MEETING MINUTES

AGRICULTURAL PRODUCER SECURITY COUNCIL

December 6, 2011

Call to order

The Agricultural Producer Security Council held a meeting on Tuesday, December 6, 2011, at the headquarters of the Wisconsin Department of Agriculture, Trade and Consumer Protection, 2811 Agriculture Drive, Madison, Wisconsin.

Jeremy McPherson called the meeting to order and acted as Chair for the first part of the meeting. The group agreed to rearrange the order of the agenda, so that a couple of members who were a few minutes behind could participate in the election of officers.

Attendance

Eight council members were present: Doug Cropp, Dave Daniels, Nick George, Don Hamm, Duane Maatz, John Manske, John Umhoefer, and Jim Zimmerman.

Two council members were absent: Louise Hemstead and Craig Myhre.

DATCP staff members present were Eric Hanson, Kevin LeRoy, and Jeremy McPherson. In addition, Sandy Chalmers, Jeff Lyon, and David Meany each attended some portion of the meeting.

Members of the public present included Joan Stanstadt and Tom Bressner.

Agenda Item II. Approve Minutes from August 9, 2011 Meeting.

Motion to Approve Minutes from the August 9, 2011 meeting with one minor correction by Dave Daniels, seconded by Jim Zimmerman. Motion was approved unanimously.

Agenda Item III-B Financial Results, First Quarter, September 30, 2012

Eric Hanson led a discussion on the Producer Security Fund's financial results for the three months ended September 30, 2011. Eric reminded the group that a three-month statement can have some inherent timing problems that make comparisons from one year to the next somewhat less valuable. With that caveat in mind, the group examined revenue amounts compared with the previous year.

Grain dealer assessment revenue was up substantially, from about $158,000 to about $318,000. Eric reported that this increase was mainly due to increased deferred payment assessments. Grain warehouse was also up substantially, from about $22,000 to about $51,000. This increase was due mostly to timing of when assessments were collected. Milk contractor assessment revenues were down considerably from about $124,000 to about $32,000. This decrease was because of the "assessment holiday" for milk contractors that was currently in effect. Eric explained that the assessments collected

from milk contractors was greater than zero because only those licensees that have been a part of the program for five years or more are granted the holiday.

Eric pointed out that revenues from grain dealer license fees went down from $285,000 on the First Quarter, FY 09-10 statement to $171,000 in FY 10-11 and $70,000 in FY 11-12. This was because of license fee credits. There were some licensee fee credits available last year, and greater amounts available this year, because the balance in the grain dealer portion of the fund had grown.

Jim Zimmerman requested that future financial reports include the number of licensees.

Agenda Item I. Membership – Elect new chair and vice-chair.

At its previous meeting (August 9, 2012), The Producer Security Council decided to postpone election of new officers until this meeting. Jeremy McPherson began the election process by requesting nominations for Chairperson.

Motion: to nominate John Manske for Chair by Don Hamm, second by Jim Zimmerman.

Motion: to close nominations for Chair, by Jim Zimmerman, second by John Umhoefer. Motion carried.

Motion: to accept John Manske as Chair by unanimous consent by Nick George, second by Jim Zimmerman. Motion carried.

At this point Jeremy passed the figurative gavel to the new chair, John Manske. John asked for nominations for vice-chair.

Motion: to nominate Dave Daniels for Vice-Chair by John Umhoefer, second by Jim Zimmerman.

Motion: to close nominations for Vice-Chair and to accept Dave Daniels as Vice Chair by unanimous consent. Motion by Jim Zimmerman, second by Nick George. Motion carried.

There was a discussion regarding whether to elect a Secretary. Previously, the group had elected Dave Daniels as Secretary. But because DATCP staff was active in fulfilling the administrative needs of the group; the group decided to allow the position to lapse. John Manske agreed that he would be willing to sign-off on meeting minutes after they had been prepared by DATCP staff and approved by the council.

Agenda Item III.A Annual Report for Fiscal Year ended June 30, 2011

Eric Hanson led this discussion. The group first examined total revenue into the fund. For both FY 2009-10 and FY 2010-11, the overall assessment revenue was roughly $1.2 million. However, there were significant changes within each of the four licensee groups that make up the assessment revenue. Grain dealer assessments went from about $432,000 to about $682,000. This was due partially to more deferred payment assessments, partially to higher grain prices (and therefore higher dollar amounts purchased), and partially to changes in some grain dealers' balance sheet ratios. Grain warehouse keeper assessments went from about $56,000 to about $120,000. This was mostly because of changes in licensees' balance sheet ratios. Milk

contractor assessments went from $709,000 to $438,000. This was partially because of changes in licensees' balance sheet ratios and partially because of the "Assessment Holiday" that began with the license year started May 1, 2011.

License fee revenues are down from around $810,000 in FY 2009-10 to $640,000 in FY 2010-11 due mainly to new license fee credits that grain dealers became eligible for when their fund balance exceeded $2 million as of May 31, 2010. These license fee credits, which are currently also available for milk and vegetable contractors, are used to offset and therefore decrease license fees collected. Expenditures from the fund in FY 2010-11 increased by $22,000, comprised of an increase of $42,000 mainly attributable to the filling of a vacant auditor position for the dairy and vegetable programs, and a $20,000 decrease in Supplies and Services Expenditures. Overall the fund balance grew by almost $800,000 in FY 2010-11, from just under $10.6 million to just under $11.4 million.

Eric Hanson proceeded to discuss individual license programs. The fund balance for the grain dealer program grew by over $500,000 in FY 2010-11, from just under $2.35 million to just under $2.85 million, even though license fee collections were reduced by $140,000 in license fee credits. The increased grain dealer fund balance resulted in larger license fee credits for the license year beginning September 1, 2011.

While the grain warehouse keeper program continued to show a negative balance of about $340,000, this deficit decreased in FY 2010-11 by $100,000. This positive change resulted from decreased expenditures of $40,000 and increased assessment revenues of $60,000. The decreased expenditures in the warehouse program are largely due to an allocation of less resources towards the warehouse program that resulted from the recent decline in the number of state licensed grain warehouses. The excess revenue over expenditures in the warehouse program is projected to continue to some degree in the near future resulting in future reductions in the negative balance.

Although the fund balance for milk contractors increased in FY 2010-11 by $225,000 to just under $7.8 million, the pace of the increase is down from the $545,000 increase in FY 2009-10. This was largely due to the "Assessment Holiday" for milk contractors.

The vegetable contractor balance was down $45,000 in FY 2010-11 compared to the $13,000 increase in FY 2009-10. This $58,000 change was comprised of a $35,000 decrease in revenues and a $23,000 increase in expenditures, largely from filling a previously vacant auditor position.

Eric Hanson proceeded with further discussion of various fund thresholds that have been reached or are projected to be reached in FY 2011-12. The fund balances for the grain dealer, milk contractor, and vegetable contractor programs are all above the minimum balance to receive license fee credits and are expected to remain above those thresholds allowing for continued credits during licensing for FY 2011-12. Although there has been progress made in the grain warehouse program and that progress is projected to continue, its fund balance remains below the statutory minimum of $200,000. Another threshold discussed pertained to the "Assessment Holiday" provisions. The first criteria for an assessment holiday is an overall fund balance in excess $11 million and then each individual program must meet their own individual fund balance minimum in order to receive an assessment holiday for their license program. Milk contractors received an assessment holiday beginning with their May 1, 2011 license year and based on projections, milk contractors will likely continue to receive and an assessment holiday for their license year beginning May 1, 2012, and grain dealers are likely to receive an

assessment holiday for their license year beginning September 1, 2012.

Agenda Item IV Grain Warehouse Keeper Issue Paper

Kevin LeRoy led a discussion on a paper titled, "Grain Warehouse Keeper Licensing Program within the Wisconsin Agricultural Producer Security Program." This paper had been prepared by DATCP staff. The goal of this paper was to provide some structure and background for the informal policy discussions that have occurred recently. If and when these policy discussions become more focused and detailed, this paper should help audiences that have less familiarity with the topic find a reliable starting point for participating in the discussion.

The first section of the paper is a description of the Grain Warehouse Keeper program's basic structure. The second part discusses how the Wisconsin program compares with other states' programs. The second part also briefly describes federal programs and state grain merchandising laws that may have some regulatory overlap with state grain warehousing laws.

The third section of the paper contains a detailed accounting of the fund's revenues and expenses related to grain warehouse over the last 10 years. Finally, the last portion of the paper contains a discussion about some recent concerns and a non-exhaustive list of potential policy options.

The concerns discussed in the paper are the fund balance and the cost of the program. Some stakeholders (who represent other industries covered by the fund) have expressed concern that the balance in the fund attributable to grain warehouse keepers is negative. Other stake holders (who represent the grain industry) have expressed concern about the overall cost of complying with the program.

The paper lists several possible policy options:

- Eliminate DATCP's grain warehouse keeper license and replace it with a requirement that elevators obtain a grain warehouse license from USDA / FSA.
- Deregulate grain warehousing in Wisconsin.
- Revert to pre-2002 grain warehouse security law.
- Combine the accounting for grain warehouse and grain dealer portions of the program.

For each of these policy options, the paper mentions some benefits and detriments, but does not make any recommendations.

Doug Cropp said that based on his experience, DATCP auditors seem to be more efficient than FSA auditors. Jim Zimmerman said it would be nice if we could have a system for USDA to accept audits conducted by DATCP. John Umhoefer wondered if reverting to the pre-2002 program was the best option. Jim Zimmerman said the current program is a "Cadillac" and far more expensive than the old one.

Over the course of the discussion, council members requested DATCP compile a history of defaults and share it with the council. Jeff Lyon said that the summer of 2012 would be a good time to do the basic development on potential legislation.

Agenda Item V Report – New Tier System for DATCP Producer Security Enforcement Emphasis

Jeremy McPherson reported that DATCP has been working on a new "Tier System" for prioritizing audit and field review work. DATCP has been developing this system for several months, and Jeremy stated that it is DATCP's intention to test the new structure over the summer and implement the new procedures starting with the Grain license renewal in Sept. 2012. Once bugs are worked out, DATCP plans to develop similar structures for vegetable and milk contractors the following year. Generally, DATCP will reduce the level of direct inspection of items it examines if licensees have met certain criteria. The specific criteria will not be released to the public, but generally, they include factors such as compliance history, financial strength, inventory management, and record keeping practices. The overall goal is to allow DATCP to focus resources on licensees that pose the greatest risk to producers and the Fund.

Next Meeting.

The group agreed to schedule a meeting for Tuesday, June 12, 2012.

Motion to adjourn was approved.

John Manske, Chair

John Manske, Chair