

FARM PRODUCE INSURANCE ACT AMENDMENTS

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Senate Bill 900 as enrolled
Sponsor: Sen. Joe Hune
House Committee: Agriculture
Senate Committee: Commerce
Complete to 6-10-16

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

The Farm Produce Insurance Act (Public Act 198 of 2003) established a program in which producers of dry edible beans, soybeans, small grains, cereal grains, or corn contribute a percentage of their proceeds from licensed grain dealers to a special fund, and then can recover from the fund for losses caused by a grain dealer's financial failure. The program is voluntary and producers can request refunds of their contributions.¹

Senate Bill 900 would amend the act so that in any fiscal year in which the board of the Farm Produce Insurance Authority certifies that the Insurance Fund contains more than \$10 million (instead of more than \$5 million, as now), a producer will not have to pay producer premiums and a licensed grain dealer will not have to collect the premiums.

Currently, a producer is not eligible for reimbursement from the Fund for a claim if, among other things, title to the farm produce that is the subject of the claim was transferred by the producer more than two years before the date the claim is submitted. Under the bill, a producer would not be eligible for reimbursement from the Fund for a claim if the producer transferred title to the farm produce more than 18 months before the date the claim was submitted.

Also the bill would strike a provision that allows a licensed grain dealer to keep 0.1% (one-tenth of one percent) of premiums it collects until the authority has received \$5 million in producer premiums.

The act establishes producer premium of not more than 0.2% (two-tenths of one percent, or \$2 per \$1,000) of the net proceeds from all farm produce sold by a producer to a licensed grain dealer. When the produce is sold to a licensee, the grain dealer deducts the producer premium from the proceeds of sale and pays the premium to the authority on behalf of the producer. According to MDARD, due to a major grain dealer bankruptcy, the premium was recently reinstated by the Authority Board at the 0.2% rate, effective October 1, 2015.

FISCAL IMPACT:

The bill would have no fiscal impact on state or local government.

BACKGROUND AND DISCUSSION:

The Farm Produce Insurance Fund Act (Public Act 198 of 2003) established a kind of insurance pool for producers who suffer losses as result of a grain dealer failure. This is a voluntary

¹ See the FAQ about the program on the MDARD website:
http://www.michigan.gov/mdard/0,4610,7-125-1568_2387_46268-109655--,00.html

insurance program. A producer who participates in the program would be covered against losses; a producer who did not participate would not.

The Farm Produce Insurance Authority is a public body housed within the Department of Agriculture and Rural Development (MDARD) but is not a part of the department; the Authority exercises its own prescribed statutory powers, duties, and functions, including budgeting, independently of the Director, the Department, and the Commission of Agriculture.

The Farm Produce Insurance Fund is capitalized primarily through a producer assessment of 0.2% of the net proceeds from all farm produce sold by producers to licensed grain dealers in the state. Under current law, assessments cease once the Fund balance reaches \$5.0 million. The Authority ceased collecting producer assessments as of January 1, 2008, after the Fund reached a balance of over \$5.0 million as of December 31, 2007.

On June 23, 2015, the Authority approved reinstatement of the program assessment effective October 1, 2015. The fee was reinstated after the 2014 failure of the Lapeer Grain Company, described by an MDARD press release as the largest Michigan grain dealer failure in recent history. The Farm Produce Insurance Fund paid \$3.5 million to farmers to cover losses resulting from the Lapeer Grain Company bankruptcy. These payments reduced the Farm Produce Insurance Fund balance below \$3.0 million, necessitating reinstatement of the assessment. As of September 30, 2015, the Farm Produce Insurance Fund Balance was \$2.5 million. (Page 220 of the State of Michigan Certified Annual Financial Report for Fiscal Year Ending September 30, 2015.)

POSITIONS:

The following indicated support for SB 900:

Michigan Agribusiness Association (6-1-16)
Michigan Agricultural Commodities (6-1-16)
Cooperative Elevator Co. (6-1-16)
Greenstone Farm Credit Services (6-1-16)
Michigan Farm Bureau (6-1-16)
Michigan Department of Agriculture and Rural Development (5-25-16)

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.