

**Forging a Partnership to
Promote, Preserve and Protect
Indiana's Grain Markets and Farmers**

Presented to the

Indiana Grain Indemnity Corporation

February 23, 2007

Agenda

- **Goals**

- Discuss ISDA's current efforts to promote, preserve and protect Indiana's grain market and farmer
- Insure clarity in the separate and distinct roles between IGBWLA and the Indemnity Corporation
- Align on a go-forward plan to strengthen the partnership between the state, regulated community and the farmers to protect the grain market
- Secure agreement to a contribution from the Fund to IGBWLA

- **Agenda**

- ISDA's current efforts for the Indiana grain industry
- Review of all initiatives designed to protect the Indiana grain industry
- Summary of current challenges
- Go-Forward Recommendation

ISDA's Current Efforts for Indiana Grain

"A Balanced Approach"

- **Overarching Mission**

- Promote Indiana's grain industry to drive demand and improve farm profit
- Preserve Indiana's grain industry with investment in technology, research and innovation
- Protect Indiana's grain farmer with oversight of the financial integrity of the grain marketing industry

PROMOTE	PRESERVE	PROTECT
<ul style="list-style-type: none"> • Biofuel production • Livestock expansion • International trade • General Economic Dev. 	<ul style="list-style-type: none"> • Venture Capital Fund • Corn Check Off Support • Market Research • Technology (eg DDGs) 	<ul style="list-style-type: none"> • IGBWLA • Inspection Field Staff <ul style="list-style-type: none"> – <i>Financial Review</i> – <i>Moisture Meter</i> – <i>Soybean Board Audits</i>

Today's Recommendation

“What it is and is NOT”

It is

- A dialogue
- A plan to forge a stronger relationship

It is NOT

- A “ploy” to fund the State
- A plan to fix an ISDA funding issue
- A way for the State to take over the fund balance

Protecting Indiana's Grain Farmer

"Today's Reality"

- **3 parties have a vested interest**
 - Grain Farmers via the Grain Indemnity Board
 - Grain Marketers and Handlers
 - State Government via IGBWLA
- **2 key functions are performed**
 - Day-to-day oversight and regulation
 - Insurance for failure
- **Current funding structure**

	Day-to-Day Oversight	Insurance
Direct Farmer Investment	\$0	~\$12,000,000
Marketer & Handler	\$0*	\$0
State	\$1,000,000/year ~\$25,000,000 total to-date	\$0

The State's Role in Protecting "A Closer Look"

- **IGBWLA was created in 1974 to insure the financial integrity of the grain marketing infrastructure. (IC 26-3-7)**
- **IGBWLA is part of the Indiana State Department of Agriculture (ISDA) and is *entirely funded by ISDA's general operating fund.***
 - *IGBWLA collects approximately \$153K in fees annually but all these proceeds revert to the General Fund.*
 - *NOTE: \$19K is collected by IGBWLA for moisture meter testing and soybean audits.*
 - *IGBWLA fees have not increased since 1996.*

The State's Role in Protecting "A Closer Look"

- **IGBWLA has moved beyond its required scope under IC 26-3-7 mostly by conducting extensive field audits.**
 - *The "Suggested Functions" complement the "Required Functions" by adding an additional layer of analysis and oversight.*

2007 IGBWLA Budget

	Mandatory Functions	Suggested Functions
Description	<ul style="list-style-type: none"> • Issue licenses • Review financial statements 	<ul style="list-style-type: none"> • Conduct field audits
Staff	<ul style="list-style-type: none"> • Director • License Officer 	<ul style="list-style-type: none"> • Field Staff • Audit Supervisor
Staff and Associated HR Costs	<ul style="list-style-type: none"> • \$179K 	<ul style="list-style-type: none"> • \$396K
All Other	<ul style="list-style-type: none"> • \$425K 	<ul style="list-style-type: none"> • \$0K
TOTAL	<ul style="list-style-type: none"> • \$604K 	<ul style="list-style-type: none"> • \$396K

The State's Role in Protecting "A Closer Look"

- **IGBWLA could fulfill its statutory obligations without conducting extensive field audits.**
 - Industry consolidation makes oversight much easier
 - Electronic reporting and analysis provides ample data to catch issues
 - Requiring audited level financial statements could reduce risk even further
 - Random/surprise field audits are actually more effective
 - *Today, audits are at least annual with all licensees*
 - New industry risk is largely with ethanol and other new players
 - *Risk is in ability to pay and less in maintaining corn inventories*

The Farmer's Role (via Indemnity Board)

"A Closer Look"

- **In 1996, the Grain Indemnity Corporation was created to provide self-insurance to grain farmers in the event of failure in the grain marketing system.**
- **IGBWLA's Director was tasked to chair the Corporation. (IC 26-4-3&4)**
 - *In 1998, the fund's collections stopped after achieving a \$10MM balance.*
 - Law caps the fund at \$10MM and does not reinstitute collection unless balance drops below \$5MM
 - *Currently, the fund has a \$14.6MM balance*
 - *Accrues approximately \$0.5-0.7MM in interest annually.*
 - *Since the fund's inception, it has paid \$2.1MM for losses with the largest single loss being \$1.1MM.*
 - *The largest potential loss is \$10.6MM for the largest in-state elevator and \$23.2MM for the largest multi-national.*

The Farmer's Role (via Indemnity Board)

"A Closer Look"

- **Current financial status is very robust.**
 - A financial bridge from 1996 to 2006

Original Investment	\$12,047,773
Less Payments	\$ 2,125,649
Less Operating Costs	\$ 137,795
Plus Interest & Other Revenue	\$ 4,812,057
Current Balance	\$14,596,484
% Growth Since Inception	21.2%

- **Solid financial status is a function of**
 - Interest and investment strategy
 - Minimal loss due to strong state oversight

Today's Challenges

- **Indiana taxpayers are the only partner making annual investments to protect the grain industry**
- **The grain marketing and handling annual fee investment is not realized by IGBWLA**
- **The Indemnity Fund's current operating strategy does not financially recognize the role of IGBWLA**
- **The State does not need to continue spending on "suggested" functions...field audits**
- **BUT, the Grain Indemnity Corporation needs field audits to help reduce risk and maintain financial integrity**

Go-Forward Recommendation

“A Plan for a Stronger Partnership”

- **Overarching Goal -- Maintain current level of oversight and financial integrity by insuring all partners have a vested role in protection functions**
- **Key elements of stronger partnership**
 - Maintain taxpayers as the lead investor
 - Pass legislation to create a IGBWLA Fund Center to allow fees to flow to the Agency
 - *\$153,000 annually*
 - Increase fees on the regulated industry
 - *\$150,000-\$200,000 additional annually*
 - Secure an annual contribution from the Grain Indemnity Corporation
 - *\$250,000 annually per the limits as defined the Grain Indemnity Law*

Go-Forward Recommendation “A Plan for a Stronger Partnership”

- Summary of the planned new annual contributions is as follows:

Funding Source	Annual Contribution
ISDA General Operating Funds	\$ 391K
Current Fees	\$ 153K
Additional Fees from Increase	\$ 211K
Indemnity Fund	\$ 250K
TOTAL	\$1,000K

Go-Forward Recommendation

“A Plan for a Stronger Partnership”

- **The annual contribution from the Grain Indemnity Corporation would be under the following parameters:**
 - Annual contributions would be made to the new, dedicated IGBWLA fund
 - Annual reviews would be made by the Grain Indemnity Board
 - A Cooperative Agreement as defined by IC26-4-3&4 would be executed between the Grain Indemnity Board and IGBWLA expressly stating among other things:
 - *The contribution must be used expressly for administration of the Fund and IGBWLA field/audit staff*
 - *The state has no rights or additional oversight outside the parameters outlined in (IC 26-4-3&4), particularly in regards to ownership or access to the Fund*
 - *The Grain Indemnity Board has no regulatory oversight other than outlined in (IC 26-4-3&4)*
 - *An out-clause if either IGBWLA or the Grain Indemnity Board feel the terms of this agreement are not being upheld.*

Options Without Partnership Plan

- **Assuming all or part of the planned partnership plan is not implemented, IGBWLA will consider all or part of the following:**
 - Reduction in field staff
 - Higher charges for IGBWLA's non-statutory requirements:
 - *Soybean and corn audits*
 - *Audits for the Indemnity Corporation, if necessary*

Next Steps

- **Assuming agreement by the Grain Indemnity Board, IGBWLA will:**
 - Ask AG for formal opinion on the use of the funds for this purpose under 26-4-4
 - Execute the Cooperative Agreement for review by the Board and approval of terms at May meeting
 - Execute a communication plan to all Indiana Grain Farmers to explain the plan and parameters of the investment
 - *Press announcement*
 - *Website Q&A*
 - *Letter to all Grain Farmers from ISDA/IGBWLA and the Corporation*