



# 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.