



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #135

Dairy Assistance Programs (Agriculture, Trade and Consumer Protection)

[LFB 2019-21 Budget Summary: Page 42, #9 and #10, and Page 43, #13]

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 providing grants that support dairy production and processing. As of May 1, 2019, the National Agricultural Statistics Service reports Wisconsin had approximately 7,800 dairy herds. These herds produced 2.54 billion pounds of milk in April, 2019, and consisted of 1.27 million dairy cows.

GOVERNOR

Create a continuing appropriation in the Division of Agricultural Development with \$200,000 GPR in 2019-20 to establish the Wisconsin Initiative for Dairy Exports (WIDE). Increase funding for dairy processor grants by \$200,000 GPR annually to a total of \$400,000 GPR each year. Specify that, in the provision of dairy processor grants, the Department shall give preference to persons operating small processing plants. Specify that DATCP's dairy promotion duties shall include providing grants to local organizations that coordinate grazing, and expand the authorization of the dairy industry promotion appropriation to allow the provision of grazing grants. Provide \$52,600 GPR in 2019-20 and \$70,100 GPR in 2020-21 with 1.0 organic and grazing specialist position within the Division of Agricultural Development to provide education and technical assistance related to organic farming and grazing.

DISCUSSION POINTS

A. Wisconsin Initiative for Dairy Exports

1. DATCP reports that in 2018, dairy exports totaled approximately \$282 million, a decline of 5.5% from the previous year. Data from the first quarter of 2019 indicates that dairy exports are continuing to decline, with a further drop of 18.9% relative to the first quarter of 2018. The Wisconsin Initiative for Dairy Exports (WIDE) is intended to reverse this trend and pursue an increase dairy exports from 15% to 20% of the United States milk supply in the next three to five years.

2. Under the bill, funding for WIDE would be provided under the International Agribusiness Center, housed in the Division of Agricultural Development at DATCP, which provides technical expertise, market research, and market development initiatives to establish trade-enhancing partnerships and grow Wisconsin's agricultural exports. DATCP intends that WIDE would further increase the Agribusiness Center's ability to provide small and medium producers and processors direct access to international buyers.

3. DATCP cultivates relationships with international buyers through reverse buyer missions, through which it invites potential buyers of Wisconsin dairy products to Wisconsin in order to educate them about Wisconsin dairy products and connect them with Wisconsin producers. Reverse buyer missions include: (a) collaboration with industry partners, the University of Wisconsin Center for Dairy Research, in-country trade partners such as the U.S. Department of Agriculture (USDA) Foreign Agricultural Service and Food Export Association; (b) vetting of buyers, including a needs assessment and examination of financial viability and alignment with Wisconsin producer capacity; and (c) recruitment of Wisconsin companies to participate. When buyers visit, they conduct company tours and engage in one-on-one meetings with sellers, and DATCP follows up to provide technical support and resources necessary to establish and grow Wisconsin sales. DATCP reports its first buyers mission, held in 2018, cost approximately \$20,000 and allowed it to host 13 buyers from five countries (Mexico, Guatemala, Colombia, Chile, and the United Arab Emirates). Within three months of the event, DATCP reports at least \$400,000 in sales were reported, and notes that these relationships are expected to continue.

4. DATCP reports that in 2018 it: (a) hosted 16 delegations from China, India, Japan, Nigeria, South Korea, Russia, Taiwan, and Vietnam, among others; (b) participated in 14 events including trade missions and food shows in Asia, Latin America, and the Middle East; (c) presented at 12 state industry gatherings; and (d) worked one-on-one with 76 companies to help them understand and begin the export process. In 2019, DATCP plans to host a cheese buyers mission in June, a retail and food service products buyers mission in August, and a feed ingredients buyers mission at the World Dairy Expo in October. Further, it intends to participate in 17 shows in the United Arab Emirates, China, Vietnam, South Korea, Mexico, Australia, Chile, Peru, Colombia, Brazil and Japan.

5. DATCP reports it intends to use the proposed \$200,000 in funding to: (a) increase presence at international shows to advertise Wisconsin dairy companies; (b) hold in-store promotions at foreign grocery chains in targeted foreign markets; (c) conduct food promotions at

U.S. embassies and through international social media campaigns; (d) increase efforts to host international dairy buyers to meet Wisconsin companies; (e) host additional trade missions to new markets; and (f) create a video marketing Wisconsin dairy products in multiple foreign languages.

6. Although funding is included in the schedule of appropriations, the bill omits language authorizing the appropriation. If the Committee wished to fund WIDE, additional language would be necessary. In an errata item, the administration reports it intended to authorize funding for use as part of the Department's International Agribusiness Center under s. 93.42 of the statutes. Alternative A1 would incorporate this language.

7. Given the proposed plan for the Wisconsin Initiative for Dairy Exports, and the opportunity to increase international exports of Wisconsin dairy products, the Committee could consider adopting the Governor's proposal to provide \$200,000 in 2019-20 for WIDE (Alternative A1). As a continuing appropriation, funding would remain available for expenditure until it is exhausted, but the bill would provide no base funding for future biennia. The Committee could also consider taking no action (Alternative A2).

B. Dairy Processor Grants

8. Dairy processor grants provide funding to projects at dairy processing plants that, among others, 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. Grants are provided on a reimbursement basis, and recipients must provide a match of at least 20%.

9. DATCP reports that earlier grant awards were associated with food safety and quality assurance improvements, in order to comply with the federal Food Safety Modernization Act of 2011. Over time, recipient projects have shifted towards innovation and new processes. Table 1 provides a summary of grant awards since 2013-14.

TABLE 1

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	351,733	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	<u>14</u>	<u>426,638</u>	<u>10</u>	<u>200,000</u>	<u>0.5</u>	<u>4.0</u>	<u>5.5</u>
Total	75	\$2,823,316	40	\$1,000,000	9.5	19.0	11.5

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

10. As seen in Table 1, grant requests have exceeded awards by an average of approximately \$365,000 across five grant rounds, suggesting there is sufficient demand to support increased awards. However, current trends in the dairy industry associated with low milk prices may have a downward pressure on future demand for grants, due to low potential profitability of any plant improvement. At the same time, excess dairy production capacity may necessitate additional processing capacity, which would be supported by dairy processing grants.

11. The bill would institute a requirement that DATCP provide preference to "small" processors in its provision of grants. The bill does not define small, and the administration indicates that it chose not to define it in order to allow DATCP flexibility in implementing the provision. DATCP suggests a definition of small could be based upon annual sales, with categories as follows: (a) micro/start up processor: \$0 to \$150,000 in annual sales; (b) small processor: \$150,000 to \$1,500,000 in annual sales; (c) medium processor: \$1,500,000 to \$15,000,000 in annual sales; and (d) large processor: \$15,000,000 or more in annual sales. Although DATCP has not collected data from previous grant recipients on the size of their operations, it believes past recipients generally reflect an even distribution of these categories. If the Committee wished to clarify language in the bill, it could consider specifying a definition of "small" processors with the criteria proposed by DATCP of annual sales of less than \$1,500,000 (Alternative B2).

12. Given that grant demand has exceeded awards by approximately \$365,000 each round over five grant rounds, the Committee could consider providing an additional \$200,000 GPR annually for dairy processor grants (Alternative B1). Conversely, given recent declines in milk prices and concerns about demand for investment in dairy processing, the Committee could take no action (Alternative B3).

C. Grazing Grants and Specialist Position

13. Since 2011-12, DATCP has been provided \$200,000 GPR annually for the purposes of dairy promotion. As written, the appropriation broadly authorizes grants and loans to dairy producers for the purposes of promoting the growth of the dairy industry. This appropriation's use has changed over time as DATCP priorities have shifted. Initially, the appropriation supported the 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, and DATCP ceased providing Dairy 30x20 grants in 2015-16. 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.

14. 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. Scholarships were awarded for programs, including UW-Madison's Farm and Industry Short Course, that could be completed in two years or less at Wisconsin Technical Colleges or UW campuses with dairy programs. In 2018-19, DATCP did not provide scholarships, and funding is planned to be lapsed to the general fund.

15. The bill would expand the authorized use of dairy promotion funding to include

providing grants to local organizations that coordinate grazing. DATCP reports it intends to provide grants to organizations that would provide education and technical assistance related to implementing managed grazing. Managed grazing represents an alternative management method for raising livestock. According to various reports and surveys by DATCP staff and UW researchers, managed grazing is thought to offer a number of economic tradeoffs, allowing for production across more acres of farmland, increasing expenditures on land but reducing expenditures on feed. Managed grazing is also thought to confer ecological benefits if properly implemented. DATCP suggests grant recipients could provide resources to interested farmers to educate them about grazing best practices, provide technical assistance, and help them create grazing plans.

16. DATCP previously administered Grazing Lands Conservation Initiative (GLCI) grants until the program was repealed under 2013 Wisconsin Act 20. Grants were intended to promote the use of managed grazing through technical assistance and educational offerings for farmers. GLCI grant requests generally exceeded available funding, which came from a combination of federal grants and state funds from the segregated (SEG) agrichemical management fund. State funding for GLCI grants was \$375,500 SEG annually at the time of its repeal.

17. DATCP reports the proposed organic and grazing specialist position would: (a) assist in the allocation of grazing grants; (b) provide technical assistance to farmers, including business and market development assistance; (c) increase Department collaboration with organic producers and industry participants; and (d) represent DATCP in advocating for organic farming, in order to stimulate interest and investment in Wisconsin organic production. While a supervisor in the Farm Center has expertise related to some of these topics, and dedicates time on a limited basis to addressing them, the proposed position would allow DATCP to have a staff person dedicated entirely to these issues. 2017 Act 59 had previously deleted 1.0 vacant position dedicated to these duties.

18. Based on the most recently available report from the National Agricultural Statistics Service, in 2016 Wisconsin ranked second in number of organic farms at 1,276, behind California (2,713), and third in total organic acreage at 219,266, behind New York (264,385) and California (1,069,950). Further, Wisconsin produced \$255 million in organic sales in 2016, an increase of 15% over 2015. DATCP contends that despite recent challenges facing the agriculture industry, the organic industry in Wisconsin represents an opportunity for growth.

19. Given that current dairy industry promotion funding is not being utilized, the Committee could consider expanding the authorization for the appropriation to include provision of grazing grants (Alternative C1). Further, given the growth of the organic industry in Wisconsin, the Committee could consider providing 1.0 organic and grazing specialist (Alternative C2). If the Committee wished to adopt the Governor's proposal, it could select Alternatives C1 and C2.

20. Conversely, given that DATCP has either fully or partially lapsed funding provided for dairy industry promotion in 2016-17, 2017-18, and 2018-19, the Committee could consider deleting the dairy industry promotion appropriation and associated funding, in order to repurpose funding for dairy export initiatives or grants to dairy processors under other sections of this paper

(Alternative C3). The Committee could also consider taking no action (Alternative C4).

ALTERNATIVES

A. Wisconsin Initiative for Dairy Exports

1. Adopt the Governor's proposal, as amended by the errata item, to create a continuing appropriation and provide \$200,000 GPR in 2019-20 for the Wisconsin Initiative for Dairy Exports. Authorize funding for use as part of the Department's International Agribusiness Center under s. 93.42 of the statutes.

ALT A1	Change to	
	Base	Bill
GPR	\$200,000	\$0

2. Take no action.

ALT A2	Change to	
	Base	Bill
GPR	\$0	- \$200,000

B. Dairy Processor Grants

1. Adopt the Governor's proposal to provide an additional \$200,000 GPR each year for dairy processor grants and specify that DATCP give preference to small processors in its provision of grants.

ALT B1	Change to	
	Base	Bill
GPR	\$400,000	\$0

2. Specify that small processors be defined as those with annual sales of less than \$1,500,000. (This alternative could be moved in addition to B1 above.)

3. Take no action.

ALT B3	Change to	
	Base	Bill
GPR	\$0	- \$400,000

C. Grazing Grants and Specialist Position

1. Adopt the Governor's proposal to specify the Department's dairy promotion duties shall include providing grants to local organizations that coordinate grazing, and expand the authorization of the dairy industry promotion appropriation to allow the provision of grazing grants. (This alternative could be moved in addition to Alternative C2.)

2. Adopt the Governor's proposal to provide 1.0 organic and grazing specialist position with \$52,600 GPR in 2019-20 and \$70,100 GPR in 2020-21. (This alternative could be moved in addition to Alternative C1.)

ALT C2	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
GPR	\$122,700	1.00	\$0	0.00

3. Repeal the dairy promotion appropriation under s. 20.115(4)(d) of the statutes and delete funding of \$200,000 GPR each year.

ALT C3	Change to	
	Base	Bill
GPR	- \$400,000	- \$400,000

4. Take no action.

ALT C4	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
GPR	\$0	0.00	\$122,700	1.00

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