



**Senate Fiscal Agency**  
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BILL



ANALYSIS

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Senate Bill 900 (as introduced 4-19-16)  
Sponsor: Senator Joe Hune  
Committee: Commerce

Date Completed: 5-3-16

### **CONTENT**

**The bill would amend the Farm Produce Insurance Act to do the following:**

- Require a producer to pay producer premiums until the Farm Produce Insurance Authority board certified that the Farm Produce Insurance Fund contained more than \$10.0 million, instead of \$5.0 million, at the end of the preceding fiscal year.**
- Specify that in any fiscal year in which the board certified that the Fund contained more than \$10.0 million, instead of \$5.0 million, a producer would not have to pay producer premiums.**
- Provide that a producer would not eligible for reimbursement from the Fund for a claim if the producer transferred title to the farm produce more than 18 months, rather than two years, before the date the claim was submitted.**

The bill would take effect 90 days after its enactment.

The Act establishes the Farm Produce Insurance Authority within the Department of Agriculture and Rural Development, and places it under the supervision of a board of directors. The Act also establishes the Fund, which consists of administrative premiums, producer premiums, money from other sources, and interest and earnings from Fund investments. Payments are directed from the Fund for valid claims for storage or financial loss arising from the failure of a grain dealer, payment of premium refunds, and the board's administrative expenses and legal fees.

Each producer must pay to the Authority a producer premium of not more than 0.2% of the net proceeds from all farm produce sold to a grain dealer licensed under the Grain Dealers Act. If the farm produce is sold to a licensee, the licensee must deduct the producer premium from the proceeds of the sale and pay the premium to the Authority on behalf of the producer. Until the Authority received \$5.0 million in producer premiums from licensees, a licensee could retain 0.1% of the premiums collected. The bill would eliminate this provision.

(Under the Farm Produce Insurance Act, "producer" means a person that owns, rents, or operates a farm on land and who has an interest in and receives any part of the proceeds from the sale and delivery in Michigan of farm produce (dry edible beans, soybeans, small grains, cereal grains, or corn) produced from the land to a grain dealer licensed under the Grain Dealers Act.)

The Farm Produce Insurance Act requires the Authority board to hold an annual meeting at which it must certify the amount of money in the Fund at the end of the preceding fiscal year. A producer must continue to pay and a licensee must continue to collect producer premiums until the board certifies that the Fund, excluding the administrative premiums, contained more

than \$5.0 million at the end of the preceding fiscal year. In any fiscal year in which the board has certified that the Fund contained more than \$5.0 million, a producer is not required to pay and a licensee is not required to collect producer premiums until one of the following occurs:

- The board certifies that the Fund contained less than \$3.0 million at the end of the preceding fiscal year.
- The board certifies that the Fund contained at least \$3.0 million at the end of the preceding fiscal year; the board is aware of a licensee's failure; and the amount required to satisfy valid claims, as determined by the board, equals or exceeds the amount of money in the Fund.

Under the bill, premiums would not be required if the Fund's balance were more than \$10.0 million, rather than \$5.0 million, until one of those events occurred.

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.

MCL 285.317 et al.

## **BACKGROUND**

The Farm Produce Insurance Program was created by Public Act 198 of 2003 to protect participating producers (farmers) from losses incurred when a grain dealer declares bankruptcy or is otherwise unable to pay its claimants for grain delivered and sold, but not paid for. According to the Michigan Department of Agriculture and Rural Development, the Farm Produce Insurance Authority had paid \$4.4 million in claims to more than 200 producers, and recovered \$600,000 from bankruptcy and probate proceedings, as of July 2015.

The producer assessment was suspended on December 31, 2007, after the balance of the Farm Produce Insurance Fund reached \$5.0 million. In 2015, it was reinstated due to the bankruptcy of the Lapeer Grain Company. According to the Department, this represented the largest grain dealer failure in recent history. As a result of the failure, the amount of money in the Fund dropped below the \$3.0 million required balance. On June 23, 2015, the Authority approved reinstatement of the producer assessment, effective October 1, 2015. Presently, the Fund balance is approximately \$4.2 million.

Legislative Analyst: Jeff Mann

## **FISCAL IMPACT**

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

Fiscal Analyst: Bruce Baker

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.