

MINUTES OF THE MEETING
AGRICULTURE, LIVESTOCK AND IRRIGATION
MONTANA STATE SENATE

March 23, 1983

The Agriculture, Livestock and Irrigation Committee meeting was called to order on the above date, in Room 415 of the State Capitol Building, at 1:00 p.m., by Chairman Galt.

ROLL CALL: All members present.

DISPOSITION OF HOUSE BILL 545: Representative Manuel told the committee that Anne Brodsky, Legislative Research Council, had worked up some amendments for the bill. The amendments give the Department of Agriculture the right to buy an insurance policy until the time they felt satisfied the idemnity fund should cover any losses. This would take care of the time the fund was building up. He said you could buy quite a bit of insurance with \$50,000, like ten million. This has to be put out for bids.

Anne Brodsky, Legislative Research Council, had met with the Lloyds of London agent and he said that particular agency couldn't work with bankruptcy. The other agencies couldn't provide an estimate without more specifics. They wanted some kind of amount they are working with before they can give bids for the policy.

Representative Manuel drew the committee's attention to a copy of an article attached to the amendments where some other states had the policy. He said it had worked well for them. Exhibit #1.

Senator Graham suggested they start the program with the 1983 crop and run to a period where it will build up in the fund.

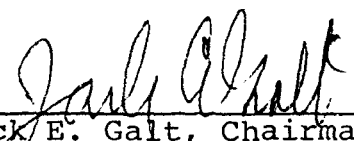
Senator Galt said the committee should write something in to exclude any wheat that has a loan prior to June 1st 1983, so someone sitting with a three year crop with a loan would not have to pay.

Senator Conover moved Representative Manuel's insurance amendments to HB 545. Exhibit #1. Motion carried.

Senator Graham moved that any grain under a CCC loan prior to July 1, 1983 is not subject to the assessment in 1984. This would appear on page 5, section 7, subsection 2. Motion carried.

Senator Graham moved HB 545, as amended BE CONCURRED IN. Motion carried. For the record, Senator Aklestad voted NO. Senator Conover will carry the bill.

There being no further business, the meeting adjourned.



Jack E. Galt, Chairman

ROLL CALL

AGRICULTURE COMMITTEE

48th LEGISLATIVE SESSION - - 19 83

Date 3-23-83

NAME	PRESENT	ABSENT	EXCUSED
GALT, Jack E.	✓		
KOLSTAD, Allen C.	✓		
AKLESTAD, Gary C.	✓		
OCHSNER, J. Donald	✓		
GRAHAM, Carroll	✓		
BOYLAN, Paul F.	✓		
CONOVER, Max	✓		
LANE, Leo	✓		
LEE, Gary	✓		

Each day attach to minutes.

E2 #1
3-16-83
Agric.

Rep. Manuel's Amendments to HB 545, Third Reading (blue copy)

1. Page 5, line 4.

Following: "paid"

Insert: ", without interest,"

2. Page 6, line 21.

Following: line 20.

Insert: "Section 11. Insurance contracts. Until such time that the account first reaches a balance of \$10 million, the department may enter into insurance contracts and pay premiums therefor from the account for the purpose of supplementing payments from the account for claims of grain producers presented under [section 6]."

Independent Insurance Agents of Montana Inc.



Montana Insurance Education Foundation Inc.
Public Risk Insurance Management Inc.



21 MARCH 1983

Representative Rex Manuel
Capitol Station
Helena, Montana 59620

Dear Sir:

Enclosed is a copy of an article from the November 1982 Farm Journal. I have spoken to the Company, Employers Mutual Companies, that provides this contract. It is not filed in Montana at this time, however, it could be filed soon.

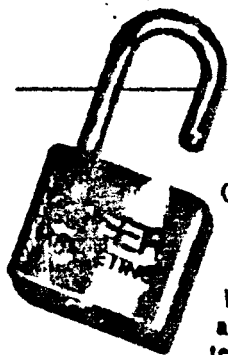
I have also asked this company, as well as many others for an estimate for \$10,000,000 in coverage with a \$400,000 retention as we spoke about last Friday. At this time I have been unable to get a company to give me an approximate cost for such a policy.

I will continue to search for this information.

Please call my office as shown below at your convenience on the 22nd. I will provide as much information as we can find at that time.

Sincerely,

Roger McGlenn
Executive Director



■ George Newer and Cliff Gilliland live 500 miles apart—Newer in Oklahoma and Gilliland in Iowa—but they have one big thing in common. Both are protected if a grain elevator they sell to declares bankruptcy. (Not many farmers are.) They each operate under protective “umbrellas” that are being

studied in 15 other states where legislators are still contemplating ways to protect farmers from such losses.

There is a difference in their umbrellas. Newer does not pay directly for his protection under Oklahoma's Grain Storage Indemnity Fund. His co-op, Kingfisher Co-op Elevator, kicks in the money. It will take another year before the fund reaches pay-off level. But Gilliland, in Iowa, pays Employers Mutual Companies of Des Moines 1% of the value of the grain or soybeans that he insures. He's fully protected for that amount the moment he signs the policy.

In Oklahoma, grain dealers contribute 2 mills (0.2¢) for every bushel of grain unloaded at their elevators. When the fund, started in 1980, reaches \$1 million it can be drawn on to reimburse farmers for losses they incur while their grain is in the control of a licensed grain dealer. The producer will get this money by Feb. 1 following his claim.

The check-off continues until the fund reaches \$10 million, when it will stop until the fund falls below that level. It will generate about a million bucks a year in interest once it reaches the top. Some elevator operators—about a third—deduct the 2 mills from the farmer's check. The others simply pay it without a formal deduction, but there is little doubt about who ultimately pays the bill—the Oklahoma farmer.

In Iowa there is no doubt, either. The farmer pays the insurance. “It's like hail insurance,” says Gilliland, Davis County, “only cheaper.”

Employers Mutual Companies (Box 712, Des Moines, Iowa 50303) pays policyholders for any losses they don't recover through the elevator's assets and bond. If the producer's grain was sold on deferred payment or pricing, the insurance covers only 75% of his losses. How fast? “No more than two or three months, at most,” says Dave Hixenbaugh, with Employers Mutual. “When the state settles, then we know how much we owe, and the state acts quickly here in Iowa.” Federal bankruptcy proceedings can take longer. So Dick Haskins, with the company, says he is working on a change in the policy that would speed up a partial payment to farmers.

He is also encouraging other insurance companies to offer similar policies. Some state Farm Bureaus have shown interest. Meanwhile, Employers Mutual is moving into Illinois and Nebraska with its Grain Producers Indemnity Policy.

“One company doesn't have enough penetration of the market to head the government off at the pass,” says Haskins. He's referring to government remedies—state or federal—like the Oklahoma program. Private companies accept that program like a bulging mouthful of fresh horseradish. In fact, it was to stop Iowa's state farm plan, an indemnity fund law that Employers Mutual developed the new policy.

From Oklahoma and Iowa here are two ways

Meet the risk of elevator bankruptcies

IN 1980 OKLAHOMA LEGISLATORS PASSED a law that set up a grain indemnity fund, an action followed later by South Carolina and Maryland. The Oklahoma fund will protect George Newer, above, in case of elevator bankruptcy. In Iowa, Cliff and Doris Gilliland, below, get protection with insurance from a company. “We sleep better,” says Doris.





Photos by the author

If you can blow away the political fog, both the Oklahoma and Iowa systems appear to operate quite well. Though few Oklahoma farmers know there is an indemnity program and few Iowa farmers are buying the insurance, those involved like it. The Ritzes, in Van Buren County, had a close call three years ago when they sold grain to Prairie Grain Co. in Stockport, Iowa. "We were lucky," says Denis. "We sold \$5,500 worth of beans after Christmas in 1979 and the check cleared fine." A month later, the owner-manager committed suicide as examiners were discovering a bankrupt company (FJ, June/July '80, p. 13).

"We're touchy now about picking up the check fast when we sell grain," says Ila, Denis's wife. But they no longer depend on luck. They took out an Employers Mutual policy for \$25,000, the market value of the beans stored at an elevator. It cost \$250. "It's like life insurance," Ila says. "You hope that you never have to collect." They get the insurance protection for six months after the grain-filled truck leaves the premises for a state-licensed and bonded elevator.

"Now we sleep better at night," says Doris Gilliland, wife of Cliff in Davis County, Iowa. "It's cheap. If you lose a crop it takes two or three years to get back on your feet. We're finally out of debt now, and we want to stay that way. That mess at Stockport scared us. Other elevators around here have lost their state licenses because of financial trouble."

Law, not insurance, protects the Oklahoma farmers. Standing in the co-op elevator in Kremlin, Okla.,

Bill Toews volunteers, "I think we need indemnity law. I'm not concerned about it—but look what they did to Cryts."

A few miles east of Kremlin in the Hooters grocery store, Kent Prickett sips coffee at the "farmer table." "It's about like insurance," he says of the Oklahoma indemnity fund. "I'd rather be safe than sorry, though I have no concern about our co-op." Prickett hadn't noticed any deduction from his wheat checks for the grain indemnity fund. But co-op managers know about it, because they send in checks regularly. Grouses the manager of Prickett's co-op in Hunter, Sonny Lorenz, "I don't see why we should pay for someone else's mistakes."

There's another "farmer table" at the Kingfisher elevator. Newer, mentioned earlier, talks about farming: "The marketing part is scary. Producing—I have that down pat." And how does the indemnity fund make marketing safer? "Well for one thing, you'll never have to tell your banker that your wheat's locked up for months, or years, in an elevator that went bankrupt. Now we know that we'll get the price we sell at."

"It sure lets me rest easier," agrees Arnold ZumMallen, over at the other side of the table. "Some dealers pay a little more or grade a little higher. We're warned to watch out for that kind of an operator, but when the indemnity fund gets into operation it will remove the risk from selling to the highest bidder."

ZumMallen couldn't have touched on a more inflammatory subject. Wherever state or federal indemnity programs are proposed, grain dealers and their representatives get hot flashes because of responsible businessmen having to pay "insurance" to protect loosely run operations that frequently offer extra incentives to coax farmers to deliver grain to them.

"We opposed the bill," says Joe Neal Hampton, executive vice president of Oklahoma Grain & Feed Association. That group represents co-ops as well as private companies. "If farmers want the protection they should pay for it. Why should elevator operators have to pay into a fund to protect farmers who do business with badly run operations?"

As Ed Long says in Garfield County, Okla., "Elevators that went bankrupt simply let their accounts receivable get out of hand. Co-op members should insist that their management report their accounts receivable—30, 60 and 90-and-over days—at every annual meeting."

The argument that farmers should pay for this protection is really moot; they do, indirectly.

The argument that it encourages them to sell to "sloppy" managers who pay more is rather strange. It casts distrust on the most basic principle of our economic system: competition.

The argument that shady management will be encouraged is a replay of the original arguments against the Federal Deposit Insurance Corp. that insures our money in a bank. The very people who attack indemnity programs enjoy that type of protection of their money in a similar program—FDIC.

But, if you object to such government interference, you might want to push for private insurance. Then the responsibility for your protection is in your own hands—where many think it belongs.

STANDING COMMITTEE REPORT

March 23

19 83

MR. **PRESIDENT**

We, your committee on **AGRICULTURE, LIVESTOCK AND IRRIGATION**

having had under consideration **HOUSE** Bill No. **545**

Manuel (Conover)

Respectfully report as follows: That **HOUSE** Bill No. **545**

third reading, blue, be amended as follows:

1. Page 5, line 4.

Following: "paid"

Insert: ", without interest,"

2. Page 5, line 16.

Strike: "Exemption."

Insert: "EXEMPTIONS. (1)"

3. Page 5, line 25.

Following: line 24

Insert: "(2) Grain on which a commodity credit corporation loan was made prior to July 1, 1983, is not subject to the assessment imposed in [section 4]. No claim may be made under [this act] for any loss of grain for which no assessment was paid under [this act]."

~~DOCKASEX~~

(Continued)

JD

HOUSE BILL 545

4. Page 6, line 21.

Following: line 20.

Insert: "Section 11. Insurance contracts. Until such time that the account first reaches a balance of \$10 million, the department may enter into insurance contracts and pay premiums therefor from the account for the purpose of supplementing payments from the account for claims of grain producers presented under [section 6]."

Renumber: subsequent section

And, as so amended,

BE CONCURRED IN