

MINUTES
SENATE AGRICULTURAL AFFAIRS COMMITTEE

DATE: Tuesday, February 28, 2017

TIME: 8:00 A.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Rice, Vice Chairman Den Hartog, Senators Patrick, Bayer, Guthrie, Johnson, Thayn, Foreman, and Jordan

ABSENT/ EXCUSED: None

NOTE: The sign-in sheet, testimonies and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

CONVENED: **Vice Chairman Den Hartog** called the meeting of the Senate Agricultural Affairs Committee (Committee) to order at 8:02 a.m.

H 133 **Relating to the Soil and Water Conservation Commission (SWCC).** **Representative Steven Miller**, stated the SWCC was placed under the external audit conditions while they had 35 employees for the Total Maximum Daily Load (TMDL) project, along with a revolving loan fund that was quite active. SWCC was moved into this audit process because of these activities. After the TMDL project was completed, the funding was removed and SWCC is now down to 15 employees; the revolving loan program is still in place, but it is less active. A governmental audit is an expensive proposition so the SWCC has the choice of having the State perform the audit or a private firm. By going from a governmental audit to a review that simplifies the audit process, the SWCC will save about \$5,000 per year. The audit requirement will go from annual to a three year event. A review can be taken off of the Statewide Accounting and Reporting System (STARS) Program for interim years. This legislation is a simplification of review and internal controls for SWCC which will save \$5,000 per year in General Funds.

April Renfro, Legislative Services Office (LSO), said **H 133** is basically a change in the audit effort used for the SWCC. This bill will have a positive fiscal impact of \$5,000 per year to the SWCC and zero impact to the General Fund. This legislation is intended to amend Idaho Code § 22-2718, adding Section 2. Idaho Code § 67-450D, setting forth in this section the minimum audit requirements and placing SWCC into the category of agencies that require a management review under Idaho Codes §§ 67-450 and 67-702, which are the guiding statutes for audits that LSO performs. Under Idaho Code § 67-702 LSO is required to audit every State agency at least once every three years. LSO completes a management review rather than a financial audit. SWCC is 75 percent funded by the General Fund and not quite the same format as the other commissions who are funded by fees. LSO would bill SWCC \$3,000 for the management review audit once every three years.

MOTION: **Senator Johnson** moved to send **H 133** to the floor with a do pass recommendation. Seconded by **Senator Thayn**. The motion carried by **voice vote**.

PRESENTATION: **Idaho Potato Commission (IPC).** **Frank Muir**, President and CEO, stated his objective was to present the financial report for FY 2016. **Mr. Muir** reported that revenue from the potato tax, 12.5 cents per hundred weight, was \$14.4 million, \$131,000 above what was budgeted. The IPC only collects the revenue tax on potatoes that are sold for human consumption; any that will go to cattle feed are not taxed. The higher revenue was due to producers having a higher yield and selling that extra production.

IPC received approval for an additional grant to expand potato exports; the grant revenue increased by \$148,000. IPC's net revenue was up by \$277,000. **Mr. Muir** pointed out that there was a positive variance of \$422,000 under the expenditures and a positive variance for food service of a \$180,000. IPC had held some monies in reserve to target programs, but it was not necessary to spend those funds that explains these positive variances. The combination of IPC's revenue being up \$278,000 and this year's underspending there has been an increase in the reserve account of \$1 million. As this \$1 million comes to the bottom line, IPC puts it in reserve to reinvest within the next year.

The potato growers will be harvesting about 323,000 acres for 2017 resulting in predicted 13.3 billion pounds of potatoes. The estimated income generated from the potato tax is projected at \$14 million. This income will be put back out into the marketplace as working dollars. Reserving \$914,000 will allow IPC to spend \$15.3 million potato tax dollars on consumer marketing.

Senator Guthrie asked how IPC collects the assessment. Is the tax money by hundred weight or is it sensitive to market price. **Mr. Muir** explained that the potato tax is based on hundred weight sold for human consumption; for every hundred pounds of potatoes IPC collects 12.5 cents. This tax would only vary if IPC approves an increase or decrease in tax.

Senator Patrick asked if the expenditure for Quality Lab in Twin Falls is in the budget. **Mr. Muir** replied that this expenditure is included in the research and education budget.

PRESENTATION: Idaho Barley Commission (IBC). **Kelly Olson**, Administrator, began her presentation stating Idaho is the number one producer of barley in the U.S. IBC's 2016 harvested acres were unchanged at 580,000 acres, but production was 62.1 million bushels; up 10 percent because of record statewide yields. As the result of this record harvest, the farm gate value will exceed \$300 million; up 16 percent. Idaho was one of the few agricultural sectors in this current marketing year that will see an increase in Idaho's farm revenue. Idaho barley represents 31 percent of the total U.S. barley grown. Based on the additional production that was not anticipated, the estimated actual income will exceed \$800,000 for IBC and income will be up four percent from the previous year.

IBC is selling the grain crop in a world environment that is awash with grain. World production in 2016 is up four percent. The global grain snapshot shows big crops that have been increasing for the last four years (see Attachment 1). Production is still outpacing consumption, so the U.S. is building stocks of grain and prices for that grain are falling. IBC has seen two big barley crops in 2015 and 2016. IBC principle customers are the major beer manufacturers who are at present carrying very large inventories because total U.S. production was down nine percent. USDA is estimating that barley's ending stocks will increase and the stocks-to-use ratio will be 48 percent, which is quite burdensome and is weighing on prices. For the 2017 barley production year IBC's major customers will be entering the season with large inventories of grain so they are cutting their contracted acreage. Idaho will not be hit as hard as other states in the downsizing of this barley crop. Montana will see their malt production cut 75 percent and North Dakota acres will be down 70 percent. Contract prices will fall 10 to 15 percent.

IBC looked into what is driving the reduction of barley use. One of the reasons is that U.S. beer sales are down 1.2 percent, along with some structural changes in the beer industry. A shift in the sales from the major breweries like Budweiser and Miller Coors to the craft beers has been a contributor to this downturn. Last year craft beer sales were up 13 percent, which is the fifth consecutive year that craft beer sales were up double digits.

Even these craft beers are starting to see saturation in key markets. The millennial generation now outnumbers the other generations and while they like to consume alcohol, they have no loyalty to any type of alcohol.

This downturn in the brewery forecasts translates that IBC must find other customers to build demand for barley. Another market IBC is pursuing is food barley. Today less than two percent of the crop goes to food barley. The food barley variety development at the research facility is bred to have very high fiber. Idaho barley received a heart health claim in 2006. The growth in this sector has been quite slow, but the niche for barley will be in a multigrain mix. Barley fiber not only lowers cholesterol but is a low glycemic carbohydrate and is beneficial in a Type 2 diabetics diet; one in nine Americans suffer from this condition.

IBC funded an endowed barley research agronomist at University of Idaho (UI), Dr. Christopher Rogers. The two biggest costs on a barley farm are irrigation and fertilizer and the farmers will need to optimize these costs. Dr. Rogers is focusing extensively on irrigation and fertilizer efficiency. IBC has been one of the leading partners with the UI to bring Low Elevation Spray Applications (LESA) to Idaho. When you retrofit a pivot sprinkler system you bring the spray nozzle very close to the soil surface. The research into LESAs is on its third year and it has shown that this system can help the producers reduce their water and energy use by 10 to 15 percent along with a decrease in head diseases on the grain.

Over the past fifteen years IBC has done a lot of grower education and has been successful in competing for and receiving more than \$228,000 in competitive grants from the Western Center for Risk Management Education. IBC uses these funds to help sponsor producer education throughout the State. IBC collaborates closely with the county extension faculty to educate them on a variety of topics for grain production.

The North American Free Trade Agreement (NAFTA) is very important to the grain industry with barley being the number one export out of Idaho to Mexico for malt. One hundred percent of the capacity of one of the two Idaho Falls malt plants supplies Mexico. This could be greatly jeopardized if that agreement is derailed. The Trans-Pacific Partnership would have been highly beneficial for grain exports out of the Pacific Northwest. IBC needs comprehensive immigration reform to support the barley crops. All agriculture in Idaho needs an effective seasonal farm worker program.

Senator Johnson observed that IBC's expense allocations are spread between research and market development. How does IBC make their decisions for these expenditures. **Ms. Olson** explained it depends on IBC's projects. IBC's major market is the malt industry and they do not have to market to that industry. The research dollars in the amount of \$200,000 that you see in the research expenditures is a payment to UI endowment for the barley research agronomist.

Senator Guthrie asked if Idaho barley production jumped after the malt plants in Idaho Falls and Pocatello were built. **Ms. Olson** answered that when the plants were built it was a dramatic change for the barley industry. Up until five years ago, Idaho was the number two producer of barley in the U.S. These large plants have made a major difference in stabilizing the barley production in Idaho. The Pocatello malt plant is undergoing a 130 percent expansion, which will be operational this summer and the company is not cutting contracts for the 2017 growing season. Idaho farmers irrigate so they can control both production and quality which positions Idaho to be ideally suited to serve this market, and will allow it to continue to grow in the future.

ADJOURNED: There being no further business, **Vice Chairman Den Hartog** adjourned the meeting at 8:55 a.m.

Senator Rice
Chair

Carol Deis
Secretary