



HOWARD MARKLEIN

STATE SENATOR • 17TH SENATE DISTRICT

May 30, 2019

Senate Committee on Agriculture, Revenue, & Financial Institutions Testimony on Senate Bill 219

Good afternoon!

Thank you committee members for hearing Senate Bill 219 (SB 219), which creates a pilot loan guarantee program for Ag processors.

Wisconsin dairy farmers are dependent on a vibrant dairy processing infrastructure for strong prices and access to markets. For this reason, many Wisconsin dairy processors operate in rural areas because of the access to high quality milk. However, lenders are less likely to provide rural processors with capital for expansion and improvement projects because they view projects in rural Wisconsin as riskier investments.

For example, a rural cheese plant was ready to expand because the company had doubled in size over a 5-year period. However, since a factor in the appraised value of a processor is its proximity to a populous city, the appraised value of the cheese plant was about \$1 million less than it would have been had it been in an urban area. When the cheese plant went to get a loan from the bank to expand, the bank was hesitant to give them a loan because of their rural location and its perceived riskier investment. A cheese processor should not be penalized just because they are located in a rural area.

This legislation will make it easier for rural processors to secure loans to expand capacity by providing capital access. It uses \$3 million of existing authority under the Agribusiness Guarantee program. The bank will still provide the loan, but the Wisconsin Housing and Economic Development Authority (WHEDA) could provide a loan guarantee for the lesser of 25% of the loan or \$750,000. SB 219 will give banks reassurance to issue loans to our state's rural processors.

The cheese plant is one situation where this guarantee could be utilized. However, this change would apply to any business in Wisconsin that starts with a Wisconsin-grown, raw agricultural commodity and creates a product new to the business, expands production of an existing product, and/or enhances the efficiency of the business that is located in an area with a population under 50,000.

SB 219 was drafted based on a recommendation of the Dairy Task Force 2.0 and is supported by the Wisconsin Cheese Makers Association. Thank you again to the committee for hearing this proposal, and your timely action on the bill.



May 30, 2018

Chairman Marklein and Members of the Senate Committee on Agriculture, Revenue and Financial Institutions:

Thank you for the opportunity to share perspective on Senate Bill 219. I'm Rebekah Sweeney, and I serve as Communications, Education, and Policy Director for the Wisconsin Cheese Makers Association.

For more than 128 years, our organization has served as the voice of cheese and dairy manufacturers, processors, and marketers. Today, WCMA represents 105 dairy processing companies and cooperatives operating across the United States and around the world, backed by 600 companies that supply equipment and services to the industry.

While we represent a diverse membership, as our name would suggest, the largest percentage of our members operate in Wisconsin.

I'd bet that you can all recite the economic impact of dairy in Wisconsin - - it's \$44 billion.

But, I'd like to dive a bit deeper.

The impact of our members' dairy products equals more than \$2 billion in state tax revenue and \$3.84 billion in federal tax revenue. It equals more than 41,000 jobs and more than \$2 billion in wages.

The vast major of those jobs are currently in our rural communities. And that's how we'd like it to stay. Our members want to keep their businesses in Algoma, Arena, Cambria, Durand, Greenwood, Monroe, Monticello, Plain, Westby, and many more towns and villages than you have time to hear me rattle off today.

The reasons why cheesemakers and other dairy processors operate in rural communities are many. History is involved, and so is familiarity. But the biggest contributing factor is proximity to a high-quality milk supply.

The sooner that milk can make it from the farm to the vat, the better. The fact that our pipeline in Wisconsin is short is, no doubt, part of the reason our cheesemakers have been so successful, both in terms of sales and production - which reached 3.422 billion pounds in 2018 - and in terms of awards.

In the 2018 World Championship Cheese Contest, Wisconsin cheesemakers captured 147- or more than 40 percent - of all of the awards. Keep in mind, they had competition from 26 nations and 32 states.



In the 2019 U.S. Championship Cheese Contest, Wisconsin cheesemakers secured 168 total awards, including 57 out of the 116 Best of Class awards.

You could say there's something in the water, but perhaps more to the point, there's something in the milk. Wisconsin has so much going for it, in the cheese department.

Of course, there are challenges, too. Perhaps this committee is limited in terms of the impact it can have on workforce shortages or trade instability.

But, SB 219 offers an opportunity to make a positive difference.

Current lending practices favor development in urban, rather than rural, communities. A cheese plant in La Crosse or Racine could be reimaged as some other manufacturing facility. That's less likely in a small town or village.

The gap that this lending practice inhibits or – at minimum – slows growth.

This legislation mitigates the gap through the creation of a pilot program at the Wisconsin Housing and Economic Development Authority (WHEDA).

Just a bit of background information: WHEDA backs guarantees with a pooled fund that is used for several different programs, including the Agribusiness Guarantee, which has traditionally been noted for farming entities only. As of last December, the amount available in that fund was more than \$37 million.

You may also be interested to know there were no funds used for agribusiness guarantees out of the pooled fund in 2018.

Using existing funds available through the Agribusiness Guarantee Program, SB 219 would direct \$3 million in loan guarantee authority to support rural development projects, including brick-and-mortar investments, equipment and machinery, marketing and working capital.

Guarantees would back up to 25 percent of a loan, or \$750,000, whichever is less. The borrower is required to pay back the entirety of the loan, with the state commitment only coming into play in the event of a default. All borrowers would be subject rigorous vetting to participate in the program.

This concept is backed by the farmers, processors and marketers, and affiliated organizations represented on the Wisconsin Dairy Task Force 2.0. It was authored by Committee Chairman Marklein, and enjoys bipartisan support.

We hope to earn your support, as well, because we know that when cheesemakers expand their operations, they add good-paying jobs and a reliable tax base that ensure a brighter future for the small towns and villages we cherish across Wisconsin.

Thank you.



May 30, 2019

Senate Committee on Agriculture, Revenue and Financial Institutions
Testimony

Good afternoon. It is a privilege for me to have the opportunity to address you. Thank you.

My company makes cheese. In fact, our company makes world champion cheese. We are proud of our quality and attribute it to two factors. First, we feel our workforce is the best. We have great people! Second, we feel our milk is the best. We are supplied by great farmers.

Our company is almost thirty years old and almost thirty times as big as when I bought the original small cheese factories. We are located in a rural area. It is 12 miles to the nearest supermarket. Unfortunately, our area also suffers poverty.

We employ over 250 people working 24 hours a day, five or six days per week. We have helped stabilize the local housing market, grow the local economy and sponsor the Reeseville Art & Music Fest.

Our company has more than doubled in the past five years. We plan to expand our factory in 2019. Our bank believes our firm has the cash flow to support the required debt for factory expansion.

Collateral, however, is an issue.

We recently had a commercial appraisal of our factory. The appraisal looked at comparable food factories in a tri-state region to assess comparable sales in the event of orderly liquidation. The appraisal also compared rental values of such a facility in the region. Our facility suffered a discount in its appraised value because it is not located near a populous city. While we do not know the amount of the discount from the appraisal, I infer that the discount is about \$15/sq ft. Since our factory will be about 70,000 sq ft, this implies that our appraisal is lower than it would be in a more urban area by about (\$1,000,000).

To be precise, our current factory appraised at \$4.2M. The planned expansion for 2019 will cost us \$3.0M but will only increase the appraised value of the entire facility to \$5.1M.

While I have no intention of doing so, it is certainly tempting to relocate our factory to a more populous area where it would be easier for us to demonstrate collateral coverage of the loans required to expand our factory.

There are government loan guarantee programs available, but none fit our needs. We have used up our SBA 7a availability. SBA 504 is equipment focused. USDA's Business & Industry program requires that collateral exceed loan guarantee amount by a significant fraction.

Below, I have tallied the impact of our current situation. As you will see, there is a strong incentive for me to move my factory to a more populous area. Staying in rural Wisconsin means I will have to raise \$800,000 more equity!

Case Study (millions)

	<u>rural</u>	<u>populous</u>
appraised value	\$ 5.10	\$ 6.10
loans outstanding	\$ 2.90	\$ 2.90
excess of value to loan	\$ 2.20	\$ 3.20
bank loan 80% of net value	\$ 1.76	\$ 2.56
expansion cost	\$ 3.00	\$ 3.00
equity required	\$ 1.24	\$ 0.44

I believe the proposed legislation will effectively defuse the collateral issue for manufacturing firms who are tempted to build in urban areas. Thank you.

Paul Scharfman
President
Specialty Cheese Company

Date: May 30, 2019

To: Members of the Senate Committee on Agriculture, Revenue and Financial Institutions

From: Kim Plache, Deputy Director/COO Wisconsin Housing and Economic Development Authority (WHEDA)

Re: 2019 Senate Bill 219 Relating to WHEDA's Ag Loan Guarantee Program

Good Afternoon Members of the Committee,

Thank you for the opportunity to present before the Committee today. I am Kim Plache, Deputy Director and COO of the Wisconsin Housing and Economic Development Authority (WHEDA); with me is Sherry Gerondale, Chief Financial Officer of WHEDA.

It is a pleasure to appear before the Committee. I would like to thank you for your support of WHEDA – and to also thank those of you on the Committee who serve or have served on our Board of Directors. Senator Marklein is a former member and Senators Bewley and Jacque, current. Modernizing WHEDA's agricultural loan guarantee program was recommended by the Dairy Task Force 2.0's subcommittee on Access to Capital whose membership includes former WHEDA Board member, Brad Guse, who has extensive expertise in agricultural lending.

WHEDA is supporting Senate Bill 219 (SB 219), suggested by the Dairy Task Force 2.0 and introduced by Senators Marklein and Bewley; and Representatives Tauchen and Vruwink and co-sponsored by many others. This proposal enjoys support, not only from the Dairy Task Force 2.0, but also bipartisan support from the Legislature and Administration. This legislation is a wonderful example of how we can work together. It is the clear recognition of Wisconsin's vital dairy industry – its processors, producers and the connection to Wisconsin's economy and global economy.

SB 219 makes two permanent changes to WHEDA's Agricultural Loan Guarantee Development Program – it reduces the term of the eligible loan guarantee; and caps the closing fee. In addition to these two permanent changes to the Agricultural Development Loan Guarantee program as a whole, it also creates a pilot program within the program for up to \$3 million in loan guarantees which specifies a guarantee limit, creates a fixed amount guarantee throughout the life of the guarantee; and increases the amount of a working capital loan that can be guaranteed.

Ms. Gerondale, who is with me today, will speak in greater detail to these provisions and also respectfully offer two minor clarifications that would allow WHEDA to better administrate the proposal, as well as, provide start-up dairy manufacturers, processors and lenders the tools they need to utilize the program to its fullest extent.

Again, thank you for the opportunity to testify today.



WHEDA

Tony Evers, Governor

2019 WISCONSIN SENATE BILL 219 SUMMARY

2019 SB 219 makes the following two changes to statutory framework of the Agricultural Development Loan Guarantee program:

- (1) Term of Eligible Loan Reduced. It reduces the term of a loan eligible for guaranty from 15 years to "no longer than 10 years for land and buildings, 5 years for inventory, equipment, and machinery, and 2 years for permanent working capital and marketing expenses."
- (2) Caps Closing Fees. The closing fee for WHEDA's guaranty is capped at 1.5%. It is unclear if this means 1.5% of the total loan amount, or 1.5% of the portion of the loan which is guaranteed under the program. Based on a limit on origination fees provided in Sec. §234.91(4) of the Farm guaranty program, it is presumed the fee would be capped at 1.5% of the guaranteed amount. The current statute has no cap, and the closing fee is currently set at 3%.

In addition to these two changes to the Agricultural Development Loan Guarantee program as a whole, SB 219 creates a pilot program within Wis. Stat. 234.907 with the following characteristics:

- (1) Guarantee Amount Limit. The guaranteed amount of the eligible loan is the lesser of 25% of the total eligible loan or \$750,000. Under the general Agricultural Development Loan Guarantee program, WHEDA may guarantee up to 90% of the eligible loan up to a maximum of \$750,000. See §234.907(2)(c) and 234.907(2).
- (2) Guarantee Amount Constant. The dollar amount of the guarantee stays constant throughout the guarantee period, irrespective of the actual outstanding balance. Under the general Agricultural Development Loan Guarantee program, the percentage of guarantee remains constant, so the dollar amount would decrease over time as the outstanding principle of the guaranteed loan is paid down.
- (3) Increase in Working Capital eligible for guarantee. Under the general Agricultural Development Loan Guarantee program, only a maximum of \$100,000 of the guaranteed loan amount may be related to working capital. Wis. Stat/ § 234.907(2)(cm). This limitation is removed for the pilot program.
- (4) Pilot Program Set-aside. WHEDA is required to set-aside \$3,000,000 for loan guarantees under the pilot program.



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May 30, 2019

To: Senator Howard Marklein Chairman and members of the Senate Committee on
Agriculture, Revenue and Financial Institutions

From: David Ward, Director of Government Relations and Dairy
Jennifer Wickman, Director of Government Affairs

Re: Support for Senate Bill 219

Cooperative Network is a two state trade association which serves as the voice for cooperatives in Wisconsin and Minnesota. Included in our membership are dairy cooperatives which market around 80% of the milk and make close to 60% of the cheese produced in Wisconsin. Much of the processing of the 30 billion pounds of milk produced by Wisconsin's Dairy Farmers is done in rural Wisconsin.

As a participant in the Wisconsin Dairy Taskforce 2.0, Cooperative Network and others discussed a problem faced by dairy processors that are located in rural Wisconsin. When these makers of some of the best cheese in the world try to expand, many times they are hampered because the property value in rural Wisconsin will not provide enough collateral to support the loan amount.

Senate Bill 219 will allow WHEDA to modify its existing agricultural development loan guarantee program to provide a loan guarantee to cover the gap in collateral.

Please support Senate Bill 219