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Joint Committee on Finance

Paper #138

Fertilizer Research Fees and the Fertilizer Research Council (Agriculture, Trade and Consumer Protection and University of Wisconsin System)

[LFB 2015-17 Budget Summary: Page 58, #8 and Page 464, #19]

CURRENT LAW

The Department of Agriculture, Trade and Consumer Protection (DATCP) collects various fees and surcharges on the production, sale and use of agricultural chemicals, including fertilizers, pesticides, commercial animal feed, and other additives to soils and plants. Fee and surcharge collections are deposited to various segregated (SEG) funds or other accounts, including the agrichemical management (ACM) fund, the agricultural chemical cleanup (ACCP) fund, the environmental fund, and a DATCP program revenue (PR) appropriation for weights and measures regulatory programs. Additionally, portions of certain fees are distributed to the University of Wisconsin System for research or outreach on fertilizer use, nutrient management or pest management.

The Fertilizer Research Council (FRC) is attached to DATCP and is responsible for allocating certain fees collected for fertilizer research projects in the UW System. By statute, FRC-administered funds are to be used "for research on soil management, soil fertility, plant nutrition problems and for research on surface water and groundwater problems which may be related to fertilizer usage; for dissemination of the results of the research; and for other designated activities tending to promote the correct usage of fertilizer materials."

GOVERNOR

Repeal the following fees: (a) 27¢ per ton of fertilizer sold or distributed in Wisconsin; and (b) 10¢ per ton of soil or plant additive sold in Wisconsin. Repeal the statutory authorization of the Fertilizer Research Council, and repeal provisions directing: (a) 17¢ of the fertilizer tonnage

fee and the 10¢ soil and plant additive fee to UW soils and fertilizer research, as determined by the FRC; and (b) 10¢ of the fertilizer tonnage fee to UW-Extension for outreach on nutrient and pest management. Repeal a DATCP PR continuing appropriation providing for the use of the fertilizer research fees, and delete \$255,600 PR each year in estimated expenditures. Specify the repeals take effect July 1, 2016.

Table 1 shows, for all agricultural chemical fees forwarded to the UW System, the budgeted collections under current law (2014-15) and under the bill. Agencies under which each fee is budgeted are shown in parentheses; for example, FRC-administered fees are budgeted under DATCP but forwarded to UW, while UW outreach fees are forwarded to UW without appearing on the DATCP budget. Included in Table 1 are the research and outreach fees the bill would repeal, as well as proceeds of a 1.25¢ per-ton fee on agricultural liming material sold in Wisconsin annually. (Liming materials are calcium- or magnesium-containing compounds applied to neutralize soil acidity.) Liming material tonnage fees are forwarded to the UW System for research on use of such materials. The statutes provide the liming tonnage fee collections are to be forwarded to the UW-Madison College of Agricultural and Life Sciences (CALs) for research on liming materials and crop responses to liming agents. The bill would not affect the collection or forwarding of lime tonnage fees.

TABLE 1

Agricultural Chemical Fees Collected for UW System Purposes

| Fee Type (Budgeted Agency) | Base | Bill | |
|--|---------------|---------------|---------------|
| | 2014-15 | 2015-16 | 2016-17 |
| Fertilizer Research Council (DATCP) | \$255,600 | \$255,600* | \$0 |
| Nutrient and pest outreach (UW System) | 166,300 | 166,300 | 0 |
| Liming material (DATCP) | <u>11,800</u> | <u>11,800</u> | <u>11,800</u> |
| Total | \$433,700 | \$433,700 | \$11,800 |

*As corrected.

DISCUSSION POINTS

1. The bill could be further clarified to reflect the administration’s intended effective date of the fee repeals. The administration intends for the fees to be collected in 2015-16, which would be prior to the July 1, 2016, effective date of provisions that would convert the UW System into an authority. The bill as introduced would specify a general effective date of July 1, 2016, for the fee repeals. However, DATCP collects agricultural chemical fees at various points throughout the year. Specifically, fertilizer tonnage fees are payable annually by August 14 on the basis of fertilizer sold in the preceding state fiscal year, and soil and plant additive tonnage fees are payable by March 31 annually on the basis of sales in the preceding calendar year. The bill language could be clarified to specify: (a) the fertilizer tonnage fee repeal takes effect with sales beginning July 1, 2015; and (b) the soil and plant additive tonnage repeal takes effect with sales beginning January 1, 2016. The appropriations schedule for 2015-17 also would be modified from the bill as introduced to reflect

the collection and disbursement of research fees by DATCP in 2015-16. These are budgeted at \$255,600 under current law.

2. Currently, the statutes impose a fee of 97¢ on each ton of fertilizer sold or distributed annually. In addition to the 27¢ per ton that would be repealed by the bill, the per-ton total consists of the following components: (a) 35¢ per ton deposited to the ACCP fund for cleanups of agricultural chemical spills or contamination at eligible farm or business sites; (b) 23¢ per ton deposited to the ACM fund for agricultural chemical management programs in DATCP; (c) 10¢ deposited to the environmental management account of the environmental fund; and (d) 2¢ per ton deposited to the DATCP PR appropriation for weights and measures. The total fertilizer tonnage fee would decrease to 70¢ per ton under the bill.

3. The statutes currently impose fees of 45¢ for each ton of soil and plant additives sold or distributed in Wisconsin annually. In addition to the 10¢ affected by the bill, 25¢ per ton is deposited to the ACM fund for agricultural chemical management programs in DATCP, and 10¢ is deposited to the environmental management account of the environmental fund. The soil and plant additive tonnage fee would decrease to 35¢ per ton under the bill.

4. The portion of the fertilizer tonnage fee dedicated for research was enacted in 1977 Act 418 at a level of 10¢ per ton. 2011 Act 32 provided a one-time increase for fertilizer research equal to 7¢ per ton in 2012-13, which was transferred from the ACM fund. 2013 Act 20 permanently increased the fertilizer research portion of the tonnage fee to 17¢ per ton, while permanently reducing the ACM portion of the fertilizer tonnage fee from 30¢ per ton to 23¢ per ton. The UW-Extension outreach fee on fertilizer tonnage (10¢) was enacted in 1989 Act 31, and the soil and plant additive research fee (10¢) was enacted in 1985 Act 147; the amounts of these fees have not changed since their enactment.

5. The Fertilizer Research Council was created in Chapter 418, Laws of 1977, on a temporary basis and made permanent under Chapter 57, Laws of 1981. The FRC consists of seven voting members serving three-year terms. Six members are jointly appointed by the DATCP Secretary and the Dean of the College of Agricultural and Life Sciences (CAL S) at UW-Madison. Three members are to be representatives of the fertilizer industry, selected from a list of candidates recommended by the industry. Three other members are to represent farmers who are crop producers. The other voting member is appointed by the Secretary of the Department of Natural Resources (DNR) and is to have knowledge about water quality. DATCP agricultural management program staff and UW staff each provide administrative support to the FRC.

6. The statutes provide the FRC is to meet at least once annually to determine awards of research funds. Awards are determined by a majority vote of the Council. DATCP reports total funding of approximately \$4.5 million has been awarded to 176 fertilizer research projects since 1978. According to awards listings on the Fertilizer Research Council website, most funding since the Council's inception has been awarded to projects conducted by UW-Madison faculty. If the UW System is unable to carry out research, the Council is authorized by statute to recommend "other appropriate nonprofit research institutions or agencies for receipt of funds."

7. The 27¢ (17¢ per fertilizer ton and 10¢ per soil and plant additive ton) for research supports projects studying such subjects as: (a) timing and techniques used in applying fertilizer and

manure; (b) the effect of cover crops on soil characteristics and soil nutrient content; and (c) measuring nutrient needs of typical commodity crops. The 10¢ per ton for UW-Extension outreach supports the UW Nutrient and Pest Management (NPM) program, which provides education and assistance to farmers. The NPM program includes software development and training for farmers in the areas of nutrient management planning, a practice to help determine optimal application of nutrients and fertilizer on fields.

8. Table 2 shows the collections made since 2009-10 both for FRC-awarded research funds and UW-Extension outreach. It should be noted that the statutes allow DATCP to retain 3.5% of research funds collected for expenses incurred in the administration of fee collections, including costs of staffing the FRC. These annual amounts are noted below.

TABLE 2

Fertilizer and Soil and Plant Additive Research Tonnage Fees

| | <u>2009-10</u> | <u>2010-11</u> | <u>2011-12</u> | <u>2012-13</u> | <u>2013-14</u> |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| UW System Research | | | | | |
| Fertilizer (17¢) | \$118,600 | \$138,900 | \$163,900 | \$303,100 | \$280,400 |
| Soil and plant adds. (10¢) | <u>7,300</u> | <u>18,400</u> | <u>22,500</u> | <u>18,200</u> | <u>14,300</u> |
| Subtotal | \$125,900 | \$157,300 | \$186,400 | \$321,300 | \$294,700 |
| DATCP Admin. (3.5%) | - \$4,400 | - \$5,500 | - \$6,500 | - \$6,900 | - \$10,300 |
| Research Funds Forwarded | \$121,500 | \$151,800 | \$179,900 | \$314,400 | \$284,400 |
| UW Outreach Funds (10¢) | <u>118,600</u> | <u>138,900</u> | <u>163,900</u> | <u>178,300</u> | <u>166,300</u> |
| Total Research/Outreach Funds | \$240,100 | \$290,700 | \$343,800 | \$492,700 | \$450,700 |

9. The Committee could consider adopting the Governor's recommendation, as modified to clarify the administration's intended effective dates [Alternative 1]. One could argue typical amounts forwarded to the UW System for research are small in relation to the System's total research funding, the GPR portion of which the UW System reported was \$96.9 million in 2013-14, and that funding for fertilizer research could be provided by other sources. Further, although fertilizer research activities funded by the FRC are viewed by certain agricultural industry groups, environmental groups and others as a preferred use of the fee collections, industry participants or related groups could still donate funding on their own accord for research and outreach, either in the UW System or through other entities, were the repeals to take effect.

10. On the other hand, the research and outreach activities funded in the UW System are supported by agricultural and environmental interests. UW soils staff also report the funds awarded by FRC constitute substantial portions of the UW research done on soil fertility, typically 10% to 40% of research funding in an average year for each faculty member conducting the research. UW staff also report other state funding has not typically been allocated to research in the area. Some have argued such research, as well as research conducted by the Discovery Farms program in the UW System, provides valuable information that may enhance farm profitability and assist state, local or federal agencies in developing regulatory programs and best management practices that have broad acceptance, both by regulated entities and by other interested parties. Further, the bill

also retains transfers of liming material tonnage fees to UW-Madison CALS, despite deleting a number of other transfers from state agencies to the proposed authority. It could be argued that retaining the research funding awarded by the FRC is consistent with the retention of liming material research provisions and funding. The Committee could delete the Governor's recommendation [Alternative 4].

11. Consideration also could be given to restoring one category of the fees. The Committee could consider: (a) restoring only research fees of 17¢ per fertilizer ton and 10¢ per soil and plant additive ton [Alternative 2a]; or (b) restoring only the 10¢ per fertilizer ton UW-Extension outreach fees [Alternative 2b]. Restoring one fee category could provide for continued programming in the area, but also reduce per-ton fee levels paid by agricultural industry participants.

12. Consideration could also be given to restoring fertilizer research and outreach fees but specifying their deposit to the nonpoint account of the environmental fund [Alternative 3]. The nonpoint account, which is discussed in greater detail in separate Legislative Fiscal Bureau issue papers, funds DATCP and DNR grant programs and staff associated with addressing nonpoint source water pollution. Nonpoint source pollution addressed by such programs includes nutrient runoff that may occur following fertilizer applications at agricultural operations. DATCP and DNR each under current law and practice contract with the UW System for education, research or outreach related to nonpoint source water pollution. This funding would generally be expected to continue under the bill, although perhaps in lesser amounts, as DNR's nonpoint source contracts appropriation would decrease from base funding of \$997,600 to \$227,600 under the bill. Further, the nonpoint account is estimated under the bill to have annual base expenditures exceed typical annual revenues by about \$500,000 annually, based on figures estimated for 2016-17. Restoring the fees recommended for repeal, but depositing them to the nonpoint account of the environmental fund, would allow for: (a) stabilization of the account; and (b) DATCP and DNR to use existing mechanisms to direct the funds to fertilizer- or nutrient-related research and outreach at the UW System or other organizations. The Committee could specify the redirection of fees to the nonpoint account is to occur: (a) in the second year of the biennium, at which point the bill would repeal the fees [Alternative 3a]; or (b) immediately in 2015-16 [Alternative 3b].

ALTERNATIVES

1. Adopt the Governor's recommendation to repeal 27¢ in fertilizer tonnage fees and 10¢ per ton of soil and plant additive tonnage fees beginning in 2016-17. In addition, specify the fertilizer tonnage fee repeals take effect with sales beginning July 1, 2015, and the soil and plant additive tonnage fee repeals take effect with sales beginning January 1, 2016. (These technical modifications would clarify the bill to reflect the administration's intention for research fees to be collected in 2015-16 but not thereafter.) Further, provide an additional \$255,600 PR under DATCP in 2015-16 to reflect the collection and disbursement of fertilizer research funds in the first year of the biennium.

| ALT 1 | Change to Bill |
|-------|----------------|
| PR | \$255,600 |

2. Modify the Governor's recommendation to restore one of the following fee categories, beginning in 2016-17:

a. Research fees of 17¢ per fertilizer ton and 10¢ per soil and plant additive ton with \$255,600 in 2016-17; or

| ALT 2a | Change to Bill |
|---------------|-----------------------|
| PR | \$255,600 |

b. UW-Extension outreach fees of 10¢ per fertilizer ton with \$166,300 in 2016-17.

| ALT 2b | Change to Bill |
|---------------|-----------------------|
| PR | \$166,300 |

3. Restore fees recommended for repeal by the Governor. However, specify the fees are to be deposited to the nonpoint account of the environmental fund, and specify one of the following:

a. The change takes effect beginning with fertilizer sold July 1, 2015, and with soil and plant additives beginning January 1, 2016 (fee collections in 2015-16 would occur as under current law, but be deposited to the nonpoint account beginning in 2016-17); or

| ALT 3a | Change to Bill |
|---------------|-----------------------|
| SEG-REV | \$421,900 |

b. The change takes effect beginning with fertilizer sold July 1, 2014, and with soil and plant additives beginning January 1, 2015 (collections for sales beginning on each date would be deposited to the nonpoint account beginning in 2015-16); or

| ALT 3b | Change to Bill |
|---------------|-----------------------|
| SEG-REV | \$843,800 |
| PR-REV | - 421,900 |

4. Delete the Governor's recommendation. (Fertilizer tonnage fees of 27¢ per ton, and soil and plant additive fees of 10¢ per ton, would be restored, as would the Fertilizer Research Council with \$255,600 to DATCP for receipt of the research fees awarded by the FRC and \$166,300 to UW System in 2016-17).

| ALT 4 | Change to Bill |
|--------------|-----------------------|
| PR | \$421,900 |

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