

MINUTES OF THE MEETING
AGRICULTURE, LIVESTOCK & IRRIGATION
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

February 9, 1987

The meeting of the Agriculture, Livestock & Irrigation Committee was called to order by Chairman, Representative Duane W. Compton on February 9, 1987, at 2:00 p.m. in Room 317 of the State Capitol.

ROLL CALL

All members were present, with the exception of Rep. Orval Ellison, who was excused. Tom Gomez, Researcher, was also present.

House Bill # 628 was heard.

HOUSE BILL NO. 628

Rep. Gene DeMars, House District No. 29, sponsored this bill. He said this bill is a hail insurance program set up by the legislature when insurance companies refused to write hail insurance in 1917 by Senator Dan O'Shea. He commented that this act would allow the Board of Hail Insurance to increase the amount of coverage for crops insured under the state hail insurance program, amends some sections and provides an immediate effective date. EXHIBIT # 1 explains the hail insurance program historically. He said this bill has been totally supported by the grain producers of the state, and coverage can be offered at reasonable rates. He added that this is the 70th year of operation, and that legislative support would keep this in place for years to come.

PROPONENTS

KEITH KELLY, Director of the Department of Agriculture, and Secretary of the Hail Insurance Board, advised the Department of Agriculture is in full support of HB 628. See his written testimony, EXHIBIT # 2. The federal government is involved through the federal crop insurance program also. In nearly all cases the farmer takes the state hail program plus another insurance plan. This is only for hail. The program is well managed by a very strict board that doesn't pay willingly on losses. They write about 10% of the total hail insurance in the state of Montana. This is on a single coverage insurance.

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HOWARD HAMMOND, Montana Grain Growers Association, supports HB 628. He is a small grain producer. See written testimony EXHIBIT # 3.

MARK RASMUSSEN, Hogeland, supports HB 628. It is a low cost program to the growers. It is an actuarially sound program covering hail. It operates at no cost to the state of Montana. The principal complaint about this program is always made by private insurance companies. Hail insurance is almost always supplemental coverage. In most cases those who carry hail insurance also carry federal crop insurance which is sold at the local level by the same agents who protest state involvement. It is fair to say that most producers insured carry both state and federal hail crop insurance. He feels that it is a small thing that the state of Montana can do to help growers. He supports producers in these poor agricultural economic times.

MR. RILEY, Fergus County, uses state insurance a great deal and has received a lot of comments in support of this. Most producers are using other insurance along with this, but they are very prone to hail. He said without this it would create more stress in an already stressful situation. He asked for support of the bill.

LANNY CHRISTIANSON, Dutton, Teton County, has used hail insurance through the state and has also used private companies and federal crop insurance and he feels that the increase would benefit him and the rest of the grain producers. He supports HB 628.

JERRY THUESEN, Reserve, in eastern Montana, supports the increase proposed in HB 628. He uses the state hail insurance program as an important part of his insurance program. He also uses private coverage. It helps control the cost and he would like to see the coverage increased.

OPPONENTS

BOB LOWRY, representing the National Crop Insurance Association, Great Falls said the state hail board was created in 1917 to provide insurance that wasn't available. Since that time there are 22 active agents writing insurance. Since 1964, Montana is the only state offering hail insurance in competition with private industry. Over 80% of the business is written by federal crop insurance. State hail insurance is purely supplemental insurance, but statistically that is a misnomer. The five year period of 1982-86 shows some interesting facts. In 1982 the state of Montana wrote \$2.1 million in premiums while private companies wrote in excess of \$20 million. The state of Montana wrote about 9% of the

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premiums. In 1986 the state of Montana increased its premium income to \$2.9 million, private industry shrank from \$20 million to \$11 million, divided by 22 companies writing in the state of Montana. If \$11 million was written by the state of Montana, the premium tax would be approximately \$300,000, in addition, commissions would be paid to local agents in excess of \$2.2 million which would generate state income taxes and provide taxes at the local levels. The \$2.9 million written by the state brought in taxes of approximately \$80,000 and to local entities in excess of \$1.2 million. He asked why the decrease from \$22 million to \$14 million in 1986. A farmer may have increased his per acre coverage anywhere from \$75 to \$95. With grain prices at approximately \$2.25, a \$100 investment covers a 40 bushel crop, and there isn't a lot of additional insurance to be written.

If coverage is increased from \$24 to \$36 on dry land and \$48 to \$64 on irrigated land, it increases the amount of liability the state will assume from \$3 million to approximately \$4.5 million. That will take from the private industry a direct premium payment tax of approximately \$40,000 and \$300,000 from local agents. The state hail board is costing the state of Montana money - \$80,000 premium dollars and state income tax of \$1.2 million in commissions. Private enterprise cannot compete with the state of Montana as it does not pay premium tax or commissions to a local insurance agent. With the depressed business atmosphere attitude in Montana, it is their opinion that if you raise the liability limits, liability is completely eliminated for any more supplemental insurance.

QUESTIONS FROM THE COMMITTEE

Rep. Rapp-Svrcek asked Mr. Lowry if his figures were correct, in 1982-86 the state hail board took in \$800,000 more and the private carriers lost \$9 million. He asked is there some sort of direct correlation in size and percentage, and why did the private carriers lose \$9 million? Mr. Lowry said they repay, and it is not necessary to supplement. Their reserves would be actuarially sufficient. Insurance programs are administered by private industry at virtually no profit. It is a reasonable guarantee of what a farmer produces. The program now is based on records and has diminished needs for insurance.

Rep. Rapp-Svrcek said the problem is not with the state hail board. Mr. Lowry said the liability limits should be held at \$24 rather than \$36. If the liability limits are increased, the amount that private industry writes is going to diminish even further.

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Rep. Patterson asked about the rates that the private insurance companies charge their customers. Mr. Lowry said it is very difficult to set a rate. They set it by township, 10% limit on what they return and that may be a 15% rate. In Roosevelt County the rate is from 5.5 to 10% in that county on a direct average. They would charge 7-3/4% in that county. Directly across the border in Fallon County the rate would be 6.5 to 10.5% or 8.5% simple average. Their rate is 7.75 to 8.5% and the state of Montana is at 7%; 10-15% for a simple average; 12% average for the state of Montana rates at 10%.

Rep. Patterson asked if their rates were somewhat comparable? Mr. Lowry responded that was correct. They are no longer supplemental insurance once the federal crop insurance is in place. For two years there was an 844% loss, 177% loss in 1986. After new peril insurance and state of Montana insurance it is something that they could get. By raising the amount of limits, the amount of insurance private agents can sell would be reduced.

CLOSING ON HOUSE BILL NO. 628

Rep. DeMars closed by saying he thought Montana is leading the way and that this is a good program. He encouraged passage of HB 628.

EXECUTIVE SESSION

Rep. Keller moved that HB 628 DO PASS. Rep. Cody seconded the motion.

Rep. Rapp-Svrcek remarked there is no obligation from the general fund for this. It is self-supporting.

Rep. Bachini commented that in the Business and Labor Committee they had a bill relating to government intervention within the private industry and how much private industry was being hurt. He said he supported the hail insurance the last time it was introduced. There was a lot of complaints from the private industry about the state government involvement.

Rep. Cody commented that they expect the government to operate efficiently, and this is one of the very few cases it does. When the private sector is so concerned they will use the law to their advantage.

Rep. Bachini commented that he would have to look at whether it would be efficient. There are a lot of people in Montana saying to stay out of the private industry.

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Rep. De Mars responded that the program does return the money if it is not used for payments for hail damage.

Rep. Campbell asked if a producer can get the same amount of insurance for the same rate. Rep. DeMars answered that state insurance costs 10% and the private rate is 17%. Judith Basin and Fergus counties have the highest rates in the state.

Rep. Koehnke mentioned that he thought Broadwater County did not participate.

The motion to DO PASS was adopted, with Reps. Bachini and Campbell voting no. Rep. Ellison was excused.

ADJOURNMENT

The meeting adjourned at 2:45 p.m.

REP. DUANE COMPTON, Chairman

STANDING COMMITTEE REPORT

February 9 19 37

Mr. Speaker: We, the committee on AGRICULTURE, LIVESTOCK & IRRIGATION

report HOUSE BILL 628

do pass
 do not pass

be concurred in
 be not concurred in

as amended
 statement of intent attached

REP. QUANE W. COMPTON Chairman

*Mr. Chairman member of the committee
Rep. Gene DeMars Dist 29*

EXHIBIT #1
DATE Feb 9, 1987
HB 659 - Rep Gene
DeMars

HAIL HISTORY
for
Rep. Gene DeMars

The State Hail Insurance Program was set up by Legislature in 1917 by Senator Dan O'Shea from Carbon county because private insurance companies refused to write hail insurance in Big Horn and Powder River Counties. In many other counties the rates were as high as 18% which producers simply could not afford. This still exists today with counties that have a commercial rate of 15% and the state highest rate is at 10%.

As a result of Senator O'Shea efforts, Montana State Hail Insurance was offered to grain growers and many farmers placed their insurance with the State. The program was very successful. The rates were an unheard of 3 1/3% and all losses were paid in full. The experience of the first year caused an avalanche of applications in 1918. The state was hit with many severe hail storms which literally hailed out the State Hail Insurance program. It was several years before these losses were paid in full. However, the hail insurance law was re-enacted in a greatly improved manner and a new start taken.

The next few years were critical and by 1926 a reserve was accumulated to increase the security of the fund. Since that time the surplus fund has been gradually built up. The object of the reserve fund is to be actuarial sound to absorb all reasonably anticipated catastrophic losses.

The State Board of Hail Insurance asked Representative Jack Gunderson to carry legislation during the 1975 legislature to increase the reserve from \$1.2 million to \$4.0 million and to increase the coverage from \$12.00 per acre to \$ 24.00 on non irrigated crops and from \$ 24.00 per acre to \$48.00 on irrigated crops as the reserve was increased. The 1975 and 1976 seasons were rather bad hail years and very little was added to the reserve. A very good year in 1977 enabled the Board to increase the reserve to \$2.8 million. This enabled them to increase the coverage to \$18.00 per acre on non irrigated crops and \$36.00 per acre on irrigated crops.

During the 1978 season a record risk of 17,059,113.70 was written and a premium charge of 1,541,597.02 was collected. Then in 1979 the program experienced another low hail year and the reserve fund was built to 3.4 million. The coverage was increased from \$18.00 to \$24.00 on dryland and from \$36.00 to \$48.00 on irrigated crops. The Hail Boards common sense approach in having the reserve in place and actuarial sound before the coverage is increased has payed off with a excellent 69 years of business.

3.4 million dollars is held in reserve for the program and invested in the states short term investment pool as provided by law. Interest earned on this money for the last 6 years has payed the program administrative expenses plus 1.5% to the states general fund and 2% to the counties for issuing policies.

The 1986 annual grain grower summary explains the success of the State Hail Insurance Program since its origin to date (69 years).

Total Risk Written	\$498,858,030.40
Premium Charge	44,293,666.39
Losses Paid	29,755,350.46
Policies Issued	139,017
Total Acres Per Policy	38,259,083
Average Acres Per Policy	275.2
Loss Ratio	69.5%
Number Losses Paid	29,259
Total Refunds Paid	8,543,358.76

Other 69 year summary figures of interest are:

2% to Counties General Fund	470,478.30
1.5% to State General Fund	773,855.06
Reserves Invested	3,495,365.05
Cash Refunds to Producers	8,543,358.76

It is interesting to note the difference between the total levy income of \$44,293,666.39 and the losses paid of \$29,755,350.46 is \$14,538,315.93. The farmers received refunds of \$8,543,358.76 and the reserve fund contains \$3,495,365.05. We also have paid \$773,855.06 to the State General Fund and \$470,478.30 to the Counties General Funds. This left \$1,255,258.76 for running the program or an average of \$18,192.16 per year for 69 years. Once the program was on its feet and running, it has been totally supported by the grain producers of Montana. It is truely a excellent program because of it continuing support, low rates and low overhead.

The State Hail Insurance Program shows that coverage can be offered at reasonable rates with the total bill being paid by the participating producers. The State Hail Insurance program is rolling into its 70 year of operation, serving many generations of Montana grain growers. Legislative support of this program will keep this vital program in place for generations to come.



TED SCHWINDEN
GOVERNOR

STATE OF MONTANA
DEPARTMENT OF AGRICULTURE

OFFICE OF THE DIRECTOR
AGRICULTURE/LIVESTOCK BLDG.

CAPITOL STATION

HELENA, MONTANA 59620-0201

EXHIBIT # 2
DATE Feb 9, 1987
HB 628 Rep Here
DeMars

TELEPHONE:
AREA CODE 406
444-3144

KEITH KELLY
DIRECTOR

TESTIMONY OF THE MONTANA DEPARTMENT OF AGRICULTURE
FOR THE HOUSE AGRICULTURE, LIVESTOCK, AND IRRIGATION COMMITTEE
ON HOUSE BILL 628
MONDAY, FEBRUARY 9, 1987
HELENA, MONTANA

Chairman Compton, members of the committee, the Department of Agriculture is in full support of the coverage increase for the State Hail Insurance program. Insurance is a necessity that in case of a risk may be hard to get. This was demonstrated, last year when 78 out of 127 incorporated cities and towns had to set up their own group insurance pool. The State Hail Board has been offering supplemental self insurance to Montana grain growers for 7 decades at affordable rates. Initiated in 1917 the State Hail Insurance Program was agriculture response to the same situation cities and towns are facing in obtaining insurance. In our case, producers were unable to obtain hail insurance and were forced into starting their own self insurance pool. This program is totally voluntary, and has run for 70 years with low overhead, refunding excess premium to the policy holders in good years. Its totally self supporting with no cost to the states general fund.

Agriculture history is just as unpredictable as mother nature dropping a beautiful soaking rain or watching a bumper crop being destroyed by a hail cloud. This essential program has given the Montana producers a safe guard against mother nature. This supplemental insurance is offered at low rates when the crops are drought stricken or when there is a bumper crop. The important

thing to remember is that mother nature can take a 60 bushel crop and turn it into nothing in a matter of minutes, with all preharvest cost being lost.

All the Montana grain producers are asking is that they can cover their preharvest expenses at a reasonable cost. This program has been supplemental coverage for 70 years now, and the number of Montana grain producers that this program has serviced speaks for itself.

EXHIBIT #3
DATE Feb 9, 1987
HB 628 - Rep Here De Mars

Hammond



P.O. Box 1165 • 750 6th Street S.W. • Great Falls, Montana 59403 • 406/761-4596

**Testimony of the Montana Grain Growers Association
on
HB628 TO AUTHORIZE THE STATE HAIL BOARD TO INCREASE
COVERAGE**

Mr. Chairman, ladies and gentlemen of the committee, on behalf of the Montana Grain Growers Association, I rise in support of HB628.

At the annual convention of the MGGGA, our members voted to ask this body to allow the State Hail Board to increase the level of coverage that it offers to Montana grain producers. Our members felt that one of the best ways to allow producers to help themselves through these rough times would be to improve on a very successful program and increase the level of coverage of the State Hail Insurance program.

The State Hail Board was created in 1918 and for 69 years it has been providing farmers in Montana low-cost reliable hail insurance. When private insurance companies would not insure some counties or at rates that were prohibitive, the State Hail Board offered insurance to all producers in all counties. Over the years, the State Hail Board has written 136,156 policies and on the average, refunded over 21% of the premiums collected.

The program is very successful. It pays its' own way and it provides a valuable service to growers. We ask you to allow this program to be even more valuable to producers. The current level of coverage has not kept up with increases in costs of production for small grain producers.

The business of growing small grains in a world market has become a very competitive business. In fact, today its' not one of the more profitable businesses one could get into. We can work on a national level to develop policies that allow us to get rid of surpluses and create demand so that we can began to see prices for our commodities get to a reasonable level. But on the state level, we need to work on the other side of the equation. We need to do to everything we can to reduce the cost of production. If we do everything we can to get prices back up and everything we can to reduce production costs we can again make agriculture a profitable business.

Providing a higher level of coverage at a reasonable cost to producers will help producers keep their production costs down. Please support Montana agriculture and give HB628 a "do-pass" recommendation.

WITNESS STATEMENT

NAME Bob Lowry BILL NO. 628

ADDRESS 336 Beth Drive Great Falls Mt DATE _____

WHOM DO YOU REPRESENT? NATIONAL CROP INSURANCE ASSOCIATION

SUPPORT _____ OPPOSE X AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

WITNESS STATEMENT

NAME Bradley Rose BILL NO. 628
ADDRESS Dental MT DATE 2/8/87
WHOM DO YOU REPRESENT? Mail Train Growers
SUPPORT OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

WITNESS STATEMENT

NAME Lenny Christman BILL NO. 628
ADDRESS Rt 2 Box 6310 Outho Mt DATE 2/8/87
WHOM DO YOU REPRESENT? Self
SUPPORT Yes OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

WITNESS STATEMENT

NAME Roger McGLENN BILL NO. 628
ADDRESS P.O. Box 5593 HELENA, MT DATE 2/9/87
WHOM DO YOU REPRESENT? INDEPENDENT INSURANCE AGENTS ASSOC O
SUPPORT _____ OPPOSE X AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

WITNESS STATEMENT

NAME Paul D. Hodges BILL NO. 628
ADDRESS R.P. Mescaline 1711 DATE _____
WHOM DO YOU REPRESENT? Self
SUPPORT Yes OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

WITNESS STATEMENT

NAME Adrien Long BILL NO. 628

ADDRESS Box 3032 DATE 2-9-87

WHOM DO YOU REPRESENT? _____

SUPPORT yes OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

WITNESS STATEMENT

NAME Jerry Thuesen BILL NO. 62X
ADDRESS Reserve MT. DATE 2-9-80
WHOM DO YOU REPRESENT? MEGA
SUPPORT X OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments: ~~is~~ *The Hail board is an important program especially in High Hail areas.*

VISITORS' REGISTER

Ag. Livestock & Irrig COMMITTEE

BILL NO. HB 628

DATE February 9, 1987

SPONSOR Rep. Gene De Mars

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
ROBERT LOWRY	GREAT FALLS		✓
Donald Bedker	Great Falls		✓
ROBERT L NELSON	FORT BENTON		x
Bill Zacher	Great Falls		✓
Tom Samset	GREAT FALLS		✓
Howard Hammond	Malta	✓	
Mark Rasmussen	Hogeland	✓	
Viggo Andersen	Great Falls	✓	
James Brook	Judith Gap	✓	
Jay Johnson	Kremlo	✓	
MICHAEL O'HARA	FORT BENTON	✓	
David Suge	Angler	✓	
KEITH SORBO	GREAT FALLS	✓	
Jim Bjelland Jr.	Conrad	✓	
Gregg Holt	Great Falls	✓	
Bill Bunchell	Brookings	✓	
Steve Neikson	Lewistown	✓	
KEITH KELLY	MT DEPT. OF AGR	✓	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.