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BILL ANALYSIS

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Senate Bill 888 (Substitute S-1 as reported)
Sponsor: Senator Mike Green
Committee: Appropriations

CONTENT

The bill would amend the Farm Produce Insurance Act, which establishes an insurance fund for producers who suffer a loss due to the financial failure of a grain dealer. The bill would impose a new assessment on those who use a grain dealer's services; increase allowable reimbursement to the Michigan Department of Agriculture and Rural Development (MDARD) for regulatory costs of the producer security program; add a member to the board of directors of the Farm Produce Insurance Authority; and provide new guidelines for the investment of the Farm Produce Insurance Fund.

Assessment on Grain Sales

The bill would allow the board of directors to initiate an administrative premium assessment on the net proceeds from all farm produce sold by a producer to a grain dealer beginning in calendar year 2013. The premium would be calculated as a percentage of the net proceeds from all farm produce sold and would have to reflect the board's determination of the amount of funds needed to reimburse MDARD for producer security activities.

A grain dealer licensee would be required to deduct the premium from the proceeds when purchasing farm produce, and forward premium collections to the Authority for deposit in the Farm Produce Insurance Fund within 30 days of the close of each fiscal year quarter. The licensee would be required to keep a record of these premium collections for at least three years and the Department would be required to verify their accuracy. A grain producer that had paid an administrative premium could request and receive a refund of that premium, but in doing so would become ineligible for participation in the insurance program.

If the board established, adjusted, or eliminated an administrative premium for a calendar year, the board would be required to notify the Department in writing of that action at least 120 days before January 1 of that year. The board would be required to enter into a memorandum of understanding with the Department Director which would provide for the reimbursement to MDARD for producer security activities from the proceeds of the administrative premiums. The bill also would increase from $250,000 to $500,000 the maximum amount the board may allocate to pay administrative expenses and to reimburse the Department for producer security costs. (Under the Grain Dealers Act, MDARD's producer security program provides financial regulatory oversight of the industry, including performing audits of dealers for financial solvency and to verify grain inventory.)

Board Member Addition

The bill would require the addition of a 10th member to the board of directors of the Farm Produce Insurance Authority. The new member would have to be appointed by the Governor with the advice and consent of the Senate (as the other appointed members are), and would have to be from the largest organization exclusively representing wheat producers in Michigan. (Other current members of the board are required to be from producers of corn, soybeans, and dry beans.)

Investment Guidelines

Currently, money in the Farm Produce Insurance Fund must be invested as provided in Public Act 20 of 1943, which contains rules for the investment of funds of public corporations. The bill, instead, would establish a set of investment guidelines that would follow the rules set under State administrative rule R 408.43i, which applies to the investment practices for the Bureau of Unemployment and Worker's Compensation self-insurers fund.

MCL 285.313 et al.

FISCAL IMPACT

The bill would allow for the option of a new fee to be assessed by the Farm Produce Insurance Authority and would provide a higher cap on the amount of funds transferable ($250,000 to $500,000) to MDARD for regulatory costs of the producer security program. Should the Authority board choose to initiate a .01% administrative premium assessment on the net proceeds from all farm produce sold, it is expected that the additional revenue obtained would be between $150,000 and $200,000, which would go to MDARD. Currently for FY 2011-12, the producer security program has a budget of $490,000 gross, of which $190,000 is State restricted revenue from the Grain Dealer's Fees Fund and $300,000 is State GF/GP. Any new funds gained by the assessment of a new administrative premium could be used to offset current expenditures of State GF/GP. In addition, the provision in the bill that would alter—and to a degree liberalize—the investment guidelines for the Farm Produce Insurance Fund, could result in higher annual yield for the Fund's investments.

Date Completed: 2-23-12 Fiscal Analyst: Bruce Baker

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