

Fiscal Estimate Narratives

DATCP 5/29/2003

LRB Number 03-2265/2	Introduction Number AB-349	Estimate Type Updated
Subject		
Modify the agricultural producer security program		

Assumptions Used in Arriving at Fiscal Estimate

Generally, this bill makes three changes to the Agricultural Producer Security Fund administered by DATCP. It replaces the requirement that DATCP obtain four surety bonds with a more general requirement that DATCP obtain contingent financial backing (which could be a bond, letter of credit or some other financial instrument). It requires contractors who contribute to the fund and have a very high estimated default exposure to obtain individual security in addition to contributing to the fund. Finally, this bill changes the interest rate on a loan from the Agrichemical Management Fund to the Agricultural Producer Security Fund.

The requirement that contractors with high estimated default exposure must post individual security could possibly (but not likely) result in a small loss of revenue for the Agricultural Producer Security Trust Fund. For those contributing contractors who have an estimated default exposure greater than \$18 million in 2003, \$19 million in 2004 and \$20 million thereafter; the contractor is required to post individual security along with paying assessments into the fund. In exchange for posting individual security, the contractor is entitled to a reduction in its assessment obligations to the fund. The assessment is reduced by an amount that is proportionate to amount of the estimated default exposure that is greater than \$18 million, \$19 million or \$20 million. Based on contractor purchases reported for the April 30, 2002 license applications, we estimate that this would result in roughly \$22,000 lower total annual assessments. However, based on contractor purchases reported for the April 30, 2003 license applications, there are no contractors who fall into this category. Therefore, there would be no fiscal effect.

This bill would also have an impact on DATCP's internal fund accounting. Under current law, there is a loan from the Agricultural Chemical Management Fund to the Agricultural Producer Security Fund at an interest rate of 5%. This bill reduces the interest rate to 2%. By current statute and under this bill, the loan must be repaid by June 2006, but DATCP is on schedule to repay the loan more quickly. If DATCP discontinues accelerated payments, it could result in up to \$66,000 in interest expense saved for the producer security fund and \$66,000 in lost interest revenue for the ag. chem. management fund. However, because of the accelerated payments, the actual effect will be smaller.

Long-Range Fiscal Implications