

## MEETING MINUTES

### AGRICULTURAL PRODUCER SECURITY COUNCIL

July 20, 2010

#### **Call to order**

The Agricultural Producer Security Council held a meeting on Tuesday, July, 2010, at the headquarters of the Wisconsin Department of Agriculture, Trade and Consumer Protection, 2811 Agriculture Drive, Madison, Wisconsin.

#### **Attendance**

Eight council members were present: Ron Statz, John Manske, John Petty, Louise Hemstead, Jim Zimmerman, John Umhoefer, Dave Daniels (arrived late), and Craig Myhre (arrived late).

Two council members were absent: Duane Maatz and Nick George

DATCP staff members present were Eric Hanson, Kevin LeRoy and Jeremy McPherson. Janet Jenkins stopped in briefly near the end of the meeting.

Members of the public present were Joan Sanstadt and Jeff Lyons.

#### **Agenda Item I. Membership Update**

The group welcomed its newest member, Louise Hemstead. In addition, two members, John Umhoefer and Nick George, had recently been reappointed to three year terms.

#### **Agenda Item II. Approve Minutes from Previous Meeting**

Members suggested two minor corrections to the minutes from the April 1, 2010

**Motion** to Approve Minutes from the April 1, 2010 meeting, as corrected. Motion was approved unanimously.

#### **Agenda Item III Financial Report**

Eric Hanson led a discussion on the Producer Security Fund Statement of Revenues, Expenditures, and Cash Balances for the nine months ending March 31, 2010. Overall assessment revenue for the period was \$945,826, compared to \$1,049,076 last year. The overall reduction was due mostly to a significant and expected drop in assessments collected from milk contractors. Eric said that this drop was mostly due to rate reductions for more large contributing milk contractors that have been participating in the fund for at least 5 years. Overall, assessments paid by milk contractors decreased from last year while assessments paid by each of the other three licensee groups increased.

At \$750,810, total license fee revenues were up significantly from last year's \$431,939. This was because of the new license fee structures for grain dealers, grain warehouse keepers, and vegetable contractors that were put in place last year. Kevin LeRoy mentioned that the total license fees collected from vegetable contractors was much higher than expected; where as

DATCP collected \$11,507 in the same nine month period last year, it collected \$63,705 this year. License fee rates for vegetable contractors did increase last year, but at a much lower percentage. The majority of the increase in total fees collected can be attributed to high commodity prices during the 2008 growing season. (License fees are based on total dollars of processing vegetables purchased during the licensee's most recently completed fiscal year.)

Interest revenue to the fund, at \$17,066 for the nine month period, was dramatically lower than either the previous year's \$103,378 in 2008 or \$173,636 in 2007.

Ron Statz referenced the group's discussion at the previous meeting regarding assessment holidays and asked if there is a possibility that contributing milk contractors will receive a holiday during 2011. Kevin LeRoy answered that – while it's still far from certain – it seems more probable than not that there will be a milk contractor assessment holiday for the license year beginning May, 2011.

Salary and fringe expenses were slightly lower than the same period the previous year; \$709,276.57 in 2010 compared to \$717,718.59 in 2009. Contrariwise, supplies and services expenses were slightly higher; \$153,780.92 in 2010 compared to \$146,281.59 in 2009.

The group discussed the Fund balances for each program area. Eric Hanson explained that Grain Dealers will see license fee credits on their license renewal forms for the first time next license year (which begins on Sept. 1, 2010). Eric said that we do not yet know the amount of license fee credits available, but it will be around \$170,000. He went on to explain the total license fee credits used would be some amount that is smaller than the amount of license fee credits available. John Petty asked if the license fee credits would be about the same amount as last year's license fee increase. The answer was yes (in general), but it was a coincidence that the amounts line-up.

#### **Agenda Item IV Discussion – Grain Warehouse Licensing (state vs. federal license requirements and costs)**

In preparation for the meeting, DATCP staff prepared a couple of tables comparing USDA Grain Warehouse license fees and requirements with Wisconsin Grain Warehouse Keeper license fees and requirements.

John Petty started off the discussion by expressing gratitude to staff for preparing the tables. He said that the table comparing fees was misleading because the federal inspection fee (a minimum of \$170 and a maximum of \$1,700) is only charged the first year, whereas the DATCP table includes it as an annual cost. However, as the group discussed the matter, it was clarified that the fee is actually charged whenever a licensee changes their stated capacity. Generally, this would not occur annually, but it is fairly common for warehouses to change their stated, licensed storage capacity.

John Petty said that he believed several warehouse keepers would not renew their Wisconsin license this coming year and would, instead, obtain a federal license. This would continue the trend that started last year, when license fees were increased.

John Petty noted that the balance in the warehouse portion of the Fund, as of March 31, 2010, was a *negative* \$389,000. This balance has been slipping lower for a while now, despite the big license fee increase of last year. John said that we need to do something.

He suggested that there are three (general) options available. 1) Continue with status quo. That is, continue having the other licensee groups pay for the protections offered to producers who deposit grain with Wisconsin licensed grain warehouse keepers. 2) Increase license fees and/or assessments (again) for grain warehouse keepers. However, this will likely lead to even more warehouse keeper licensees leaving the state program for the federal program. Therefore, this is really Option 1 with a delayed timeline. 3) End the Wisconsin Grain Warehouse Keeper program as we know it, and switch to some other method of protection producers. For example, Wisconsin could somehow force operators to get a federal warehouse license or revise the program so that the state program is essentially a “virtual” federal program. For precedence on these types of programs, Wisconsin could look to California or Kansas.

The group had further discussions about the differences between the federal and state grain warehouse programs. There is a very significant difference in the philosophy of how the two programs reimburse producers in the event of a default. Licensees in the federal program are required to post a surety bond based on capacity and, in some cases, a “deficiency bond” based on balance sheet ratios.<sup>1</sup> In contrast, state of Wisconsin licensed grain warehouse keepers must contribute to the state indemnity fund.

### **Next Meeting.**

The discussion about the grain warehouse keeper program led to a discussion about the next meeting. The group agreed to set a tentative meeting date of **November 8, 2010**. At that time, the group would have information about number of licensees, assessment amounts billed, and license fee revenues for next license year. The group (informally) decided that at the next meeting it would list in totality the policy options for the grain warehouse keeper program (starting with John Petty’s list of three). The group also plans to look at grain warehouse default history – both state and national – to see how much money should be in the fund to support the program.

**Motion** to adjourn was approved.

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<sup>1</sup> DATCP Staff’s understanding of USDA warehouse bond requirements is that there are two separate pieces: capacity and net worth. All federal warehouse licensees must post a bond based on capacity. The amount is calculated based on total bushel capacity, up to a maximum of \$500,000. Separately, federally licensed warehouses must have at least \$0.25 in net worth for each bushel of capacity. Licensees who have lower net worth must file a “deficiency bond” for the difference. In addition, licensees must also have a minimum of \$200,000 in total net worth (regardless of capacity). Operators who have less are not eligible to receive a license.