



WISCONSIN LEGISLATIVE COUNCIL ACT MEMO

2003 Wisconsin Act 38 [2003 Senate Bill 173]

Agricultural Producer Security Program

2003 Acts: www.legis.state.wi.us/2003/data/acts/

Act Memos: www.legis.state.wi.us/lc/act_memo/act_memo.htm

2003 Wisconsin Act 38 modifies the agricultural producer security program, administered by the Department of Agriculture, Trade and Consumer Protection (DATCP).

BACKGROUND

The agricultural producer security program provides financial security for producers of milk, grain, and vegetables in the event of default by contractors that buy these commodities from the producers or that market or store them on behalf of the producers. An indemnity fund provides revenues for payment to producers when a default occurs. The fund is financed by assessments on contractors. The amount of assessments is based on the size, financial condition, and risk practices of the contractors. The fund was initially financed by a \$2,000,000 loan from the agrichemical management fund, which was required to be repaid to that fund, plus interest compounded at 5% annually.

In addition, the DATCP is required to obtain backup security in the event of a default that exceeds the capacity of the fund to indemnify producers. Prior law required the DATCP to purchase three surety bonds, one each for the benefit of milk producers, grain producers, and vegetable producers, in the amount of \$5,000,000 to \$20,000,000, and one additional bond in the amount of \$20,000,000 to \$40,000,000 to be used in the event of a large default for which the fund and the industry specific bond are both insufficient to indemnify producers.

Contractors that do not meet certain financial standards are required to provide separate financial security, in a form such as a surety bond or a certificate of deposit.

This memo provides a brief description of the Act. For more detailed information, consult the text of the law and related legislative documents.

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Act 38 authorizes the DATCP to obtain a contract to provide a loan to the fund (that is, a guaranteed line of credit) in lieu of or in addition to the required surety bonds to provide backup security. In the event that the DATCP draws on this loan or line of credit to indemnify producers, it would be required to repay the loan over time from the fund. In testimony at public hearings, DATCP indicated that surety bonds are not currently available due to a variety of adverse market conditions, and so an alternative form of backup security is needed. It also indicated that it will be able to release nearly \$90,000,000 in individual security filed by 28 large contractors once backup security is in place.

In other provisions, the act:

- Increases the amount that the DATCP may pay in indemnities from the fund before resorting to backup security.
- Requires certain contractors that contribute to the fund but that do not meet additional financial standards specified in the act to provide their own backup security.
- Reduces the interest rate on the loan from the agrichemical management fund to the agricultural producer security fund from 5% to 2%.

ADDITIONAL INFORMATION

For a more detailed description of the agricultural producer security program, see the DATCP's web site at <http://datcp.state.wi.us/core/business/security/>.

Effective Date: The effective date of Act 38 is August 20, 2003.

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August 8, 2003

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