



Warehouse and Indemnity Fund Update

01/09/2018

September 30, 2017 Fund Balances:

- Commodity Indemnity Fund Balance:
\$11,903,106 (not currently collecting assessments)
- Seed Indemnity Fund Balance
\$8,539,471 (currently collecting assessments)

ISDA Warehouse Program Role

- ISDA's role is to pursue examination efforts (financial analysis and on-site examinations), to minimize and hopefully avoid any non-payment of Idaho producers in the event of a warehouse or commodity dealer failure.
- We employ risk based analysis to rate the financial resolve of our licensees. If our analysis points to severe financial strain, we can request additional financial information, while monitoring their payment ability to pay balances.
- If a company fails to meet financial criteria, required within our Bonded Warehouse Law, ISDA can suspend their license (company can no longer purchase from Idaho producers), minimizing potential future amounts owed to Idaho producers.

ISDA Warehouse Program Role

- In the case where a failure is realized, we can work to immediately seize assets in efforts to ensure the potential recovery for Idaho producers.
- The Seed Indemnity Fund Law is not in harmony with the Commodity Indemnity Fund Law.
- Currently we do not receive annual financial statements (beyond initial application year), so we have no ability to monitor the financial strength of our Seed Buyer companies.

Current Industry Trends:

- Our warehouse program continues to put the word out to the public through; attendance at multiple Ag Expos and Cereal Schools throughout the state, our indemnity fund committees, and our website **to encourage Idaho producers to only sell to licensed Warehouses, Commodity Dealers, and Seed Buyers.**
- We continue to see the trend of the large international companies buying out their smaller competition.
- Wheat pricing remains low: this is due to the combination of the strength of the US dollar, and a large worldwide surplus greater than increasing world-wide demand.

Current Industry Trends:

- More and more of our commodity dealers and warehouses are trending toward the purchase of more ancient grains, for example: Teff and Triticale (hybrid wheat/rye). This is due to an increase in consumer preference (health food consumption). Garbanzo beans and canola are becoming more attractive as profitable replacement crops (replacing low price wheat varieties)
- The lower pricing in wheat, in particular, has severely strained margins putting financial pressure on certain licensees who only deal in these select low priced commodities

Seed Buyer Program Update:

- The Seed Indemnity Fund Advisory Committee proposed an update to the Seed Law in an attempt to harmonize the Law with the Commodity Indemnity Law.
- The proposed harmonization include two proposed updates, both of which have been in the Commodity Indemnity Fund Law since 1982.

Seed Buyer Program Update:

- The current Seed Fund Law, I.C. § 22-5117, has one section offering language to guide ISDA in denying a license, whereas the Commodity Dealer Law, I.C. § 69-519(2), provides additional tools “when it is determined that public interest is best served by that denial or refusal.” The Commodity Dealer Law also provides for an appeal process for applicants. ***This omission in the Seed Law makes it difficult to potentially limit significant financial threat to the fund.***

Seed Buyer Program Update:

- The current Seed Law also omits language requiring an annual submission of financial statements and a company's financial results to meet both minimum net worth and current ratio thresholds (I.C. § 69-206(6) et seq.) ***As it stands today, the department does not have sufficient ability to gauge the financial health of a company in an effort to protect the fund balance by examining net worth and other financial ratios or prevent non-payment to growers. The minimum financial thresholds ensure businesses are solvent enough to pay Idaho producers. The current Commodity Dealer Law currently contains such provisions.***

Notable Happenings in the Field

- We have worked with some companies who have submitted financial statements that have not meet the state's 1:1 current ratio financial statement requirement or it's net equity requirement. We have allowed these companies to add additional capital into the business and submit updated financial statements. All have since re-sent financial statements that have complied with the statutory requirements.
- Many non-diversified warehouses and commodity dealers, have seen dwindling profit margins and experienced net losses for the last consecutive 2-3 years. If the commodity pricing does not improve, and these companies do not diversify their commodities purchased and sold, we may see some companies fail.

Notable Happenings in the Field

- We perform unannounced warehouse, commodity dealer, and seed buyer inspections. We examine these companies as part of a normal 10 month exam cycle.
- As part of the examination process, we perform a random selection of scale tickets, which we follow through to payment, ensuring the commission assessments are both calculated and paid accurately. Any discrepancies noted are reported to the commissions.