

Act No. 300
Public Acts of 2010
Approved by the Governor
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**STATE OF MICHIGAN
95TH LEGISLATURE
REGULAR SESSION OF 2010**

Introduced by Senator Van Woerkom

ENROLLED SENATE BILL No. 1397

AN ACT to amend 2003 PA 198, entitled “An act to provide insurance to farm produce producers against losses from the failure of grain dealers; to establish a farm produce insurance authority; to prescribe the powers and duties of the authority and its board; to establish a farm produce insurance fund; to provide for assessments on grain dealers; to prescribe certain powers and duties of certain state agencies and officers; to authorize the promulgation of rules; and to repeal acts and parts of acts,” by amending the title and sections 3, 7, 9, 15, 17, and 21 (MCL 285.313, 285.317, 285.319, 285.325, 285.327, and 285.331), sections 3 and 15 as amended by 2008 PA 140.

The People of the State of Michigan enact:

TITLE

An act to provide insurance to farm produce producers against losses from the failure of grain dealers; to establish a farm produce insurance authority; to prescribe the powers and duties of the authority and its board; to establish a farm produce insurance fund; to provide for assessments on certain producers of farm products; to prescribe certain powers and duties of certain state agencies and officers; to authorize the promulgation of rules; and to repeal acts and parts of acts.

Sec. 3. As used in this act:

- (a) “Acknowledgment form” means that term as defined in section 2 of the grain dealers act, MCL 285.62.
- (b) “Administrative expenses” means the costs described in section 9(2).
- (c) “Authority” means the farm produce insurance authority created in section 5.
- (d) “Board” means the board of directors of the authority described in section 7.
- (e) “Claimant” means a producer who makes a claim for reimbursement from the fund under section 15.
- (f) “Cooperative association” means that term as defined in 12 USC 1141j.
- (g) “Department” means the department of agriculture.
- (h) “Depositor” means that term as defined in section 2 of the grain dealers act, MCL 285.62.
- (i) “Director” means the director of the department or his or her designee.
- (j) “Facility” means that term as defined in section 2 of the grain dealers act, MCL 285.62.
- (k) “Failure” of a licensee or grain dealer means that term as defined in section 2 of the grain dealers act, MCL 285.62.
- (l) “Farm produce” means that term as defined in section 2 of the grain dealers act, MCL 285.62.
- (m) “Farm produce insurance program” or “program” means the program for reimbursement of claims described in this act.

(n) "Financial institution" means that term as defined in section 2 of the grain dealers act, MCL 285.62.

(o) "Financial loss" means the loss to a producer who is not paid in full for farm produce that the producer sold to a grain dealer and delivered under the terms of the sales contract, after deducting any outstanding charges against the farm produce.

(p) "Fund" means the farm produce insurance fund created in section 9.

(q) "Grain dealer" means that term as defined in section 2 of the grain dealers act, MCL 285.62.

(r) "Grain dealers act" means the grain dealers act, 1939 PA 141, MCL 285.61 to 285.88.

(s) "Licensee" means that term as defined in section 2 of the grain dealers act, MCL 285.62.

(t) "Net proceeds" means the sale price of farm produce, less usual and customary charges and costs of sale of the farm produce.

(u) "Person" means an individual, corporation, limited liability company, partnership, association, cooperative association or other cooperative organization, or other legal entity.

(v) "Price later agreement" means that term as defined in section 2 of the grain dealers act, MCL 285.62.

(w) "Producer" means a person that owns, rents, leases, or operates a farm on land and who has an interest in and receives all or any part of the proceeds from the sale and delivery in Michigan of farm produce produced from the land to a grain dealer licensed under the grain dealers act.

(x) "Producer premium" means the amount of money charged to and collected from a producer under section 11.

(y) "Producer security activities" means any action by the director under section 22 of the grain dealers act, MCL 285.82, to administer or enforce that act.

(z) "Sale" means transfer of title.

(aa) "Storage loss" means a loss to a depositor resulting from the failure of a licensee that has not fully satisfied its storage obligation to the depositor, net of any outstanding charges against the farm produce.

(bb) "Valid claim" means a claim arising from a failure of a licensee that occurs after the effective date of this act, is found valid by the department, and is approved by the board, less all credits and offsets associated with farm produce delivered and sold in this state by a producer to the licensee or to a location in this state designated in advance of the delivery.

(cc) "Warehouse receipt" means that term as defined in section 2 of the grain dealers act, MCL 285.62.

Sec. 7. (1) A board of directors shall govern and administer the authority. The board shall consist of the following 9 members:

(a) The director, or his or her designee, is a nonvoting member and the chairperson and secretary of the board. This member shall not receive per diem or other compensation or reimbursement for expenses for serving on the board.

(b) One nonvoting member appointed by the governor with the advice and consent of the senate, from recommendations received from the largest Michigan organization representing the interests of licensees in Michigan, as determined by the director.

(c) Three voting members appointed by the governor with the advice and consent of the senate for staggered terms, from recommendations received from the largest Michigan organization representing general farm interests in Michigan, as determined by the director. Only a producer is eligible for appointment under this subdivision. For the first board, the governor shall appoint 1 voting member appointed under this subdivision for a term of 1 year, 1 voting member for a term of 2 years, and 1 voting member for a term of 3 years.

(d) One voting member appointed by the governor with the advice and consent of the senate, from recommendations received from the largest Michigan organization exclusively representing the interests of corn producers in Michigan, as determined by the director. Only a producer is eligible for appointment under this subdivision.

(e) One voting member appointed by the governor with the advice and consent of the senate, from recommendations received from the largest Michigan organization exclusively representing the interests of soybean producers in Michigan, as determined by the director. Only a producer is eligible for appointment under this subdivision.

(f) One voting member appointed by the governor with the consent and advice of the senate, from recommendations received from the largest Michigan organization exclusively representing dry bean producers in Michigan, as determined by the director. Only a producer is eligible for appointment under this subdivision.

(g) One voting member appointed by the governor with the advice and consent of the senate, from recommendations received from the largest Michigan organization representing the interests of agricultural lenders in Michigan, as determined by the director.

(2) Except as provided in subsection (1)(b) and (c) for the first board, each member of the board appointed by the governor shall serve for a 3-year term and may be reappointed for 1 or more additional terms. The governor may remove a member appointed by the governor from the board for good cause.

(3) The governor shall fill a vacancy on the board for an unexpired term for the remainder of the term and in the same manner as an original appointment. A vacancy does not impair the right of a quorum to exercise all the rights and perform all the duties of the board.

(4) Four voting members constitute a quorum. The affirmative vote of 4 or more voting members is necessary for an action of the board other than adjournment of a meeting of the board. An adjournment of a meeting of the board requires a vote of a majority of voting members present at the meeting and voting.

(5) The board shall hold an annual meeting and at least 1 additional meeting each calendar year. The secretary of the board shall provide written notice of each meeting to the members of the board at least 5 days before the meeting.

(6) A member of the board may waive any notice required by this section, before or after the date and time stated in the notice, in writing and delivered, mailed, or electronically transmitted to the authority for inclusion in the minutes or filing with the records of the authority.

(7) A board member's attendance at a meeting waives any objection to any of the following:

(a) No notice or a defective notice of a meeting, unless the member at the beginning of the meeting objects to holding the meeting or transacting business at the meeting.

(b) Consideration of any particular matter at a meeting that is not within the purpose or purposes described in the notice, unless the member objects to considering the matter when it is presented.

(8) The board shall do all of the following:

(a) Elect from among its members a vice-chairperson and treasurer.

(b) Create forms, and establish policies and procedures to implement this act.

(c) Establish the amount of the producer premium under section 11.

(d) Collect and deposit all producer premiums authorized under this act into the fund.

(e) Take any legal action it considers necessary to compel a failed licensee to repay the fund for any payment made from the fund to a claimant for a valid claim against that licensee.

(f) Take any legal action it considers necessary to compel a claimant to participate in any legal proceeding in relation to the claim or the failure of a licensee.

(g) Within 5 business days of receiving notice of failure of a licensee, publish notice of the failure in a manner described in the grain dealers act.

(h) Request the services of the department or arrange for legal services through the department of attorney general if the board considered it necessary in the execution of its duties.

(i) Procure insurance against any loss in connection with its operations, in amounts and from insurers as determined by the board.

(j) Borrow money from a bank, an insurance company, an investment company, or any other person, and pay or include in the loan any financing charges or interest, consultant, advisory, or legal fees, and other expenses the board determines are appropriate in connection with the loan. Any loan contract must provide for a term of not more than 40 years, allow prepayment without penalty, and plainly state that the loan is not a debt of this state but the sole obligation of the authority, payable solely from the fund or from any appropriation from this state made to the authority for repayment of the loan.

(k) Employ personnel as required in the judgment of the board and fix and pay compensation from money available to the authority from the administrative expenses account described in section 9(2).

(l) Make, execute, and carry out any contract, agreement, or other instrument or document with a governmental department or other person it determines is necessary or convenient to accomplish the purposes of this act.

(m) If requested by the director and approved by the board, make payment from the fund to compensate a claimant for a valid claim.

(9) The board may do any of the following:

(a) Establish policies and procedures in connection with the performance of the functions and duties of the authority.

(b) Adopt a policy establishing a code of ethics for its employees and board members, consistent with 1973 PA 196, MCL 15.341 to 15.348.

(c) Accept gifts, devises, bequests, grants, loans, appropriations, revenue sharing, other financing and assistance, and any other aid from any source and deposit them in the fund and agree to and comply with any conditions attached to them.

(d) Enter into a memorandum of understanding with the director that provides for reimbursement of the director for producer security activities from the fund.

(10) A voting member may receive per diem compensation and mileage reimbursement for attending meetings of the board or while engaged in the performance of his or her duties on behalf of the authority, in amounts established by the board, and may receive reimbursement for other expenses approved by the board. The amounts established by the board shall not exceed the maximum commission of agriculture rates for per diem compensation and mileage reimbursement. A voting member shall not receive any other compensation for serving on the board or for services performed for the authority.

(11) The department shall inspect the books and records of a licensee during normal business hours to verify whether the licensee is complying with the provisions of this act.

Sec. 9. (1) The farm produce insurance fund is established under the direction and control of the board. The fund shall consist of producer premiums, money from any other source, and interest and earnings from any other source. The board shall direct payments from the fund only for the following purposes:

- (a) Payment of valid claims under section 15.
- (b) Payment of producer premium refunds under section 13.
- (c) Payment of administrative expenses under subsection (2).
- (d) Payment of legal fees and legal expenses under subsection (3).
- (e) Reimbursement of the director for producer security activities.

(2) The board shall allocate money from the fund to a separate administrative expenses account to pay administrative expenses and to reimburse the director for producer security expenses. This allocation shall not exceed \$250,000.00 in any fiscal year. Administrative expenses under this subsection include the actual cost of processing refunds of producer premiums, enforcement, record keeping, ordinary management and investment fees connected with the operation of the fund, verification cost under section 11(5), and any other expenses approved by the board. Administrative expenses do not include legal fees and legal expenses described in subsection (3).

(3) For legal services requested by the board, the board shall pay for any legal services and legal expenses required by the authority, board, or fund from money in the fund. Legal services and expenses described in this subsection are not administrative expenses and shall not be paid from the administrative expenses account.

(4) The treasurer of the board shall act as the investment officer of the fund and shall invest or direct a financial institution to invest the money in the fund that is not currently needed to meet the obligations of the fund. The treasurer of the board shall invest or direct the investment of the money only in the manner permitted in section 1 of 1943 PA 20, MCL 129.91. Interest and earnings shall be credited to the fund.

(5) The fund shall operate on a fiscal year established by the board.

Sec. 15. (1) Subject to subsection (2), a producer that satisfies any of the following conditions is eligible to make a claim for reimbursement from the fund under this section:

(a) The producer possesses written evidence of ownership of farm produce that discloses a storage obligation of a licensee that has failed, including, but not limited to, a warehouse receipt, acknowledgment form, or settlement sheet.

(b) The producer has surrendered warehouse receipts as part of a sale of farm produce to a licensee that failed not more than 21 days after the surrender of the warehouse receipts and the producer surrendering the warehouse receipts was not fully paid for the farm produce.

(c) The producer possesses written evidence of the delivery and sale of farm produce or transfer of price later farm produce to a failed licensee, including, but not limited to, an acknowledgment form, settlement sheet, price later agreement, or similar farm produce delivery contract, but the grain dealer did not pay the producer in full for the farm produce.

(2) A producer is not eligible for reimbursement from the fund for a claim submitted under this section if any of the following apply:

(a) The producer previously requested a refund from the fund under section 13 and the producer did not previously reenter the program under section 13(5).

(b) The claim relates to delivery of farm produce to a licensee that is a cooperative association, under the terms of an agreement between the producer and the licensee that allocated delivery rights and obligations proportionate to a capital investment of the producer in the licensee.

(c) At the time the claim is submitted, excluding patronage interests, the producer is the owner of at least 5% of the voting shares, other than publicly traded shares, membership interests, partnership interests, or other ownership interests of the licensee whose failure is the basis of the claim. As used in this subdivision, "patronage interests" means shares or membership, partnership, or other ownership interests in a licensee that is a cooperative association that are allocated and distributed to the producer in proportion to that producer's patronage of the cooperative association.

(d) At the time the claim is submitted, the producer is the owner of at least 5% of the voting shares, other than publicly traded shares, membership interests, partnership interests, or other ownership interests of the parent corporation of the licensee whose failure is the basis of the claim.

(e) Title to the farm produce that is the subject of the claim was transferred by the producer more than 2 years before the date the claim is submitted.

(f) If notice of the failure of the licensee was published in a newspaper of general circulation in each county in which a facility of the licensee was located, the claim is submitted more than 1 year after that publication.

(3) If the department finds a claim made under subsection (1) is valid and the board approves of the valid claim, the board shall within 90 days of the board's approval pay the claimant the amount described in subsection (4) or (5) from the fund as compensation for the claim. The 90-day time period for payment may be extended if the board and claimant agree in a writing that describes the payment terms and schedule.

(4) A claimant that incurs a storage loss due to the failure of a licensee is entitled to payment under subsection (3) in an amount equal to 100% of the storage loss, less any producer premium that would have been due on the sale of the farm produce. The department shall determine the gross amount of the storage loss based upon local market prices on the date of failure. The department may consider any evidence submitted by the failed licensee or any claimants concerning the actual charges associated with stored farm produce.

(5) A claimant that incurs a financial loss due to the failure of a licensee is entitled to payment under subsection (3) in an amount equal to 90% of the financial loss. For farm produce that is sold in a transaction subject to the grain dealers act, the department shall determine the amount of the financial loss based on the value of the farm produce less any outstanding charges against the farm produce. If the farm produce has not been priced, the department shall establish the amount of the financial loss using the local market on the date of failure less any usual and customary charges associated with the sale of farm produce.

(6) The board may require a claimant paid under this section for a valid claim to subrogate to the board or authority all the claimant's rights to collect on any bond issued under the grain dealers act or the United States warehouse act, 7 USC 241 to 256, and the claimant's rights to any other compensation arising from the failure of the licensee. If required to subrogate under this subsection, the claimant shall assign the claimant's interest in any judgment concerning the failure to the board or authority.

(7) The board shall deny the payment of a valid claim under this section if the board determines any of the following are met:

(a) The claimant as payee fails to present for payment a negotiable instrument issued as payment for farm produce within 90 days after the date the negotiable instrument is tendered to the claimant as payment for farm produce purchased by the licensee.

(b) The claimant has engaged in marketing or management practices that have contributed to the claimant's loss. The authority may consider whether the marketing or management practices are generally accepted marketing or management practices in this state in making its determination.

(c) The claimant has intentionally committed a fraud or violated this act in connection with the claim.

(d) The claimant did not take reasonable actions to mitigate farm produce losses.

(8) If the department determines that a failure of a licensee has occurred, the board shall do all of the following:

(a) Determine the valid claims against the licensee and the amount of the valid claims.

(b) Authorize payment of money from the fund when necessary to pay claimants for valid claims as provided in this section.

(c) Deposit into the fund any proceeds of the remaining farm produce assets of a failed licensee to repay the fund for money paid to claimants, subject to any priority lien right a holder of a mortgage, security interest, or other encumbrance may possess under any applicable law. The board shall not deposit into the fund an amount in excess of the sum of the principal amount of valid claims paid to claimants, plus interest for the period from the date a claimant was paid for a valid claim to the date that the remaining farm produce assets were received by the board under this subsection, at a per annum rate equal to the auction rate of 91-day discount treasury bills on the date the claimant was paid.

(d) If the amount in the fund and any amount the board borrows under subsection (9)(b) are insufficient to pay all valid claims, pay the amount available for payment proportionately among the valid claims approved by the board and pay the prorated amount to those claimants.

(9) If the department determines that a failure of a licensee has occurred, the board may do any of the following:

(a) Pursue any subrogation rights obtained from claimants under subsection (6).

(b) If the fund has insufficient money to pay the valid claims, borrow money as authorized under section 7(8)(j) for the payment of valid claims.

Sec. 17. (1) The board shall use money in the fund only for a purpose described in section 9(1). This section is not severable from the whole of this act, and if any portion of this section is held invalid, it is the manifest intent of the legislature that this act as a whole shall be held invalid and the money remaining in the fund distributed to producers at the time and in the amounts established by the board.

(2) At least annually, a certified public accountant selected by the board shall audit the financial records of the fund. Within 30 days after completion of the audit, the certified public accountant shall give copies of the audit to the director and the other members of the board. The board shall publish an activity and financial report annually and make it available to the public on request.

Sec. 21. (1) In addition to any other penalty or remedy provided by law, a person that knowingly or intentionally commits any of the following is guilty of a misdemeanor punishable by a fine of not more than \$5,000.00 for each offense:

(a) Refusing or failing to collect producer premiums as required under this act.

(b) Refusing or failing to pay to the authority producer premiums collected under this act.

(c) Making a false statement, representation, or certification, or knowingly failing to make a required statement, representation, or certification, in a record, report, or other document the person files with the director, department, board, or authority, or that the person is required to file with the director, department, board, or authority, under this act.

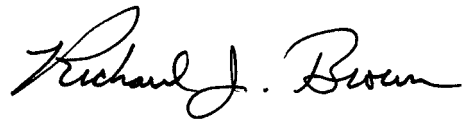
(d) Resisting, preventing, impeding, or interfering with the director, agents or employees of the department, the board, or agents or employees of the authority or board in the performance of their duties under this act.

(2) In addition to the criminal penalty described in subsection (1), the court in an enforcement action for a violation described in subsection (1)(a) or (b) shall order the grain dealer to pay to the fund any producer premiums collected by the grain dealer that it owes to the fund and may order the grain dealer to pay interest on the amount the grain dealer owes to the fund.

This act is ordered to take immediate effect.



Secretary of the Senate



Clerk of the House of Representatives

Approved

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Governor