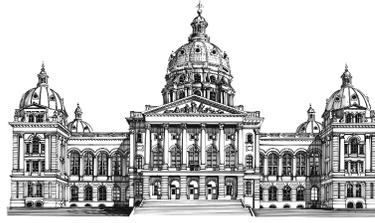


Iowa Legislative Fiscal Bureau



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Update on the Value-Added Agricultural Products and Processes Financial Assistance Program

ISSUE

Has the Program been operating as intended by the General Assembly and what have the results been?

AFFECTED AGENCIES

Department of Economic Development
Department of Agriculture and Land Stewardship

CODE AUTHORITY

Chapter 15, Code of Iowa
Chapter 159A, Code of Iowa

BACKGROUND

During the 1994 Legislative Session, the General Assembly adopted HF 2337, the Value-Added Agricultural Products and Processes Financial Assistance Program Act. The Act created the Program within the Department of Economic Development (DED) and a related Office of Renewable Fuels and Co-Products within the Department of Agriculture and Land Stewardship. Funding for the Programs totaled \$4.0 million per year from Use Tax Receipts. Of this amount, the DED is to receive \$3.6 million annually, and the Department of Agriculture and Land Stewardship is to receive \$400,000.

The General Assembly, in enacting these Programs noted that:

- The production and processing of agricultural commodities and products represents the foundation of the State's economy.
- The future economic prosperity of Iowa depends upon new innovations that improve processes and products utilizing agricultural commodities and livestock.
- Iowa's traditional investment in livestock production is an essential part of the State's continuing efforts to revitalize its rural economy, and to ensure prosperity for all of the State's population.
- It is increasingly necessary to support industries in this State which rely upon agricultural commodities to manufacture value-added products.
- Renewable fuels and co-products industries promise to utilize agricultural products to reduce the State's

dependency upon petroleum products, reduce atmospheric contamination, and produce co-products, such as corn gluten feed, distillers grain, and solubles, which can be used to increase livestock production in this State.

The purpose of the Program is to encourage increased utilization of agricultural commodities produced in Iowa. The Program assists in efforts to revitalize rural regions of the State by providing financial assistance to new or existing value-added production facilities, including renewable fuels facilities.

There are two components to the Program. These include:

- ***Innovative Agricultural Products and Processes Component:*** This component relates to operations involved in the development of new and innovative products or processes related to agriculture.
- ***Renewable Fuels Component:*** This component relates to renewable fuel production facilities with priority given to renewable fuel facilities which produce a co-product that directly supports livestock production operations.

Under both components 50.0% of the funds are reserved for projects of \$100,000 or less and no project can receive more than one quarter of the available funding for the entire Program (\$900,000). Funds restricted to smaller projects can be used for more costly projects after the end of the third quarter of each year if funds remain in those categories.

CURRENT SITUATION

The DED awarded \$4.5 million to 19 companies between November 1994 and May 1995. The awards ranged in size from \$20,000 to \$900,000. Under the Agricultural Products and Processes Component, nine projects (60.0%) have been awarded \$100,000 or less and six projects (40.0%) have been awarded more than \$100,000. Under the Renewable Fuels Component, two projects (50.0%) were awarded \$100,000 or less and two projects were awarded more than \$100,000. (See Attachment I for funding levels and brief description of each project.)

To illustrate the response to the Program's purpose of assisting in the revitalization of rural Iowa, project funding totaled:

- \$2.8 million in communities with a population less than 5,000.
- \$975,000 in communities with a population of 5,000 to 10,000.
- \$766,000 in communities with a population more than 10,000.

As of May 31, 1995, the DED had released only \$720,000 of the \$4.5 million encumbered for projects under this Program. Most of the companies have not yet requested a release of the funds, or have taken the grant portion, but not the loan portion of the award. Program staff indicate that at least one of the awards may not be drawn for two years or more, as the company (Simply Better Foods) is from Australia and is in the process of identifying an appropriate community and site for its operation.

The DED staff indicated that several companies were reluctant to sign agreements to receive the grant portion of the award, as they felt a grant should come with no strings attached. In an effort to ensure that companies do not abuse the Program, the DED has published Notice of Intent to modify the Administrative Rules for the Program to:

- Allow forgivable loans.
- Increase the percentage of loan that must be included in an award.
- Fund no more than 50.0% of the cost of any project.

A public hearing on these Administrative Rule changes will be held on June 27, 1995.

The Office of Renewable Fuels and Co-Products within the Department of Agriculture and Land Stewardship established the Rural Value-Added Mentoring Program. The Program works with individuals, companies, and cooperatives that apply for business planning assistance. The Program has contracted with the Small Business Development Center at Iowa State University to conduct initial reviews of applicants' preliminary business plans. The consultants can receive up to \$1,000 for each plan reviewed.

The Center staff submits an analysis of the plans, as well as recommendations for any additional business planning. The Office can then provide up to \$24,000 for additional mentoring assistance in the development of the business plan.

As of February 15, 1995, seven of the projects that had completed the review process had been recommended to the DED for funding, and all seven had received awards. (Note: Updated information was requested from the Department of Agriculture and Land Stewardship, but was not received in time for this *Issue Review*.)

The DED staff noted that the relationship between the Department of Agriculture and Land Stewardship and the DED had developed into a good collaborative effort.

ALTERNATIVES

The General Assembly may wish to require that funds must be drawn within two years of the award date to ensure that funds are available for projects that are ready to proceed. A company that has not drawn funding within two years may reapply.

This would avoid the problem that developed in the Community Economic Betterment Account (CEBA) Program of having funds sit idle for up to six years before a company decides not to proceed with a project. The General Assembly enacted this provision for the CEBA Program in HF 512, the Economic Development Appropriations Bill, during the FY 1995 Legislative Session.

BUDGET IMPACT

The funding for the Value-Added Agricultural Products and Process Financial Assistance Program (\$3.6 million) and the Office of Renewable Fuels and Co-Products (\$400,000) will result in an annual diversion of Use Tax Receipts of \$4.0 million annually, through FY 2000.

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