



News & Views

A Monthly Publication Dedicated to the Feed, Seed, Grain and Farm Supply Industries of Wisconsin

2009 Directory ■

We're in the midst doing the final proofs before sending the directory off to the printer, so it should be arriving in your mailbox within the next few weeks.

Somebody Asked ■

Q.: I have looked into getting a federal warehouse license for our facility instead of a Wisconsin license. In reviewing the warehouse fees, I see there are two different schedules, one for operations with a UGRSA and those without. We don't have one. What is a UGRSA and what does it cost?

A.: A Uniform Grain and Rice Storage Agreement (UGRSA) is an agreement either state or federal-licensed warehouses sign with the Commodity Credit Corporation (CCC), which is operated by the Farm Service Agency (FSA) of USDA. The reason for a UGRSA, also known as a "CCC agreement," was for the federal regulators to have a basis of regulatory authority over warehouses that issued negotiable warehouse receipts. Long ago, the need for negotiable warehouse receipts was for producers to use as collateral for marketing loans obtained through FSA, or its predecessors. For producers participating in these programs, they had to deal with warehouses that had a UGRSA in order to be able to receive a negotiable warehouse receipt.

Government farm assistance programs evolved and producers today almost exclusively utilize programs that do not require a negotiable warehouse receipt. Because of this fact, USDA realized the program could be eliminated as a cost-cutting measure without harmful impacts on either the producer clients or the warehouses.

This change will allow producers to obtain negotiable warehouse receipts from more facilities

this fall. FSA says producers will be able to obtain loans on 2009 commodity crops stored in either state- or federally-licensed commercial storage grain facilities even though the facility does not have a UGRSA.

The CCC does however reserve the right to require a UGRSA if deemed necessary to protect CCC's interests. But to directly answer your question, FSA is phasing the UGRSA out and the feds are allowing new federal warehouse applicants to use the lower fee schedule.

On a related note, please be aware there is a major difference between the state and federal warehouse programs, which can lead to different cost levels with each program. The state currently requires a minimum producer security assessment payment of \$20, which is based on the operation's financial ratios. The new minimums depend on your licensed capacity regardless of your operation's financial state. The new levels are \$100 for licensees with capacity under 500K bushels and \$250 for those licensees with capacity over 500K bushels. Of course, these are minimums; your individual financial ratios and volume could result in substantially higher cost levels.

USDA also takes a different approach to protecting producers in case of a warehouse default. A federal warehouse license requires a third-party surety bond to be purchased based on the licensed capacity. Historically, DATCP has only required those warehouses in the relative worst financial condition to purchase a bond to indemnify their farmer customers in case of default. This has resulted in a learned behavior on the part of some bond underwriters. They hear "Wisconsin," "warehouse," and "bond" and assume the worst without even looking at the underlying financials. Typically, state

warehouse bonds have been quoted in the \$10 to \$20 range per \$1,000 of bond simply due to historic adverse selection of the applicants.

We are aware of quotes from surety companies for a federal warehouse license bond with a high average figure of \$2.50/\$1000. Your operation's bonding costs may vary (higher or lower) depending on your individual financial status. But this is a figure we have been quoted for an average financial status warehouse licensee in Wisconsin. We wish to be very clear, this is not for a "problem child" operation. If you have been quoted a high rate for bonding costs, please contact the WASA office and we can give you alternatives which may provide more reasonable cost levels.

Please also be aware of two very important side issues regarding application for a federal warehouse license. Possession of a federal warehouse license does not in any way or manner relieve you of maintaining a valid and current Wisconsin state grain dealer's license. One allows you to store depositor's grain, the other permits you to buy producer grain; two very different activities. If you are successful in migrating from a state to a federal warehouse license, you will still receive state grain dealer audits.

Secondly, the state warehouse licensing system has a "hard" renewal date of September 1st. (A little more discussion of this issue is related later in this newsletter.) That is every license renews on that date. If someone were to obtain a new state license, for example on July 1, the licensee would be required to pay a full year's fee for the period of July 1 to August 31, and then pay another full year's fee for the following license year. There are no partial year fees or pro rata fee schedules with the state. So if you plan to go from a Wisconsin to a federal warehouse license, **you must have a valid federal license in place prior to the expiration of your current state license in order to avoid your operation paying another year's worth of state warehouse licensing fees.**

If you have any questions regarding this somewhat complicated and confusing issue, please contact the WASA office.

Disregarded Entities Update■

We wrote in last month's newsletter about a change included in the new state budget by which separate wholly-owned businesses (typically transportation companies) would now be subject to payment of sales tax on their equipment. This change is expected by the state's calculation to result in about \$31 million in new, additional sales tax revenue collections.

Since the awareness of this issue and its impact on small business has come to the fore, tax accountants and planners have been working to see if a workaround existing by which a company could maintain the sales tax exempt status on their equipment purchases. We have heard some tax experts believe such a workaround does exist; converting the typically LLC transportation company to a "C" corporation. WASA is *not* in the tax advising or consulting business, and as such, we strongly recommend you contact your tax professional to clarify this issue and receive specific actionable information for your operation.

Various Issue Updates■

- Wisconsin state grain dealer and warehouse license renewals will be going out shortly. In order to avoid penalties, the applications must be received by the Department prior to the September 1st renewal date. Please be aware, that means a completely and properly completed application must be received before September 1st. If department staff receive an incomplete application or one containing errors the corrected and complete application must be returned to the Department and in their hands prior to September 1st.
- On a related point, the Department has made public their suggestions for changes to other grain dealer and warehouse licensing requirements. The major suggestion involves the threshold for state licensee holders to submit CPA audited financial statements. *(The following have NOT been implemented, as they have not been approved by the DATCP Board nor enacted into law by the*

legislature and governor. These are the staff suggestions for changes.) The current level of grain purchases requiring a CPA level audit is either farmer purchases greater than three million dollars in a single year or greater than two million dollars in two consecutive years.

For grain dealers, the proposal is for purchase greater than 2.5 million bushels in a single year. Note the change from the current *dollar-based* level to a *bushel-based* threshold. For warehouse licensees, the audit requirement threshold is raised from 500,000 bushels to 1.5 million bushels of licensed capacity.

Both of these changes, if enacted, would by Department staff's rough calculations save the industry about one million dollars in accounting fees. This assumes the operations are not required to complete a CPA audit by any other regulator, lender or by the business' own by-laws, but are solely performing an audit to comply with DATCP regulations.

A timetable for when these proposed changes might be implemented would be a guess, but the Department is expected to present the concepts to the Legislature in late August, pending Board approval. We aren't aware of any serious opposition to the rule changes at this point, so we would expect action before the end of this calendar year. But given the unpredictability of legislative timetables, again, any implementation date at this point would be a guess.

- The Federal government increases the minimum wage effective July 24, 2009. You will undoubtedly be hit by solicitations urging you to buy employment law posters possibly into the hundreds of dollars. A couple quick points; 1) If you have the current WASA Superposter you don't have to do anything, and 2) there is NO state law requiring a separate poster of state minimum wage rates. Again, the Superposter has you covered. If you would like to purchase a Superposter, they're \$15 plus postage.

- There is nothing for you to do at this point, but just be aware there is a growing movement in Congress and within the Obama Administration to

limit or severely restrict the use of sub-therapeutic levels of antibiotics in animal feeds. It hasn't happened yet, but just understand, more change is coming to the regulatory side of the feed industry than you have witnessed in the past decade. What the final version, of which the example cited is one small portion, may be, we don't know, but it's coming.

Wheat Grading School

We have heard from members concerns regarding the condition of some wheat in southern Wisconsin. Field surveys done by UW Extension earlier in the growing season indicated a generally disease free condition in Wisconsin. But, wheat scab has been confirmed along the Illinois/Iowa border. Scab can be evidenced by either bleached heads; or partly green, part white. There may also be salmon or pink colored heads. Looking across a field if scab is present, you will see the bleached heads stand out.

Vomitoxin is a naturally occurring mycotoxin that may be produced from scab. The occurrence of scab does NOT automatically mean that vomitoxin is present, but in recent years, a fairly good rule of thumb test has been that if high levels of scabby kernels were present in the harvested grain then levels of vomitoxin also were present. But, at present there is no specific test or scale that will equate a certain level of scab present with a resultant level of "vomo."

If you're questioning what the big deal is, there are restrictions on levels of "vomo," as it is referred to, in milled products as well, as feeding levels to animals. If you accept "vomo" wheat unawares, it will cost you.

To this point, we will have a wheat grading and vomitoxin education class available to the membership with registration information included with this newsletter.

Looking Down the Road

July 23 **Wheat and Oats Grading School
Kalahari Resort, Wisconsin Dells**

Sep. 10 **WASA Golf Outing
Northern Bay Golf Resort, Arkdale**

Route:

- General Manager
- Feed Department
- Grain Department
- Agronomy
- Safety Director
- Personnel
- _____

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Hurry! Before We're Full!

***WASA Golf "Fore"
Scholarships Outing***

***Northern Bay Golf Resort
Arkdale, WI***

Thursday, September 10