature in cursive script that reads "Alice Clausing".

ALICE CLAUSING

State Senator

10<sup>th</sup> Senate District

cc: U.S. Senator Herb Kohl  
U.S. Senator Russ Feingold  
Congressman Dave Obey  
Congressman Ron Kind

AC/tr



**DEWITT  
ROSS & STEVENS<sub>sc</sub>**  
LAW FIRM

**MEMORANDUM**

**To:** Senator Brian Burke  
Representative John Gard  
Representative Al Ott

**From:** Ron Kuehn

**Date:** January 19, 1999

**Re:** Wisconsin Pork Producers Association—WHEDA Emergency Loan Program—The Need for a 1310 Hearing

I thought a few facts regarding the size of hog operations in Wisconsin would be helpful to you in making your decision as to whether to proceed as expeditiously as possible to make emergency WHEDA funds available to pork producers. Enclosed you will find a single page highlighted to illustrate the size of Wisconsin's pork operations. You will note that over 70% of Wisconsin's hog farmers have less than 99 hogs. Another 21% have under 500 hogs and less than 7% of Wisconsin hog farmers have more than 1000 hogs. Therefore, Wisconsin's pork industry is dominated, by any standard you would care to choose, by small farmers.

It is the Wisconsin Pork Producers Association's sincerest hope that:

1. you move as expeditiously as possible to make the emergency WHEDA loan funds available to hog farmers in this state; and
2. you don't make the mistake that the federal government made of limiting these emergency funds to farmers having 1000 head of animals or less.

In a good year (which this most certainly is not) a hog farmer would make about \$17 per hog of profit on his operation. Therefore, a pork producer with 1000 market hogs would, in the good year, net about \$17,000 in income. Obviously that isn't a very good living. In a good year, you would have to work daily with at least 2000 hogs if you aspired to earn \$34,000. Because the hog market has been so bad in the last couple of years, Wisconsin pork producers who have 2000 or more hogs now represent about 1% of the total population.

Please act promptly and hold a 1310 hearing so that these funds can be made available to all of Wisconsin's pork producers.

Attachment

### Numbr of Pig Operations by Inventory Size Groups (1997)

State	1 - 99	100 - 499	500 - 999	1,000 - 1,900	2,000 - 4,999	5,000 +	Total
Arkansas	1900	240	60	90	70	40	2400
Gerogia	2100	450	120	60	40	30	2800
Illinois	2600	2600	1200	660	340	100	7500
Indiana	2900	2400	800	500	300	100	7000
Iowa	4500	6800	3500	2000	980	220	18000
Kansas	2300	750	360	90	70	30	3600
Kentucky	950	270	170	60	35	15	1500
Michigan	2800	820	180	150	120	30	4100
Minnesota	4900	3100	1400	850	400	150	10800
Missouri	2600	1900	530	260	160	50	5500
Nebraska	2300	2900	1100	470	170	60	7000
North Carolina	3700	280	180	340	820	480	5800
Ohio	6500	1700	490	200	90	20	9000
Oklahoma	2600	50	40	20	80	10	2800
Pennsylvania	3400	600	200	160	115	25	4500
South Dakota	950	1200	400	150	60	40	2800
Wisconsin	3100	930	210	110	40	10	4400
Other States	34800	3000	730	420	130	110	39190
<b>U.S.</b>	<b>84900</b>	<b>29900</b>	<b>11670</b>	<b>6590</b>	<b>4020</b>	<b>1520</b>	<b>138600</b>

### Percent of Pig Operations by Inventory Size Groups (1997)

State	1 - 99	100 - 499	500 - 999	1,000 - 1,900	2,000 - 4,999	5,000 +	Total
Arkansas	79.17	10.00	2.50	3.75	2.92	1.67	100.00
Gerogia	75.00	16.07	4.29	2.14	1.43	1.07	100.00
Illinois	34.67	34.67	16.00	8.80	4.53	1.33	100.00
Indiana	41.43	34.29	11.43	7.14	4.29	1.43	100.00
Iowa	25.00	37.78	19.44	11.11	5.44	1.22	100.00
Kansas	63.89	20.83	10.00	2.50	1.94	0.83	100.00
Kentucky	63.33	18.00	11.33	4.00	2.33	1.00	100.00
Michigan	68.29	20.00	4.39	3.66	2.93	0.73	100.00
Minnesota	45.37	28.70	12.96	7.87	3.70	1.39	100.00
Missouri	47.27	34.55	9.64	4.73	2.91	0.91	100.00
Nebraska	32.86	41.43	15.71	6.71	2.43	0.86	100.00
North Carolina	63.79	4.83	3.10	5.86	14.14	8.28	100.00
Ohio	72.22	18.89	5.44	2.22	1.00	0.22	100.00
Oklahoma	92.86	1.79	1.43	0.71	2.86	0.36	100.00
Pennsylvania	75.56	13.33	4.44	3.56	2.56	0.56	100.00
South Dakota	33.93	42.86	14.29	5.36	2.14	1.43	100.00
Wisconsin	70.45	21.14	4.77	2.50	0.91	0.23	100.00
Other States	88.80	7.66	1.86	1.07	0.33	0.28	100.00
<b>U.S.</b>	<b>61.26</b>	<b>21.57</b>	<b>8.42</b>	<b>4.75</b>	<b>2.90</b>	<b>1.10</b>	<b>100.00</b>

Source: USDA Hogs and Pigs Report, December 1997



# STATE OF WISCONSIN

SENATE CHAIR  
**BRIAN BURKE**

Room 316 South, State Capitol  
P.O. Box 7882  
Madison, WI 53702  
Phone: 266-8535



ASSEMBLY CHAIR  
**JOHN GARD**

315 North, State Capitol  
P.O. Box 8952  
Madison, WI 53708-8952  
Phone: 266-2343

## JOINT COMMITTEE ON FINANCE

TO: Members  
Joint Committee on Finance

FROM: Senator Brian Burke, Senate Chair  
Representative John Gard, Assembly Chair  
Joint Committee on Finance

DATE: January 20, 1999

RE: Request of the Wisconsin Housing and Economic Development Authority

On Thursday, January 21, 1999, the Joint Committee on Finance will meet at 2:00 p.m. in the Ground Floor Hearing Room of 119 Martin Luther King, Jr. Blvd., to consider a request of the Wisconsin Housing and Economic Development Authority for approval of emergency eligibility criteria under the CROP program in response to the hog market crisis.

Attached is a copy of WHEDA's request and an executive order of the Governor relating to the request.

Prior to the meeting, the Legislative Fiscal Bureau will distribute a paper on the request to your offices.

BB/JG/js  
Attachments



**WISCONSIN  
HOUSING AND  
ECONOMIC  
DEVELOPMENT  
AUTHORITY**

Tommy G. Thompson  
Governor

Edwin J. Zagzebski  
Chairman

Fritz Ruf  
Executive Director

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WHEDA supports equal  
housing opportunities for  
all persons



January 14, 1999

Honorable Brian Burke  
Room LL1, 119 Martin Luther King Jr. Blvd.  
Madison 53707-7882

Honorable John Gard  
Room 315 North, State Capitol  
Madison 53708-8952

Mr. Robert Lang, Director  
Legislative Fiscal Bureau  
One East Main Street, Suite 301  
Madison, Wisconsin 53703

Re: Action Under s. 13.10 in Response to the Hog Market Crisis

Dear Senator Burke, Representative Gard and Director Lang:

WHEDA respectfully asks the Joint Committee on Finance to review and approve emergency eligibility criteria under the CROP Program in response to the hog market crisis. This request is made pursuant to s. 13.10 and s. 234.90(3j) of the Wisconsin Statutes, and Executive Order 359 dated January 13, 1999 (Attachment 1).

### BACKGROUND

American hog farmers are in the midst of a market crisis. According to the National Pork Producers Council:

"What we really have confronting us is a case of hog supplies exceeding U.S. packing plant slaughter capacity. That has created the massive bottleneck at the nation's packing plants and driven live hog prices down to disastrous levels."

Hog farmers across the nation and in Wisconsin are suffering huge losses that may drive many from the industry. Industry experts believe that emergency measures taken now can help pork producers survive:

"The recent low hog prices have generated the largest losses in history during December. The red ink that started in November 1997 is expected to end in mid-summer 1999. The liquidation that is occurring will result in higher hog prices particularly in 2000. However, many of the surviving producers will need to restructure the accumulated short-term debt over a longer period of time and their cost of production will increase. Loan guarantees or interest buy-downs will be helpful (and possibly necessary) for survival of many independent pork producers."

John D. Lawrence, Associate Professor  
Iowa State University  
Testimony to the Democratic Hearing on the  
Crisis in the American Livestock Sector  
January 5, 1999

## **SUMMARY OF PROPOSED EMERGENCY PROGRAM**

In December, Governor Thompson directed WHEDA to examine ways in which our financing programs could be used to help Wisconsin pork producers. Our review resulted in a proposed emergency loan guarantee program that would require no additional state money and no statutory changes.

The basis of the emergency program is a modification to the CROP guarantee program. CROP provides 90 percent guarantees on loans made by Wisconsin lenders. The program has been available since 1985. The standard CROP Program would continue to be available to the general agricultural community while the emergency criteria are in effect.

Sec. 234.90 (3j) authorizes WHEDA to develop emergency eligibility criteria under CROP as follows:

(3j) **EMERGENCY ELIGIBILITY CRITERIA.** The authority may guarantee a loan to a farmer using eligibility criteria determined by the authority that differ from the criteria under subs. (2) to (3g) if all of the following apply:

(a) The governor has determined that an emergency situation exists and that the criteria under subs. (2) to (3g) prevent the authority from making an adequate response to the emergency situation.

(b) The authority has submitted to the joint committee on finance for review under s. 13.10 the emergency eligibility criteria that it proposes to use, and the joint committee on finance has approved the use of the criteria for the emergency situation.

The emergency criteria we propose is summarized in the following points. The specific criteria are included in Attachment 2.

- Targeted to hog producers (CROP is available to all farmers).
- The maximum loan limit would be \$50,000 including other CROP loans (CROP is \$20,000).
- The loan term would require repayment within three years (CROP is one year).
- The borrower must apply for the guarantee before July 31, 1999 (CROP is ongoing).
- The emergency program guarantees could total no more than \$5,000,000 and would be available on a first-come, first-served basis (CROP is \$30,000,000).

Like CROP, this program will be supported by the Wisconsin Development Reserve Fund (WDRF). No additional resources are needed for the emergency program. Our analysis indicates that \$5,000,000 of guarantee authority is available within CROP for this purpose. Guarantee authority under other WDRF programs will not be affected by implementing this emergency program.

The proposed emergency criteria were developed in consultation with and are endorsed by:

- Department of Agriculture, Trade and Consumer Protection
- Wisconsin Pork Producers
- WHEDA agriculture lenders
- University of Wisconsin-Extension

Letter to Senator Burke, Representative Gard and Director Lang  
January 14, 1999  
Page Three

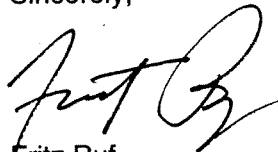
**URGENT ACTION REQUESTED**

We respectfully ask that this request be taken up at the earliest practical time. We understand that the next normally scheduled 13.10 meeting will convene in March. However, we are advised by legislative and industry leaders that the nature of this crisis is such that Wisconsin risks losing producers if action is delayed. We will be prepared to make these guarantees available to hog farmers on the same day the Joint Committee on Finance approves the emergency eligibility criteria.

Should you have any questions or concerns, please feel free to contact me at 266-2893 or James Langdon, WHEDA Executive Assistant, at 266-3529. Mr. Langdon and I will represent WHEDA at the 13.10 hearing.

Thank you for your consideration.

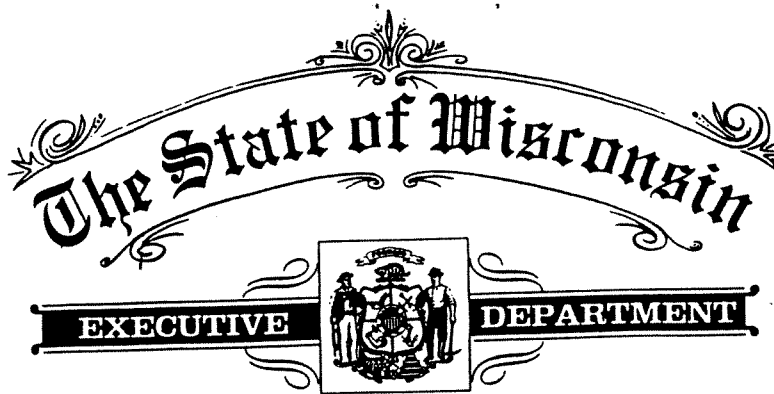
Sincerely,



Fritz Ruf  
Executive Director

Attachments

cc: Mr. Dan Caucutt, Department of Administration



EXECUTIVE ORDER NO. 359

Relating to a Finding of a Pork Producing Industry Emergency Situation

WHEREAS, the pork producing industry is of great importance to the Wisconsin economy; and

WHEREAS, many members of the Wisconsin pork producing industry are suffering major losses due to low prices resulting from a national hog market crises; and


WHEREAS, there is great risk that many members of the Wisconsin pork producing industry will be forced out of business unless adequate debt options are made available;

WHEREAS, the criteria under sections 234.90(2) to (3g) of the Wisconsin Statutes does not allow the Wisconsin Housing and Economic Development Authority to provide the loans now needed by members of the Wisconsin pork producing industry;

NOW, THEREFORE, I, TOMMY G. THOMPSON, Governor of the State of Wisconsin, by the authority vested in me by the Constitution and the laws of this State, and specifically by section 234.90(3j) of the Wisconsin Statutes, do hereby:

- (1) Determine that an emergency situation exists in the Wisconsin pork producing industry.
- (2) Find that the criteria under sections 234.90(2) to (3g) of the Wisconsin Statutes prevent the Wisconsin Housing and Economic Development Authority from responding to this emergency situation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the Great Seal of the State of Wisconsin to be affixed. Done at the Capitol in the City of Madison this thirteenth day of January in the year one thousand nine hundred and ninety-nine.

  
TOMMY G. THOMPSON  
Governor

By the Governor:

\_\_\_\_\_  
DOUGLAS LA FOLLETTE  
Secretary of State

## Attachment 2

### Hog Production Emergency Loan Guarantee Criteria\*

**ELIGIBLE LOANS** A hog production emergency loan made by a participating lender is eligible for guarantee of collection from the Wisconsin development reserve fund under s. 234.93 if all of the following apply:

- (a) The loan is to finance production of a swine commodity.
- (b) The total outstanding principal amount of all loans to the borrower that are guaranteed under this section will not exceed \$50,000.
- (c) The rate of interest on the loan, including any origination fees or other charges relating to the loan, does not exceed a rate determined by the authority after considering the conditions of the financial market.
- (d) The participating lender shall pay directly any supplier of fertilizer, seed, fuel, pesticides, tillage services, crop insurance, animal feed or other service or consumable good necessary to produce a swine commodity, if the borrower obtains the loan to pay that supplier.
- (e) The participating lender obtains a security interest for repayment of the loan in the swine commodity resulting from use of the loan proceeds or other assets.
- (f) Unless waived by the authority, the borrower procures an insurance policy which protects the swine commodity to be financed with the proceeds of the loan against risk of loss, and the proceeds of which are payable to the participating lender.
- (g) The term of the loan does not extend beyond three years after the date on which the lender disburses the loan.
- (h) The proceeds of the loan may not be applied to the outstanding balance of any other loan.
- (i) The borrower applies for the loan on or before July 31, 1999.
- (j) The total outstanding principal amount of all loans which the authority may guarantee may not exceed \$5,000,000.

**ELIGIBLE FARMERS** A farmer is eligible for a guaranteed loan if all of the following apply:

- (a) The farmer does not meet the participating lender's minimum standards of creditworthiness to receive an agricultural production loan in the normal course of the participating lender's business.
- (b) The amount of the farmer's debts totals at least 40% of the amount of the farmer's assets.
- (c) In the judgment of the participating lender, it is reasonably likely that if the farmer receives a guaranteed loan the farmer's assets, cash flow and managerial ability are sufficient to preclude voluntary or involuntary liquidation within the term of the loan.
- (d) The authority has not received a certification under s. 49.855 (7) that the farmer is delinquent in making child support or maintenance payments or owes past support, medical expenses or birth expenses.

\*Criteria based upon s. 234.90(2) to (3g), Wisconsin Statutes



# Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

January 20, 1999

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Paper for the Committee's January 21, Section 13.10 Meeting

Attached is a paper, prepared by this office, regarding a request of the Wisconsin Housing and Economic Development Authority for approval of emergency eligibility criteria under the CROP program in response to the hog market crisis. This item has been scheduled for the Committee's January 21, meeting under s. 13.10.

The meeting is scheduled for 2:00 p.m. in the Ground Floor Hearing Room of 119 Martin Luther King, Jr. Blvd.

BL/lah  
Attachment

MO#	MEMBER	STATUS	ATTENDANCE
2	BURKE	Y	A
	DECKER	Y	A
	JAUH	Y	A
	MOORE	Y	A
	SHIBILSKI	Y	A
	PLACHE	Y	A
	COWLES	Y	A
	PANZER	Y	A
	GARD	Y	A
	OURADA	Y	A
	PORTER	Y	A
	ALBERS	Y	A
	KAUFERT	Y	A
	DUFF	Y	A
	HUBER	Y	A
	RILEY	Y	A
	AVE	15	1
	NO	0	
	ABS	1	



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

January 20, 1999

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: WHEDA – Emergency Eligibility Criteria for CROP Loan Guarantees for Pork Producers

### REQUEST

The Wisconsin Housing and Economic Development Authority requests approval of emergency eligibility criteria under the CROP Program in response to the low price producers are receiving for their hogs. The criteria include: (a) a maximum loan limit of \$50,000 for hog producers; (b) loan repayment within three years; (c) an application deadline of July 31, 1999; and (d) emergency program loans totaling no more than \$5,000,000.

### BACKGROUND

WHEDA was provided \$11 million GPR in 1984-85 to guarantee agricultural production loans to Wisconsin farmers. This program is commonly known as the credit relief outreach program, or CROP. Loans under the program are used to purchase services or consumable goods necessary to produce an agricultural commodity. Under the program, WHEDA guarantees 90% of each qualifying agricultural production loan made by a participating lender to an eligible borrower. The maximum interest rate allowed on a CROP loan is determined annually by WHEDA (9.5% in 1998). WHEDA also charges a \$150 application fee on CROP loans with revenue being deposited to the Wisconsin Development Reserve Fund (WDRF).

To be eligible, a farmer must meet four eligibility conditions: (1) the farmer does not meet the participating lender's minimum standards of creditworthiness to receive an agricultural production loan in the normal course of the lender's business; (2) the amount of the farmer's debts totals at least 40% of the amount of the farmer's assets; (3) in the judgement of the lender, it is



reasonably likely that if the farmer receives a guaranteed loan, the farmer's assets, cash flow and managerial ability are sufficient to preclude voluntary or involuntary liquidation before April 1 of the next calendar year; and (4) WHEDA has not received a certification from the Department of Health and Family Services that the farmer is delinquent in making child support or maintenance payments.

Also, a borrower may not have outstanding CROP loans totaling more than \$20,000 at any one time. The term of a CROP loan may not extend beyond March 31 of the next calendar year except, at the lender's option, the term may be extended up to three months to no later than June 30. In addition, the proceeds of a CROP loan may not be applied to the outstanding balance of any other loan, except that the proceeds may be used twice to refinance a previously received CROP loan. Further, the lender must obtain a security interest for repayment of the loan in the agricultural commodity resulting from the loan proceeds. Finally, unless waived by WHEDA, the borrower must obtain insurance to protect the agricultural commodity against risk of loss and the proceeds must be payable to the lender. This insurance provision has been interpreted to require hail insurance, but not drought insurance.

Originally, CROP was intended to be a one-year program to assist eligible farmers in obtaining capital to continue their operations at a time when the farm economy of the state (and nation) was in economic difficulty. The program was subsequently extended several times. 1995 Act 5 eliminated the sunset provision, making it a permanent guaranteed loan program. The maximum amount of CROP loans (including Farm Asset Reinvestment Loan Guarantees or FARM) that may be guaranteed under the program at any one time is \$30,000,000. Through June 30, 1998, WHEDA had outstanding 1998 guarantees totaling \$14,304,442. Since the program's inception in 1985, over 22,000 loans for a total of \$300 million have been guaranteed. Less than 2% of these borrowers have defaulted.

WHEDA also has authority to make CROP loans subject to emergency eligibility criteria. WHEDA may guarantee a loan to a farmer, who is otherwise ineligible, if the Governor has determined that an emergency situation exists and the existing eligibility criteria prohibit WHEDA from making an adequate response to the emergency situation. However, WHEDA must submit the emergency criteria to be used in making such a loan to the Joint Committee on Finance for review and approval under s. 13.10. It should be noted that unlike other CROP loans, the level of loan principal for which WHEDA may guarantee repayment for emergency guaranteed loans is not specified. On January 14, 1999, WHEDA submitted to the Committee Co-chairs, hog production emergency loan guarantee criteria with a statement from the Governor declaring such an emergency situation existed.

CROP loans are guaranteed by the Wisconsin Development Reserve Fund (WDRF). The WDRF was created in 1991 through the consolidation into a single fund of several existing guarantee funds, including the CROP fund. The consolidated WDRF now backs guaranteed loans made by private lenders under separate programs, reserving funds to repay lenders for any losses from defaulted loans made under any of these guaranteed programs. The WDRF also funds the administrative costs of the loan guarantee programs.

The total principal amount of loans that can be guaranteed by WHEDA under its existing loan guarantee programs is \$84.1 million, while the allowable guarantee authority on those loans equals \$71.6 million. As of July 1, 1998, approximately \$36 million in loan guarantees were outstanding under WHEDA's guaranteed loan programs, leaving \$35.6 million in guarantee authority remaining.

The consolidated reserves available in the WDRF totaled \$16.5 million on July 1, 1998, as reported to the Joint Committee on Finance in the WDRF annual report. These reserves are primarily maintained to repay the lender in case of loan defaults. The ratio of authorized guarantee amount to reserves amount is referred to as WDRF's leverage factor. 1997 Act 27 increased the leverage factor from 4:1 to 4.5:1 for most guarantee programs backed by the fund. This means the WDRF would have at least one dollar in reserve for every \$4.50 in available guarantee authority. On July 1, 1998, the actual leverage factor was 4.3:1 for available guarantee authority. Further, based on actual loan guarantee activity through June 1998, WHEDA has a 2.2:1 ratio. That is, for every \$2.20 in outstanding loans actually guaranteed, the WDRF had one dollar in reserve.

The Legislative Audit Bureau reported in a December, 1997, evaluation that the WDRF steadily declined from \$21.1 million on June 30, 1992, to \$12.9 million on June 30, 1997, with annual deficits ranging from \$700,000 to \$1.9 million. After the Legislature appropriated an additional \$4 million in the 1997 budget act, the WDRF increased to \$16.5 million in 1998. The LAB audit further estimated that under current conditions, the WDRF balance would be depleted before 2010. Further, if the economy deteriorates or a \$7.6 million WHEDA loan to the Taliesin Preservation Commission defaults, restrictions on the WDRF's guarantee authority would begin much sooner.

Annually, on June 30, WHEDA is required to transfer to the state's general fund any balance in the WDRF which remains after deducting; (a) amounts sufficient to pay outstanding claims; and (b) a reserve amount sufficient to maintain the required leverage factor (generally 4.5:1) of total principal guarantee authority to reserve fund balance under each loan program backed by the fund. No balances have been transferred in recent years.

Hog prices for producers have dropped from a 1997 national average of \$59/hundredweight to December, 1998, prices as low as \$10/hundredweight. A bottleneck at slaughter plants has received much of the blame for the price drop. In the past two years, four U.S. plants, three of which are in the Midwest, closed, decreasing slaughter capacity by 35,000 head per day or about 8%. Meanwhile, U.S. hog production increased by 10% from 1997. Further, imports of live Canadian hogs increased 37% in 1998, due to a weak Canadian dollar, among other things. A December, 1998, labor strike at an Ontario meat plant exacerbated the situation.

In 1997, approximately 3,900 Wisconsin operations had 730,000 hogs, accounting for 1.2% of U.S. production. Hog production has been dropping by approximately 100,000 head annually for the past five years, and the 730,000 hogs in 1997 marks the lowest production for the state since estimates began in 1924. Wisconsin producers received an average of \$51/hundredweight in 1997 for their hogs compared with an average of \$31/hundredweight in 1998, as shown in Table 1. USDA reports Wisconsin prices of \$28-\$30/hundredweight on January 15, 1999. In 1997, 350,500

hogs were slaughtered in Wisconsin. As of January, 1998, Wisconsin's hogs were valued at \$61.3 million.

**TABLE 1**

**Wisconsin Hog Prices (per hundredweight) by Month, 1992-1998**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
January	\$37.17	\$41.03	\$43.48	\$37.16	\$41.99	\$52.65	\$34.53
February	40.34	43.54	47.53	38.73	45.51	50.73	34.35
March	38.82	45.92	43.78	36.98	47.89	47.56	33.70
April	41.34	44.85	42.01	34.96	49.15	53.44	33.99
May	45.44	46.49	42.13	36.44	57.03	57.01	41.63
June	47.65	47.94	42.48	42.65	55.26	56.96	41.58
July	44.75	45.83	42.13	46.55	58.22	58.30	35.74
August	44.54	48.05	41.79	48.63	58.83	54.66	34.10
September	41.52	48.18	34.71	47.73	53.70	49.67	28.52
October	41.88	46.80	31.32	44.47	54.55	46.07	26.83
November	41.01	42.48	27.58	38.99	53.60	44.11	16.51
December	41.68	40.17	31.11	43.10	54.46	39.71	12.79
Average	\$42.18	\$45.17	\$39.18	\$41.39	\$52.57	\$51.02	\$31.32

Wisconsin's hog producers are concentrated in the southcentral, southwestern and westcentral portions of the state. According to USDA data, the majority of Wisconsin's 3,300 pork producers in 1998 were smaller operations (over 60% with fewer than 100 hogs). Operations with over 1,000 head represent less than 5% of hog operations, but have 44% of all hogs, as shown in Table 2.

**TABLE 2**

**Wisconsin Head of Hogs and Pigs: By Size Group**

	<u>Operations with number of head</u>					<u>Inventory on operations with number of head</u>				
	<u>1-99</u>	<u>100-499</u>	<u>500-999</u>	<u>1,000-1,999</u>	<u>2,000+</u>	<u>1-99</u>	<u>100-499</u>	<u>500-999</u>	<u>1,000-1,999</u>	<u>2,000+</u>
	<u>Number</u>					<u>Percent</u>				
1993	5,500	2,300	430	120	50	10%	38%	23%	14%	15%
1994	5,000	2,000	420	130	50	10	34	24	16	16
1995	4,200	1,500	310	140	50	10	31	21	19	19
1996	3,300	1,000	220	130	50	9	28	18	21	24
1997	2,600	890	230	120	60	8	27	21	20	24
1998	2,100	870	180	95	55	7	28	21	19	25

## ANALYSIS

The emergency loan guarantee criteria proposed by WHEDA for hog farmers differ from the CROP program in numerous ways. The emergency loan is only to finance production of a swine commodity and the maximum outstanding guarantee amount is \$50,000 rather than the \$20,000 under CROP. Also, the loan term is up to three years for the emergency loan (versus one-year for CROP) and there is an application deadline of July 31, 1999. In addition, emergency loans may not be applied to the outstanding balance of any other loan or to refinance an existing CROP loan. Assets in addition to the hogs produced may be required to secure emergency loans. The farmer eligibility requirements are substantially the same.

The total outstanding principal amount of loans under the emergency program could not exceed \$5 million. Therefore, at a maximum 90% level, WHEDA could guarantee up to \$4.5 million in loans, with \$1 million required in the WDRF to back the guarantees at the statutory ratio of \$1 in reserve for each \$4.50 in guaranteed principal. As a result, if the emergency program were fully utilized, the effect would be to reduce the available limit on standard CROP and FARM loans to a total of \$25 million or to reduce reserves available for other WHEDA loan guarantees by up to \$1 million. As of July 1, 1998, the WDRF had a balance of \$16.5 million with outstanding loan guarantees of \$36 million (a ratio of approximately 2.2 to 1). Authorized loan guarantees currently total \$71.6 million as shown in Table 3 for a ratio of 4.3 to 1 (within the generally required 4.5 to 1 ratio). Therefore, it would appear that sufficient funding currently exists within the WDRF to back the emergency loans to pork producers.

**TABLE 3**

### Guarantee and Loan Authority Under WHEDA's Guaranteed Loan Programs

	Maximum Guaranteed Amount of Loans	Maximum Principal Amount of Loans
CROP/FARM	\$27,000,000	\$30,000,000
Brownfields	22,500,000	28,125,000
Small Business	9,900,000	12,375,000
Taliesin	7,200,000	8,000,000
Agribusiness	<u>5,000,000</u>	<u>5,555,600</u>
Total	\$71,600,000	\$84,055,600

A direct guaranteed loan to a nonprofit organization that owns or leases cultural and architectural landmark property was authorized in 1991 Wisconsin Act 39. In October, 1993, a loan of \$8,000,000 was made under this program. To date over \$7.6 million has been disbursed to the Taliesin Preservation Commission through the proceeds of debt instruments issued by WHEDA. WHEDA and the Commission restructured the loan agreement in April, 1997, to: (a) eliminate interest on the loan, (b) defer payment of \$6.5 million in principal until January, 1999 and (c) require principal payments over a 20 year period on \$1.1 million. In general, interest payments

that are forgiven are ultimately paid with WHEDA funds. To date, \$33,333 in principal has been received on the \$1.1 million loan. The \$6.5 million payment is not expected in January, 1999. Up to 90% of any default amount is covered by the WDRF with any remaining costs being paid from WHEDA operating funds. To the extent that the WDRF is needed to resolve the Taliesin loan issue, available reserves to back guarantees under other WDRF programs could be reduced. However, WHEDA stated in a November, 1998, progress report to the Joint Legislative Audit Committee that a strategy was being developed in conjunction with DOA to resolve the Taliesin loan issue without using new state tax dollars.

On January 1, 1999, WHEDA began charging a \$150 application fee for CROP loans. Loans to pork producers under the emergency criteria would be subject to this fee. The fee may be paid upon application or can be deducted from the loan proceeds. While the amount generated by the fee will be dependent upon the actual number of applications and the amount of individual loans, based on a \$5 million program and a \$50,000 maximum loan, the emergency loan program would be expected to generate approximately \$15,000 for deposit into the WDRF.

Some would argue that a state program to subsidize pork production might lead to a continued oversupply of hogs and prolong the depressed pricing. Others believe that the depressed prices to farmers are the result of inadequate slaughter facilities and note that consumer prices for pork have not reflected the decline in producer prices. They point to 1998 pork exports increasing by 18% from 1997 and retail consumer demand increasing by 7% from 1997 to 1998. Therefore, it is argued that the underlying demand for pork is stable or increasing and that producer prices will continue to rise. Further, it is argued that the extent of the price drop in late 1998 could not be foreseen and may have already eliminated many marginal farm operations. Therefore, some believe that a loan guarantee program is necessary to maintain viable family farms.

Others have raised questions whether it is appropriate for the state to potentially subsidize large hog operations that some believe are, at least in part, responsible for increased supplies and depressed prices. These large operations, it is argued, can sustain short-term losses and depressed prices more readily than smaller farms. However, given the limited number of such operations currently in Wisconsin (55 with over 2,000 head) and the maximum \$50,000 loan proposed for the program, it is less likely that the largest farms would realize substantial benefits from the program. Further, a producer is only eligible for the emergency loan if they are unable to secure conventional financing. This may further diminish the chances that a large corporate farm would be eligible for an emergency CROP loan.

Some believe the proposed program may be inadequate to meet the needs of Wisconsin pork producers in the current market. By establishing a \$50,000 maximum loan and \$5 million overall cap on the program, it is possible that as few as 100 farmers could receive loans. However, to the extent actual loan amounts are less than the \$50,000 maximum, additional producers would receive assistance. Further, it could be argued that most Wisconsin farmers have not realized losses approaching \$50,000. Many claim that roughly \$40/hundredweight is a break-even price. Based on the December, 1998, average market price, a producer who sold a 250-pound hog would lose approximately \$68. Even at the severely depressed December price, a producer would need to be

selling over 735 hogs to sustain a loss of \$50,000. It could be argued that by lowering the maximum loan amount, more farms could be assisted. For example, if the loan maximum were reduced by one-half to \$25,000, at least 200 pork producers could receive guaranteed loans. Further, such a reduction would tend to more narrowly focus the program on small- to medium-sized hog farms or diversified farm operations.

Another alternative to help ensure that the largest farm operations are not competing with smaller operators for funding would be to exclude certain operations from eligibility. Large livestock operations (those with over 1,000 animal units which equals 700 dairy cows or 2,500 hogs), and certain smaller operations where water pollution problems persist, must obtain a water pollution discharge elimination system (WPDES) permit from DNR. Approximately 70 farms (including about 10 swine operations) are currently permitted. The largest hog and diversified farm operations in the state could be excluded from eligibility by specifying that farm operators who are required to hold a WPDES permit are ineligible.

The WHEDA request indicates that the proposed \$50,000 per farm maximum for an emergency loan would include any outstanding CROP loans. However the eligibility criteria submitted is not clear on whether the \$50,000 maximum applies to only the emergency loan program or includes outstanding CROP loans. If applied to all CROP loans as intended, the maximum eligible emergency loan would be reduced by the amount of outstanding CROP loans (that is, by up to \$20,000).

Also, while not specified in the emergency criteria, WHEDA officials indicate the 90% guarantee provision of the CROP program would apply to the emergency loan program. The Committee may wish to clarify the criteria by specifying the guarantee level at 90%.

## ALTERNATIVES

1. Approve the Authority's request to create a Hog Production Emergency Loan Guarantee Program clarified as follows: (a) that WHEDA may guarantee up to 90% of the principal of any hog production emergency loan; (b) that the maximum outstanding principal of loans to a borrower under the emergency program, including any outstanding CROP loans, may not exceed \$50,000.

2. Rather, than a \$50,000 loan limit under Alternative #1, establish one of the following limits:

- a. \$40,000
- b. \$30,000
- c. \$25,000

3. In addition to any of the above alternatives, specify that any livestock operation that is required to obtain a WPDES permit is ineligible for a hog production emergency loan guarantee.

4. Deny the request.

Prepared by: David Schug



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January 21, 1999

Dear Senator Brian Burke, Representative John Gard and Members of the Joint Committee on Finance:

I learned on Wednesday afternoon, January 20, that there is a meeting of the Joint Finance Committee today, January 21, at 2:00 p.m. On behalf of the Wisconsin Pork Producers' Association (WPPA), I would like to address any concerns you may have regarding eligibility requirements for the proposed Wisconsin Housing and Economic Development Authority (WHEDA) loans.

WPPA's position regarding pork production is to sustain a viable, economically feasible and environmentally sound industry in the state of Wisconsin. WPPA has provided producers with programs such as Pork Quality Assurance and Environmental Assurance to give our producers the knowledge base to achieve these goals.

Producers are individuals and each operation is slightly different. There are different overhead costs, family sizes and financial needs. Individuals must make the decision on how to run their own business. The following example gives you an idea of total swine operations categorized by number of head on inventory in Wisconsin compared to our neighboring states:

State	Number of Operations with inventory on hand as of Dec. 1, 1998 Source: USDA					
	1-99	100-499	500-999	1,000-1,999	2,000-4,999	5,000+
MI	1900	500	100	150	120	30
WI	2100	870	180	95	50	5
IL	2200	2250	1300	690	430	130
MN	2800	3000	1300	750	470	180
IA	2900	6300	4100	2450	1430	320

I think it is also important to note that Wisconsin has lost over two-thirds of their sow inventory in the last 20 years. In fact, sow numbers have decreased from 305,000 sows in 1978 to 85,000 sows in 1998 according to the USDA Hogs and Pigs Quarterly Report.

Wisconsin pork producers who make their entire living producing pigs clearly need more animal units to sustain a decent standard of living and return on their investment. Some operations provide living for more than one family i.e. father/son enterprise. Despite property taxes twice the rate of neighboring states, strict environmental standards and no major slaughter facility for market hogs, most of our state's pork producers have remained competitive.




Page - 2

Most government programs regarding agriculture have a dollar cap. We believe this is an equitable way to administer the WHEDA loans. A cap of \$50,000 for an operation of 1,000 head would equate to a loan of \$50 per pig. A cap of \$50,000 for an operation of 5,000 head would equate to a loan of \$10 per pig. Many Wisconsin producers lost between \$50 and \$75 per head during the market crisis in the fourth quarter of 1998.

I regret that I am not available to attend Thursday's meeting, but I hope this letter addresses any concerns you may have regarding the producer eligibility for this program. WHEDA's criteria addresses these concerns appropriately. If the committee has further questions of me, I will be available on Thursday by calling (608) 365 3258.

Sincerely,



John Lader  
WPPA Vice President