



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #162

Dairy Promotion and Processor Grants (Agriculture, Trade and Consumer Protection -- Agricultural Assistance)

[LFB 2021-23 Budget Summary: Pages 56 and 61, #1 and #6]

CURRENT LAW

The statutes require the Department of Agriculture, Trade and Consumer Protection (DATCP) to promote the interests, growth, and sound development of dairying in the state. DATCP is responsible for licensing and oversight of dairy farms and food processing establishments, regulating animal waste management practices and farm conservation practices, and supporting administration of the milk marketing order. As of May 1, 2021, the National Agricultural Statistics Service reports Wisconsin had approximately 6,800 dairy herds. These herds produced 30.7 billion pounds of milk in 2020, and consisted of 1.27 million dairy cows. Wisconsin milk production has set an annual record each year since 2009.

To support DATCP's dairy development efforts, the Department is provided \$200,000 GPR each year for dairy promotion activities and \$200,000 GPR each year for dairy processor grants. Dairy promotion funding has supported a variety of initiatives since its inception, including grants to producers to increase milk production and scholarships for students from dairy backgrounds or seeking dairy education. Dairy processor grants provide funding to projects at dairy processing plants that, among other goals, grow the processing plant, contribute to processor innovation, or improve production and profitability. Eligible projects may include plant modernization and expansion, food safety improvements, staff training, and hiring of professional consultants. Dairy processor grants are provided on a reimbursement basis, and recipients must provide a match of at least 20% of project cost. Grants are limited to a maximum of \$50,000 per processor per year.

DISCUSSION POINTS

A. Dairy Promotion Funding

1. Dairy promotion funding initially supported production improvements at dairy farms as part of the Department's Grow Wisconsin Dairy 30x20 initiative, which sought to increase Wisconsin milk production to 30 billion pounds annually by 2020. Wisconsin's annual milk production reached this goal in 2016. Shortly after that time, trends in the dairy industry associated with increasing milk supply forced producers unable to find processors for their milk to reduce their herd size or exit the dairy industry. Thus, DATCP ceased providing Dairy 30x20 grants in 2015-16.

2. Over the five-year span from 2011-12 through 2015-16, DATCP provided \$942,000 in grants to 202 recipients. In 2016-17, DATCP lapsed the \$200,000 appropriation to the general fund. In 2017-18, DATCP provided \$105,000 to the Higher Educational Aids Board, which provided scholarships to individuals that had experience related to, or were pursuing education in, dairy farming. Since 2018-19, dairy promotion funding has been lapsed to the general fund, including in 2019-20 and 2020-21 under lapse requirements of the Department of Administration during the coronavirus pandemic.

3. In addition to DATCP dairy promotion grants, the Wisconsin Milk Marketing Board (doing business as Dairy Farmers of Wisconsin, DFW) is designated as the primary advocate for dairy in Wisconsin. The Board is created under Chapter 96 of the statutes consists of 25 active dairy producers across Wisconsin who are nominated and elected by Wisconsin producers and serve three-year terms. DFW is responsible for administering Wisconsin's milk marketing order, also known as the dairy checkoff, promulgated under administrative code Chapter ATCP 144. The milk marketing order imposes assessments on all dairy produced in the state to provide marketing, product research and development, and increased awareness of Wisconsin dairying and dairy products. Wisconsin producers contribute 10¢ per hundredweight towards state milk marketing efforts, and these assessments totaled \$30.4 million in 2019-20. By imposing an assessment on all dairy produced in the state, the milk marketing order allows producers to coordinate collectively to advocate for dairy production in Wisconsin and capture the benefits of scale in dairy production and processing innovations and marketing. The National Dairy Promotion and Research Board also is created under a federal milk marketing order and conducts similar dairy promotion business on behalf of producers nationwide. Wisconsin producers contribute 5¢ per hundredweight to federal efforts.

4. While DATCP has not allocated dairy promotion grant funding in recent years, the Department reports it intends to allocate base funding of \$200,000 annually during the 2021-23 biennium as grants to dairy producers to support activities that increase marketing or distribution of Wisconsin products. DATCP suggests such activities could include on-farm events to educate consumers, hiring a marketing consultant, or marketing trainings for producers. If the Committee took no action, the Department would allocate base funding to support marketing efforts by producers [Alternative A2].

5. Given the approximately \$30 million annually collected by DFW for marketing purposes, the Committee could consider reallocating dairy promotion funding for other purposes by deleting the appropriation [Alternative A1] or transferring funding for use under the dairy processor

grant program, as discussed below [Alternative C3].

B. Federal Rural Development Funding

6. Beginning in the early 2000s, DATCP received federal funding from two federal programs to operate a revolving loan fund to support business development. One program specified funding be directed for the purposes of dairy business development, while other funding was provided more generally for rural business development. Funding was allocated by DATCP as loans, which supported costs for businesses creating or expanding agricultural production or processing capacity. DATCP eventually ceased providing new loans, and loan repayments and interest have accrued in its rural development loan PR appropriation over time. The last loan repayments were made in March, 2021, and the appropriation has a current balance of \$883,200. The appropriation is authorized to expend all monies received, meaning existing funding of \$883,200 would remain available until exhausted.

7. Assembly Bill 68/Senate Bill 111 would modify the Department's rural development loan appropriation to also allow the Department to issue funding as grants, rather than solely as loans. DATCP reports that federal requirements specify it must allocate funding consistent with the original intent of the provided funding, but that such provision could include grants. While the Department is currently authorized to allocate funding as loans, it reports it would prefer to allocate funding as grants, as administrative activities related to issuance, determination of credit worthiness, servicing, and possible debt collection are less feasible given the small amount of funding.

8. Funding from the two programs has been comingled over time, so DATCP intends to allocate funding for dairy business development in rural areas to avoid questions of appropriate use of funding. DATCP reports it would provide grants to support: (a) development of innovative business models, operational practices, or new dairy products; (b) technical support and consulting related to business and succession planning; (c) startup of new dairy businesses and expansion of existing dairy businesses; and (d) technical education and training conferences for dairy businesses. DATCP proposes that it would provide grants of \$5,000 to \$100,000 to dairy producers, dairy processors, and other dairy organizations. DATCP would require a 20% recipient match and funding would support projects of up to two years in length. The Committee could consider modifying the rural development loan appropriation to also allow the provision of grants [Alternative B1].

9. The Committee could also consider reallocating rural development funding to support additional dairy processor grants, as discussed below [Alternative C5]. DATCP's proposed use of funding would support similar activities as under the dairy processor grant program. However, if funding were provided to dairy processor grants, dairy producers would be unable to receive funding.

C. Dairy Processor Grants

10. Since 2013-14, DATCP has allocated \$200,000 GPR annually for dairy processor grants. As seen in the table, demand for dairy processor grants has exceeded awards by an average of approximately \$350,000 across seven grant rounds, suggesting there is sufficient demand to support increased awards. However, it should be noted that applicants who do not receive funding regularly reapply, which may inflate requested amounts in subsequent years.

Dairy Processor Grants

<u>Year</u>	<u>Applications</u>	<u>Requested Amounts</u>	<u>Recipients</u>	<u>Awards</u>	<u>Food Safety</u>	<u>Modernization/ Expansion</u>	<u>Innovation</u>
2014	22	\$754,733	7	\$200,000	4.0	2.0	1.0
2015/16*	11	395,398	6	200,000	2.0	3.0	1.0
2017	14	678,304	8	200,000	2.0	4.0	2.0
2018	14	611,908	9	200,000	1.0	6.0	2.0
2019	14	512,238	10	200,000	0.5	4.0	5.5
2020	26	992,523	11	200,000	1.5	6.5	3.0
2021	<u>18</u>	<u>627,334</u>	<u>15</u>	<u>200,000</u>	<u>1.0</u>	<u>11.5</u>	<u>2.5</u>
Total	119	\$4,572,438	66	\$1,400,000	12.0	37.0	17.0

*DATCP conducted one grant round for both of 2015 and 2016.

11. It may be that recent trends in the dairy industry associated with lower dairy prices and excess supply place a downward pressure on future demand for dairy processor grants, due to low potential demand for additional goods produced as a result of a plant improvement. At the same time, increasing milk production may spur demand for increased milk processing capacity, and dairy processor grants may encourage plants considering expansions but not currently pursuing them. Further, modernization and innovation efforts may result in more cost-efficient processing methods or more profitable products, and allow a plant to process more dairy. Thus, expanded processing capacity could help alleviate pressure on producers to reduce their production.

12. AB 68/SB 111 would allocate an additional \$600,000 GPR each year for dairy processor grants. Given trends related to increasing milk supply, the Committee could adopt this proposal and provide a total of \$800,000 GPR each year for dairy processor grants [Alternative C1]. Over seven grant rounds, average grant requests per round have totaled approximately \$550,000. Given previous grant demand, the Committee could consider providing an additional \$300,000 GPR each year for dairy processor grants, for a total of \$500,000 GPR each year [Alternative C2].

13. Given the interconnected nature of dairy production and processing, the Committee could consider reallocating dairy promotion funding to dairy processor grants, for a total of \$400,000 GPR each year in dairy processor grants [Alternative C3]. The Committee could also transfer rural development funding to support additional dairy processing grants, and provide an additional \$441,600 each year of the 2021-23 biennium in one-time funding for dairy processing grants [Alternative C5].

14. Due to uncertainty in the dairy industry and evolving needs of producers and processors, the Committee could provide funding on a one-time basis during the 2021-23 biennium [Alternative C4], and consider additional funding for dairy processors during 2023-25 biennial budget deliberations. Given recent low milk prices and concerns about demand for, and cost-effectiveness of, investment in dairy processing, the Committee could take no action [Alternative C6].

ALTERNATIVES

A. Dairy Promotion Funding

1. Repeal the dairy promotion appropriation and delete \$200,000 GPR each year for dairy promotion grants.

ALT A1	Change to Base
GPR	- \$400,000

2. Take no action. (Dairy promotion grants would be budgeted at \$200,000 each year of the 2021-23 biennium and support marketing efforts by dairy producers.)

B. Rural Development Funding

1. Expand the rural development loan appropriation to also allow the Department to provide grants.

2. Take no action.

C. Dairy Processor Grants

1. Provide an additional \$600,000 GPR each year for dairy processor grants, for a total of \$800,000 each year of the 2021-23 biennium.

ALT C1	Change to Base
GPR	\$1,200,000

2. Provide an additional \$300,000 GPR each year for dairy processor grants, for a total of \$500,000 each year of the 2021-23 biennium.

ALT C2	Change to Base
GPR	\$600,000

3. Transfer \$200,000 GPR each year from the Department's dairy industry promotion appropriation to the appropriation for dairy processor grants. (Dairy processor grants would be budgeted \$400,000 each year of the 2021-23 biennium.)

4. Specify that additional funding be provided on a one-time basis during the 2021-23 biennium. (This alternative could be selected in addition to C1, C2, or C3 above.)

5. Allocate the \$883,200 rural development loan appropriation balance for dairy processor

grants by transferring the amount to the general fund and providing an equal amount of \$441,600 GPR each year of the 2021-23 biennium on a one-time basis for dairy processor grants.

ALT C5	Change to Base
GPR	\$883,200
GPR-REV	\$883,200

6. Take no action. Dairy processor grants would be budgeted at \$200,000 each year of the 2021-23 biennium.

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