

SF2218 - 1E - Grain Indemnity Account

Chief Author: **Rob Kupec**
 Committee: **Agriculture and Rural Development**
 Date Completed: **3/15/2023 8:30:41 AM**
 Agency: **Agriculture Dept**

| State Fiscal Impact | Yes | No |
|---------------------------|-----|----|
| Expenditures | X | |
| Fee/Departmental Earnings | | X |
| Tax Revenue | | X |
| Information Technology | | X |
| Local Fiscal Impact | | X |

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

| State Cost (Savings) | Biennium | | | Biennium | | |
|-----------------------|----------------------|-----------|--------------|--------------|--------------|--------|
| | Dollars in Thousands | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | 15,000 | - | - | - | - |
| Agriculture Fund | - | (14,975) | 1,350 | 1,363 | (123) | |
| Total | - | 25 | 1,350 | 1,363 | (123) | |
| Biennial Total | | | 1,375 | | 1,240 | |

| Full Time Equivalent Positions (FTE) | Biennium | | | Biennium | |
|--------------------------------------|----------|-----------|-----------|-----------|--------|
| | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | - | - | - | - |
| Agriculture Fund | - | .1 | .1 | .1 | - |
| Total | - | .1 | .1 | .1 | - |

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Chloe Burns **Date:** 3/15/2023 8:30:41 AM
Phone: 651-297-1423 **Email:** chloe.burns@lbo.mn.gov

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

| State Cost (Savings) = 1-2 | | Biennium | | | Biennium | |
|----------------------------------------------------------|----------|-----------------|---------------|---------------|-----------------|---------------|
| Dollars in Thousands | | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | 15,000 | - | - | - | - |
| Agriculture Fund | - | (14,975) | 1,350 | 1,363 | (123) | |
| Total | - | 25 | 1,350 | 1,363 | (123) | |
| Biennial Total | | | 1,375 | 1,240 | | |
| 1 - Expenditures, Absorbed Costs*, Transfers Out* | | | | | | |
| General Fund | | | | | | |
| Expenditures | - | - | - | - | - | - |
| Transfers Out | - | 15,000 | - | - | - | - |
| Agriculture Fund | | | | | | |
| Expenditures | - | 25 | 1,510 | 1,510 | - | - |
| Absorbed Costs | - | - | (10) | (10) | - | - |
| Total | - | 15,025 | 1,500 | 1,500 | - | - |
| Biennial Total | | | 16,525 | 1,500 | | 1,500 |
| 2 - Revenues, Transfers In* | | | | | | |
| General Fund | | | | | | |
| Revenues | - | - | 150 | 137 | 123 | |
| Transfers In | - | 15,000 | - | - | - | - |
| Total | - | 15,000 | 150 | 137 | 123 | |
| Biennial Total | | | 15,150 | 260 | | |

Bill Description

Establishing the grain indemnity account; appropriating money.

Assumptions

The indemnity account will be a separate account from the fund from which the grain program currently operates. The program assumes a claim or elevator closure will occur every 18 months and will be an average of \$1,500,000. The cost for Minnesota Department of Agriculture (MDA) staffing to investigate and issue payments (\$7,500 for 0.1 FTE State Program Administrator) and \$2,500 for Attorney General fees to represent the MDA in any legal proceeding related to the claims process. The sum of these will be approximately \$10,000, which will be absorbed by MDA.

It is expected that the fund will accumulate interest at roughly 1% annually, that interest will be included in revenue calculations. Interest will be deposited into the grain indemnity account. Revenue from producer premiums will not be collected until the fund falls below \$9,000,000 which is not expected to occur until after FY27.

For required printed material the program will need 800 posters and 80,000 flyers to send to each of the licensed locations in the program.

Expenditure and/or Revenue Formula

\$15,000,000 is appropriated in FY24, maintenance for the fund will be minimal until the first claim. The MDA expects claims to be received at a rate of \$1,500,000 every 18 months. Administrative expenses including investigation and payment issuance is estimated at \$7,500 for 0.1 FTE (State Program Administrator) and \$2,500 for Attorney General Fees

to represent the MDA in legal proceedings related to the claims, which will be roughly \$10,000 for each \$1,500,000 in claims. Estimated total expenditures will be \$1,510,000 in both FY25 and FY26.

Revenue is not expected to be collected into the fund through premiums in the first 5 years of enactment. The only revenue will be generated through interest which is calculated to be accrued at 1% annually.

For printed materials, the cost to print 800 11x17 color posters and 80,000 2-sided flyers is estimated to be \$2,500. The containers required to ship all materials is estimated to be \$2,000. The cost of shipping via courier is an estimated \$13,000. The labor required to prepare, package and distribute the printed material is the equivalent of 0.1 FTE (State Program Administrator), which is \$7,500, for a total of \$25,000 to prepare and distribute printed materials in FY24.

| In Thousands | 2024 | 2025 | 2026 | 2027 |
|--------------------------------|------------------|------------------|------------------|------------------|
| Interest (1%) | - | 149.75 | 136.25 | 122.61 |
| Prev fund balance+ Interest | - | 15,124.75 | 13,761.00 | 12,383.61 |
| Claims | - | (1,500.00) | (1,500.00) | - |
| Premiums | - | - | - | - |
| Printed materials expenditures | (25.00) | | | |
| Fund Balance | 14,975.00 | 13,624.75 | 12,261.00 | 12,383.61 |

Administrative costs of \$10,000 will be absorbed by a separate MDA agricultural fund and is not included in the table above.

Long-Term Fiscal Considerations

The fund is expected to need to collect premiums in 2032 in which the fund balance will fall below the requisite \$9,000,000. Based on the above assumptions the premiums will need to account for revenue of \$6,590,760. With premium collection comes significantly greater maintenance and accounting to verify and enforce produce premiums are collected and paid appropriately. This could equate to the equivalent of 0.5 FTE in years of premium collection.

Administrative costs of \$10,000 will be absorbed by a separate MDA agricultural fund and is not included in the table below.

| In Thousands | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|
| Interest (1%) | - | 149.75 | 136.25 | 122.61 | 123.84 | 110.07 | 111.18 | 97.29 | 83.26 |
| Prev fund balance+ Interest | - | 15,124.75 | 13,761.00 | 12,383.61 | 12,507.44 | 11,117.52 | 11,228.69 | 9,825.98 | 8,409.24 |
| Claims | - | (1,500.00) | (1,500.00) | - | (1,500.00) | - | (1,500.00) | (1,500.00) | - |
| Premiums | - | - | - | - | - | - | - | - | 6,590.76 |
| Printed materials expenditures | (25.00) | | | | | | | | |
| Fund Balance | 14,975.00 | 13,624.75 | 12,261.00 | 12,383.61 | 11,007.44 | 11,117.52 | 9,728.69 | 8,325.98 | 15,000.00 |

Local Fiscal Impact

References/Sources

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