



# Memorandum

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TO: Economic Transformation, Stabilization & Workforce Development  
Advisory Commission

FROM: Zach Coccoli, Deputy Director, Agriculture

DATE: December 21, 2022

SUBJECT: Hail Insurance Reinvestment Fund (update)

## **Background:**

On September 20, 2022 Director Christy Clark presented a recommendation to the advisory commission to recommend to the Governor to approve \$7.5 million in ARPA Section 602 under HB 632 Section 12(1) as a provision of government services necessary to undertake the responsibility of reinsurance. The stated goal of the Montana Department of Agriculture's request was to ensure State Hail Program maximizes efficient use of insurance premiums and balances adequate reserves to cover catastrophic loss levels. Contingent upon approval, the Montana Department of Agriculture committed to work with the Executive Branch, budget office, and Montana Board of Investments to finalize the Investment Policy Statement and initiate investment strategy.

## **Update:**

Following Governor's approval dated October 5, 2022 (attachment 2) OBPP completed the transfer of \$7.5 million ARPA funds to Board of Investments for the purpose of creating an investment portfolio on behalf of State Hail Program to serve the role of reinsurance. As proposed, MT Department of Agriculture worked with BOI to formalize investment strategy and STIP/TFIP participation agreements resulting in approximately \$4.5 million to STIP, and \$3 million to trust fund. (Attachments 3 and 4)

Montana State Hail Board met November 29, reviewed this information, and reached agreement to move forward with a 50/50 reinsurance rate for 2023 hail season.

Montana Department of Agriculture will rely on Board of Investments to provide monthly investment status reports and Department staff will maintain close communications throughout hail season to ensure adequate liquid capital is available to cover any projected and actual losses. The objective of the Hail Insurance Fund portfolio is to attain above benchmark total return within the parameters of the Investment Guidelines set forth with an emphasis on investment income and preservation of principal.



# Memorandum

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TO: Economic Transformation, Stabilization & Workforce Development  
Advisory Commission

FROM: Christy Clark, Director, Agriculture

DATE: September 20, 2022

SUBJECT: Hail Insurance Reinvestment Fund

## **Overview:**

The Montana Department of Agriculture seeks to strengthen the Montana State Hail Program through additional \$7M investment in lieu of reinsurance to be managed by Board of Investments. These funds will reduce the program's reliance on private reinsurance options currently costing the state thousands of dollars each year, reducing cost to producers.

## **History:**

The Montana State Hail Insurance Program was created at the request of producers in 1917 to provide basic hail insurance coverage on any crop grown in Montana. The program is a self-supporting, farmer funded, hail insurance program directed by a five-member board consisting of the department director, state insurance commissioner, and three producers. Producers can insure crops against hail damage at the maximum coverage rate of \$75 per acre for dryland and \$114 per acre for irrigated land. Rates charged are a percentage of the insured amount and vary by county. A detailed list of rates by county and crop can be found on the program webpage at [agr.mt.gov](http://agr.mt.gov).

Producers of crops in the State of Montana contact the State Hail office via phone, fax, or email to request a policy. Rates are \$75 for dryland crops and \$114 for irrigated crops. If the producer has suffered damage due to hail, a claim can be made through our office. An adjuster is assigned to the claim. Based on the adjustment payment is made to the producer.

The Board of Montana Hail Insurance has met all of its financial obligations in each of its 100+ year history and maintained sufficient financial reserve since 1926. This includes the significant losses in 2013, which were the worst hail losses ever recorded in Montana.

Following these losses, program reserves reached record lows and actuarial recommendations suggested a private reinsurance agreement be established to protect against inability to pay claims. Reinsurance has remained in place since that time, resulting a net cost to the program of approx. \$4 million.

## **Allocation Request and Deadlines:**

To ensure prompt delivery of funds to meet immediate needs of program and maximize investment opportunity, we recommend the Advisory Commission take action during the September 20, 2022, meeting to approve the amount requested. Montana Department of Agriculture will work with the Executive Branch, budget office, and Montana Board of Investments

to finalize the Investment Policy Statement and initiate investment strategy.

**Structure:**

OBPP will transfer \$7 million ARPA funds to Board of Investments for the purpose of creating investment portfolio on behalf of State Hail Program to serve the role of reinsurance. MT Department of Agriculture will work with BOI to establish 60/40 short term/long term investment strategy resulting in approximately \$4.2 million to STIP, and \$2.8 million to trust fund.

Montana Department of Agriculture will rely on Board of Investments to provide monthly investment status reports and Department staff will maintain close communications throughout hail season to ensure adequate liquid capital is available to cover any projected and actual losses.

Montana Department of Agriculture will utilize expertise of in-house legal counsel to ensure deployment of grant funds will adhere to Treasury requirements. The Montana Department of Agriculture accounting staff and legal counsel have prior experience deploying funds under the 2009 American Recovery and Reinvestment Act.

**Eligibility:**

Having reviewed and considered the U.S. Treasury's State and Local Fiscal Recovery Funds Compliance and Reporting Guidance - as announced on September 30, 2021, comprehensive legal review has determined this proposed purpose an eligible provision of government services.

The following analysis and conclusion explain this position:

*We believe if the state undertakes the liability of reinsurance, it would be considered a government service. It is the prerogative of the state to decide if it were to engage a third-party reinsurer or undertake the reinsurance responsibility itself.*

*A state designated reinsurance fund is not tantamount to a "pension fund." Arguably it is tantamount to a pension because of the interest accrued and the longevity of purpose for long term disbursement of funds. Conversely it is distinguishable because it is not purposed to be a compensation-based purpose which is inherent in a pension fund. It addresses risk and assessing risk and ameliorating risk is a government function/service.*

*Pursuant to 31 CFR part 205 or 2 CFR 200.305(b)(8)-(9), recipients can place in interest-bearing accounts, and they do not need to remit interest to Treasury and are not limited to using that interest for eligible uses under the SLFRF award. (at pg. 7)*

*Pursuant to 2 CFR 200.404 and 2 CFR 200.405., reinsurance can be deemed as an "administrative requirement" which permits allowable costs/cost principles, i.e., administrative functions and costs.*

*The state would describe the government service purpose function of reinsurance, distinguished from the existing "reserve." They cannot be the same source. They must be distinguishable, especially in reporting.*

**Application and Verification:**

Upon Commission approval, funds will transfer to Board of Investments for immediate investment in STIP and Trust Fund accounts subject to parameters agreed upon in Investment Policy Statement. Funds will be available for MT Department of Agriculture in the event hail losses exceed 100% of premium and existing reserves are insufficient to pay claims.

**Equity:**

These funds will ensure reliable State Hail Insurance options remain available to all producers in Montana. Eligible recipients of deployed funds align with Treasury Compliance and Reporting Guidance on targeting funds towards economically disadvantaged communities.

**Performance Metrics:**

The objective of the Hail Insurance Fund portfolio is to attain above benchmark total return within the parameters of the Investment Guidelines set forth with an emphasis on investment income and preservation of principal.

Success in achieving this objective will be measured by comparing the risk and return of the account to the Trust Funds Investment Pool (TFIP) benchmark, the Short-Term Investment Pool (STIP) benchmark, each weighted proportionately to the portfolio's holdings, over a five (5) year moving average. The Board expects to meet or exceed all objectives over a long-term investment horizon. Over shorter periods, the anticipated market volatility, and specific actions, including risk mitigation efforts of the Board, may lead to unfavorable, but expected deviation from these objectives.

The Board will have full discretion to manage the Hail Insurance Fund portfolio consistent with the investment guidelines stated below. Compliance with the following guidelines for permitted investments and other restrictions is the sole responsibility of BOI Staff. Any exceptions or compliance violations are to be reported to the Board at the next scheduled quarterly Board meeting.

If at any time, due to market fluctuations or any other circumstances, any of the guidelines are not maintained, BOI Staff will use its best efforts to conform to preestablished limits in a timely manner, while considering current market conditions and the associated costs of rebalancing.

Montana Department of Agriculture will coordinate with the Executive branch, budget office, legal counsel, and Board of Investments to ensure all Treasury compliance and reporting guidance is met.

**Recommendation:**

Advisory Commission to recommend to the Governor to approve \$7 million in ARPA Section 602 under HB 632 Section 12(1) as a provision of government services necessary to undertake the responsibility of reinsurance.

Montana Department of Agriculture's goal is to ensure State Hail Program maximizes efficient use of insurance premiums and balances adequate reserves to cover catastrophic loss levels.

OFFICE OF THE GOVERNOR  
STATE OF MONTANA

GREG GIANFORTE  
GOVERNOR



KRISTEN JURAS  
LT. GOVERNOR

October 5, 2022

Senator Dan Salomon, Chairman, Legislative Finance Committee  
Representative Mary Caferro, Vice-Chair, Legislative Finance Committee  
Senator Mark Blasdel, Chairman, Economic Transformation, Stabilization & Workforce  
Development Advisory Commission  
Scott Osterman, Director, Montana Department of Commerce  
Christy Clark, Director, Montana Department of Agriculture

Dear Commission and Committee Members:

Thank you for the Economic Transformation, Stabilization & Workforce Development Advisory Commission's recommendations contained in your September 20, 2022, letter (Letter) regarding American Rescue Plan Act (ARPA) funds. I approve the following recommendations, which are necessary investments as defined in ARPA and all applicable guidance:

- \$400,000 to the City of Cut Bank to economically stabilize and address crime,
- Up to \$50,000,000 to the Board of Investments for the Down Payment Assistance Program (Round 2),
- \$7,500,000 to the Department of Agriculture to provide a hail reinsurance fund,
- \$6,000,000 reallocation from the Workforce Training Grant Program to the Department of Commerce for a business automation program, and
- The reallocation of \$2,200,000 from the Workforce Training Grant Program to the Department of Commerce for a cybersecurity monitoring and training program as set forth in your letter.

Thank you for your thoughtful consideration of the work before you. I look forward to future recommendation from the Commission to utilize these federal funds for the benefit of Montana's economy and workforce.

Sincerely,

A handwritten signature in blue ink, appearing to read "Greg Gianforte".

Greg Gianforte  
Governor



**STIP Program Documents - Revised 3/5/19**

<b>STATE AGENCY STIP PARTICIPATION AGREEMENT</b>							
STIP Program Manager Montana Board of Investments boi_stip@mt.gov P.O. Box 200126 Helena, MT 59620-0126 Phone (406)444-0003						<i>For Official Use Only</i>  TA Account Number	
<i>The State agency listed below hereby agrees to participate in the STIP Program as established under Section 17-6-202, MCA, and the terms and conditions of the STIP operations as determined by the Montana Board of Investments (MBOI):</i>							
<b>Section 1. State Agency Information Summary</b>							
State Agency →	Department of Agriculture			Tax Identification Number (TIN) →		81-0302402	
Mailing Address →	302 N Roberts	City →	Helena	State →	MT	Zip →	59601
Contact Name →	Cody Pearce						
Phone →	444-5405			E-mail →	cody.pearce@mt.gov		
<b>Section 2. SABHRS Investment and Earnings Information</b>							
Please complete the following investment accounting information. <i>If the agency chooses to have the STIP earnings reinvested, the earnings must be reinvested to the SABHRS Business Unit and Fund holding the STIP investment.</i>							
Investment Business Unit →	62010	Investment Fund Number →	06056	Investment Fund Name →	Hail Insurance Investments		
Reinvest Earnings <input checked="" type="checkbox"/>				Distribute Earnings <input type="checkbox"/>			
STIP Earnings Business Unit →	62010			STIP Earnings Business Unit →			
STIP Earnings Fund Number →	06056			STIP Earnings Fund Number →			
STIP Earnings Fund Name →	Hail Insurance Investment			STIP Earnings Fund Name →			
STIP Earnings Org/Project →	50ARPAHAIL			STIP Earnings Org/Project →			
<b>Section 3. Endorsement</b>							
The person(s) whose name(s) appears below is (are) the employee of State Agency with authority to authorize the purchase and sale of shares in the STIP for the accounts of the State Agency, and the Board of Investments shall be notified promptly of any changes in authorized personnel. *							
Name →	Cody Pearce		Phone →	444-5405		E-Mail →	cody.pearce@mt.gov
Name →	David Johnson		Phone →	444-4197		E-Mail →	david.johnson@mt.gov
Name →			Phone →			E-Mail →	
On behalf of the State Agency, as the preparer, I certify that all the information contained within the agreement is true, accurate and complete as of the date hereof.							
Signed:				Date: 11/7/2022			
Printed Name: Cody Pearce				Title: Chief Financial Officer			
<b>Section 4. Authorization of Interest Retention</b>							
On the next line, please cite the relevant legal authority (i.e., sections of state law, court decree, trust agreement, etc.) that authorizes the fund to retain interest earnings in their account and that the fund is legally entitled to participate in the STIP.							
MCA 80-2-222							
Signature of State Agency Legal Counsel verifying information.							
Signed:				Date: 11/7/22			
Printed Name: Cort Jensen				Title: Chief Legal Counsel			

*\*MBOI shall instruct STIP transactions for this STIP investment account to offset transactions for the purchase or sale of other pools or separately managed investments.*

Created 3/5/19

### TFIP PARTICIPATION AGREEMENT

Montana Board of Investments  
P.O. Box 200126  
Helena, MT 59620-0126  
(406)444-0003

*For Official Use Only*  
TA Account Number

*The State agency listed below hereby agrees to participate in the TFIP Program as established under Section 17-6-202 or 17-6-203, MCA, and the terms and conditions of TFIP operations as determined by the Montana Board of Investments (MBOI):*

#### Section 1. State Agency Information Summary

State Agency →	Department of Agriculture			Tax Identification Number (TIN) →	81-0302402		
Mailing Address →	302 N Roberts	City →	Helena	State →	MT	Zip →	59601
Contact Name →	Cody Pearce						
Phone →	444-5405		E-mail →	cody.pearce@mt.gov			

#### Section 2. SABHRS Investment Account Information

Complete the following SABHRS coding information for recording TFIP investment account transactions. MBOI will instruct TFIP transactions on the behalf of the fund for the TFIP investment account. The TFIP investment account transactions will be offset against the fund's STIP account corresponding with the TFIP investment account.

Business Unit →	62010	Fund Number →	06056	Fund Name →	Hail Insurance Investments	Org/Project →	50ARPAHAIL
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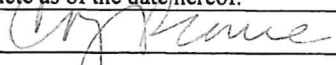
#### Section 3. SABHRS Distribution Account Information

Complete the following SABHRS coding information for recording TFIP account income distributions. MBOI will invest the TFIP income distributions into the corresponding STIP account. *May be the same as Section 2.*

Business Unit →	62010	Fund Number →	06056	Fund Name →	Hail Insurance Investments	Org/Project →	50ARPAHAIL
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#### Section 4. State Agency Endorsement

On behalf of the State Agency, as the preparer, I certify that all the information contained within the agreement is true, accurate and complete as of the date hereof.

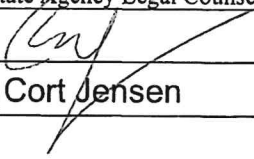
Signed: 	Date: 11/7/2022
Printed Name: Cody Pearce	Title: Chief Financial Officer

#### Section 5. Authorization of Interest Retention

On the next line, please cite the relevant legal authority (i.e., sections of state law, court decree, trust agreement...) that authorizes the fund to retain interest earnings in their account and that the fund is legally entitled to participate in the TFIP.

MCA 80-2-222

Signature of State Agency Legal Counsel verifying information.

Signed: 	Date: 11/7/22
Printed Name: Cort Jensen	Title: Chief Legal Counsel