

MICHIGAN COMMISSION OF AGRICULTURE AND RURAL DEVELOPMENT

Bonnymill Inn and Eatery
710 West Broad Street
Chesaning, Michigan

MEETING MINUTES JUNE 13, 2012

PRESENT:

Velmar Green, Chairperson, Michigan Commission of Agriculture and Rural Development
Bob Kennedy, Vice Chairperson, Michigan Commission of Agriculture and Rural Development
Diane Hanson, Secretary, Michigan Commission of Agriculture and Rural Development
Don Coe, Michigan Commission of Agriculture and Rural Development
Keith Creagh, Director, Michigan Department of Agriculture and Rural Development

ABSENT:

Trever Meachum, Michigan Commission of Agriculture and Rural Development

CALL TO ORDER AND ROLL CALL

Chairperson Green called the meeting of the Commission of Agriculture and Rural Development to order at 9:15 a.m. on June 13, 2012. Commissioner Hanson called the roll with Commissioners Coe, Green, Hanson, and Kennedy, and Director Creagh present. Commissioner Meachum was absent from today's meeting.

APPROVAL OF AGENDA

MOTION: COMMISSIONER HANSON MOVED TO APPROVE THE MEETING AGENDA FOR JUNE 13, 2012. SECONDED BY COMMISSIONER KENNEDY. MOTION CARRIED.

APPROVAL OF APRIL 11, 2012, MEETING MINUTES

MOTION: COMMISSIONER COE MOVED TO APPROVE THE APRIL 11, 2012, MEETING MINUTES. SECONDED BY COMMISSIONER KENNEDY. MOTION CARRIED.

REVISED 2012 PROPOSED MEETING SCHEDULE AND NEXT SCHEDULED MEETING

To coordinate with the dinner planned for the evening of August 8, changing the Commission meeting start time to 1:30 p.m. that day was discussed. Also, to accommodate a tour of Continental Dairy in Coopersville on September 12, changing the meeting location for that day to the Coopersville Farm Museum was proposed.

MOTION: COMMISSIONER COE MOVED TO APPROVE THE REVISED 2012 PROPOSED MEETING SCHEDULE WITH CHANGES TO THE AUGUST AND SEPTEMBER MEETINGS AS DISCUSSED. SECONDED BY COMMISSIONER HANSON. MOTION CARRIED.

The next scheduled meeting will be held on July 17, 2012, at Geagley Laboratory, 1615 S. Harrison Road, East Lansing.

COMMISSIONER COMMENTS AND TRAVEL

Commissioner Hanson reported the Upper Peninsula (UP) weather remains extremely dry and hay crop yields are about 25 percent. Over 20,000 acres have burned recently in the UP, with losses to several businesses.

Michigan State University (MSU) College of Agriculture advised a committee has been established to determine future uses for the AgBioResearch Center in Chatham.

She has been engaged in preparing for the Breakfast on the Farm event to be held July 28 at VanDrese Farms in Cornell.

Ben Kudwa, from the Michigan Potato Industry Commission, contacted her recently regarding problems with feral hogs at Sandyland Farms near Howard City. She visited the facility yesterday, meeting with owner Todd Young and updating him on the Invasive Species Order. She shared a map depicting where the several acres of damage has occurred. A U.S. Department of Agriculture (USDA) representative has established traps on Sandyland Farms in an attempt to capture the animals.

Commissioner Kennedy advised although the area could use rain, central Michigan is in good shape, with all crops having been planted. Because of the warm winter weather this year, problems with various plant pests are anticipated to escalate and there will be sprayers working throughout the summer.

Commissioner Coe reported on April 16, he met with the Northwest Michigan Extension Council at the Horticulture Station near Traverse City and attended a Food Network meeting the following day. On April 24, he met with Sam Hines, of the Michigan Pork Producers, to discuss the feral swine issue. He worked with a consultant the next day at the new food hub in Traverse City to assist with the feasibility study for the project. On April 27, he attended the Michigan Food Policy Council meeting in Traverse City.

He joined the Northwest Michigan Council of Government Food Innovation District Program meeting on May 2, which included an MSU study team that is developing a food hub design template. On May 8, he hosted a Farm Bureau Leadership tour at Black Star Farms and spoke to that group about agriculture tourism and value-added agriculture. He joined the May 10 Michigan Works! meeting to discuss the migrant labor issue, in particular the apparent inability to attract migrants to the area because of this year's crop failure. On May 14, he met with a gentleman who is interested in building a food curriculum for primary school students to educate them about healthy food choices. The Asparagus Festival was held on May 19 in Empire which was a great event. All spring festivals in the area have drawn major crowds this year.

He hosted a tour on May 21 for Eastern Michigan University's Geo-tourism class, which is a natural resource and agriculture based program. On May 22, he joined a group at the Horticulture Station with Congressmen Camp and Benishek and a group of 130 local

farmers concerning the crop disaster and potential assistance for the cherry industry. He met with a gentleman on May 30 to discuss his interest in a biomass and hydroponics business, and today discussed with MDARD's Mike DiBernardo how various agencies might be brought together to help facilitate that project. On May 31, he met with a consultant regarding the final report on the food hub project, which he hopes to present at the department's upcoming Food Hub Meeting.

Since this is an election year, Congressional members have been visiting the area, including Senators Levin and Stabenow who have surveyed the crop damage. Presentations were made concerning what Congress might be able to do to help producers. It appears that assistance will more likely come at the state level and legislation has been introduced in that regard.

He traveled to Grand Rapids on June 3 to attend a Pure Michigan Campaign Committee meeting; that group is drafting a new strategic plan for tourism and he will ensure that agri-tourism remains on that agenda. On June 6, he hosted a National Plant Board group consisting of plant biologists and technicians. On June 11, the American Farm Bureau toured and he discussed with them concerns with the upcoming Farm Bill.

Commissioner Green met with the Natural Resources Commission (NRC) Chair in April to discuss the Michigan Department of Natural Resources' (MDNR) actions relative to feral swine. It was a beneficial meeting and MDNR advised they plan to remain low key in their regulation.

In early May, he joined Senator Stabenow's meeting in East Lansing to discuss the Farm Bill. Committee work has been completed and the bill is being considered in the Senate.

The first cutting of their hay crop was short this year, but they anticipate having four to five cuttings throughout the season. Sugar beets look good and new beans are growing. There still is an excess of milk being produced.

F.C. Mason Company in St. Johns, who manufactures agriculture parts, reported they plan to expand and will be employing an additional 40 workers. This is great news for that community.

He was contacted recently by a game bird hunting preserve in Shiawassee County and MDARD's Brad Deacon is addressing their concerns relative to the Right to Farm Act.

He hosted a tour on his farm this morning for a group of Midwest dairymen and their first question was how he had obtained the Michigan Agriculture Environment Assurance Program (MAEAP) sign in front of his facility. His daughter explained to them in detail the process of becoming MAEAP verified.

High speed internet and cell phone service is still seriously lacking in the Elsie area and across rural Michigan. He feels that state government should require providers to ensure that service is available to rural Michigan because that service is essential for rural development. Commissioner Coe noted prior presentations before the Commission emphasized various limiting factors to expansion of that service include economy of

scale, the necessity for local units of government to sign off on a particular carrier, and making it worthwhile for a company to provide the service. Director Creagh reported the Governor is well aware of the broadband issue, the department is working with its federal partners at USDA, the administration worked very hard on a bill to share the state's towers, and the department will continue to explore all available options. The Commission requested talking points around the topic be developed for their use. In addition, the Director advised Eric Swanson, with the Department of Management and Budget, will be asked to present an update to the Commission in the near future to review progress achieved over the last year.

Commissioners Coe, Hanson, and Kennedy traveled to attend today's meeting. There was no other travel submitted for approval.

MOTION: COMMISSIONER KENNEDY MOVED TO APPROVE THE COMMISSIONERS' TRAVEL. SECONDED BY COMMISSIONER COE. MOTION CARRIED.

DIRECTOR'S REPORT

Director Creagh reviewed the current key issues of interest for the department and highlighted some of the numerous meetings he has attended since the last Commission meeting, noting that considerable time has been spent over the last six weeks on weather related events. Multiple tours have been hosted to review crop damage, as well as discussions with the Congressional Delegation and State Legislators. The Governor supported a zero interest loan program with industry that was refashioned to be a low interest loan program. The legislation is anticipated to be forwarded to the Governor before the Legislature leaves for summer break. In conversations with the Budget Director, it was established that fiscal year 2013 funds could be utilized. It currently is outlined as a five-year program, which provides for interest only payments for the first two years and one percent interest on the loan. In discussions with financial groups, Michigan Farm Bureau (MFB), commodity groups, food processors, and producers, the \$15M of funds in the program will make available about \$300M in loans to growers, processors, and agribusinesses affected by the freeze events this spring. The department looks forward to moving that program ahead.

He also has spent a significant amount of time on the mining severance issue and has had ongoing conversations with all impacted groups. He met yesterday with county officials in Marquette and substantial discussions are occurring. A potential benefit of severance would be creation of a rural development fund, a part of which could be available for expansion of broadband service. The fairly complex issue involves what is fair to the local governments, what percentage of severance, how the tax is assessed, what are the discounts, what are transportation costs, etc. The department's goal is to encourage mining in the UP, be fair to the local entities, and develop a rural development fund.

Considerable time has also been spent in Detroit on the Cities Team effort as we look to assist Detroit in emerging from their current financial conditions. The administration is attempting to find programs that can help develop pathways forward. As part of that effort, MDARD is working with Eastern Market on a regional food system.

Non-industrial private forestland issues are in the forefront. The Timber Advisory Council is charged to advise both MDNR and MDARD on forestry and timber issues. Agriculture has a relationship with private land owners in that forestry is part of the agricultural entity. Legislation has been introduced that would amend the Qualified Forest Act (QFA). It will be challenging moving forward and the department may assume additional responsibility as a result of the legislation.

Maximum residue limits (MRL) was the topic of a recent meeting with various commodity groups and growers. How to meet MRL levels in order to export crops was the key issue discussed. Work will continue on that front and he expressed appreciation to MDARD's Gina Alessandri for the expertise she provided at that meeting.

The Governor asked the three UP university presidents and Operation Action UP to host a meeting with CEOs to identify the impediments for long term economic growth in the UP. This should help inform the severance conversation. Their report is expected soon.

He and Governor Snyder participated in a McDonald's media event to recognize their program to purchase \$237M of Michigan local products, including for instance, 77 million dozen eggs.

The department honored Graceland Fruit as the "Michigan Agriculture Exporter of the Year". Graceland Fruit's focus on quality and innovation has leveraged their expansion into new markets and significant export sales growth.

One of the outgrowths of the China trip was assisting Mead Johnson with export of their infant formula, which included a commitment to collaborate on food safety training. A group of 18-20 Chinese officials attended a two-week safety training held at the International Food Protection Training Institute (IFPTI) and included Mead Johnson and Kellogg staff as training personnel. This has initiated a food safety training pathway with the Chinese government.

In the reorganization of the National Agriculture Statistics Services, the Michigan Field office will remain open. He extended appreciation to the Commissioners and Senator Stabenow for their efforts in helping to retain the Michigan office.

A Food Processors Summit was held in Hudsonville recently and he acknowledged MDARD's Mike DiBernardo for his leadership efforts in organizing that event. The Director received considerable positive feedback on the networks established, questions answered, and the Michigan Department of Environmental Quality's (MDEQ) progress regarding permits.

He apologized that he needs to leave today's meeting early to join the Governor in the Pure Michigan Fit event in Wyoming, Michigan. MDARD is a partner in the Governor's Health and Wellness Message and was directed to team-up food processors, Michigan Grocers Association, and Michigan Health and Hospital Association to consider health and wellness around food. MDARD's Jen Holton has done a great job bringing those partners together to develop the Pure Michigan Fit Campaign.

Tim Hamilton, from Midwest Food Export, visited Lansing recently. Several legislative visits were included while he was here. Their program is fundamental to the department's export efforts.

Commissioner Coe mentioned that Eastern Market President Dan Carmody told him that the Director and the department are his absolute heroes – previously, government had been his burden and now is a great asset to him.

DIRECTOR'S TRAVEL

Director Creagh requested travel to Indianapolis June 21-25 to attend the Midwest Association of State Departments of Agriculture meeting. He noted the department will be hosting that meeting in 2014, potentially in the Traverse City area. A program will be developed for our regional agriculture directors to showcase Michigan agriculture.

MOTION: COMMISSIONER HANSON MOVED APPROVAL OF THE DIRECTOR'S TRAVEL. SECONDED BY COMMISSIONER KENNEDY. MOTION CARRIED.

PUBLIC COMMENT (AGENDA ITEMS ONLY)

There was no public comment relative to agenda items.

AUBURN BEAN AND GRAIN COMPANY UPDATE: Robert Kennedy, Vice President of Operations, and Vice Chairperson, Michigan Commission of Agriculture and Rural Development

Commissioner Kennedy advised that Auburn Bean and Grain Companies is a privately held company established in 1970 by Clifford Vennix and his wife Jan. Starting out with a wooden elevator in the Auburn area, they evolved into a group of modern high tech facilities. Three main locations are in Oakley, Hemlock, and Auburn and there also are locations in Saginaw and Millington. Plans are underway for a bean and grain location in Standish, for which MDARD's Mike DiBernardo has assisted. It will represent a substantial expansion, with 2.5 billion bushels of grain capacity, and will become the fourth main facility.

Annual sales currently approach \$200M, with 16 million bushel grain storage, and 40,000 ton fertilizer storage. They employ 71 individuals full-time, with 10-15 seasonal employees for spring or fall; and this spring, they actually have 30 seasonal employees. Their payroll is over \$5M annually.

Auburn Bean and Grain has four grain locations with 90-car train shippers (340,000 bushels), including high speed loading. The majority of their grain commodities are shipped to the Southeastern U.S. for the poultry and hog operations in that area. The focus of their business model is high speed unloading systems in servicing the farming community. Rather than being a bid buyer, a marketing consultant/analysis approach is utilized with customers.

Their agronomy facilities incorporate 25 custom application machines; GPS soil testing; variable rate application; 200,000 acres of custom application; and speed-driven fertilizer mixing, loading, and application procedures.

Business is currently conducted in 20 different counties. Their main counties are Saginaw, Shiawassee, Midland, and Bay.

Industry changes and challenges include the increasing yield curve, increasing demand, economy of scale, and new technology driving agriculture expansion into the future.

Various parts of their facilities were illustrated, including a 750,000 thousand bushel steel grain bin and a fully aerated tarp system that provides 1.4M bushels of storage. The bulk fertilizer storage at Oakley was recently expanded and includes computerized, custom chemistry blending capabilities. More efficient and precise technology allows for focused nutrition needs to increase crop yields for growers. A bulk seed system was also added which provides custom seed treatments. Specific seed varieties are tailored to each customer's specific needs.

Precision agriculture provides exactly what the crops need, when they need it. With GPS and variable rate technology on board, their application vehicles (each represents a minimum \$400,000 investment) can change the application rate/content on the fly as it progresses through a field. Dollar-wise for the grower, all of the technologies they have been able to incorporate are definitely saving producer's money.

The recent expansion of Frutchey Bean and Grain in Oakley was a huge project and at the time intended to cover them into the future. It didn't take very long to realize future expansion is already required.

In response to questions from Commissioner Coe, Commissioner Kennedy advised all their storage, spill prevention measures, dyke cleaning, etc., meet the common-sense environmental rules established, and MDARD has been great to work with in that regard. They produce no waste, and although the industry has experienced some explosions, they occur more often on the farm operations, which is why grower safety education is part of his company's mission. Future expansion is heavily dependent upon expansion of the rail infrastructure. A second bridge to Canada would help ease congestion of their soy bean shipments, most of which go to Windsor. Any concern on the federal side is the potential of additional regulation. Director Creagh advised MDEQ Director Wyant meets regularly with agri-businesses and addresses proposed EPA rulings that could be problematic for the industry.

Director Creagh advised his understanding is that precision agriculture provides increased yields with a reduction in chemicals. Commissioner Kennedy confirmed that fact and added they have transitioned from field management to plant management, through managing varieties, genetics, and nutrients – today, it actually is a prescription based business. Being able to meet the prediction of doubling production by 2050 will be a balance between genetics, technology, and better management.

CROP DISASTER UPDATE: Ken Nye, Michigan Farm Bureau; and Brad Deacon, Emergency Management/Administrative Law Coordinator

Mr. Deacon reported with the warm weather in early March, followed by a series of frosts and freezes, Michigan's specialty crops suffered severe damage. Fruit crops that have been affected include apples, tart cherries, sweet cherries, peaches, juice grapes, early blueberry varieties, and a small number of wine grapes. MFB coordinated multiple farm tours for elected officials to view first-hand how the crop losses will impact growers, processors, and fresh market dealers.

Working collaboratively with MDARD, the Michigan Department of Treasury, GreenStone Farm Credit Services, Michigan Bankers Association, and commodity groups, work is progressing toward a Michigan-centric approach to accompany federal assistance programs, such as a low-interest loan program. This program would act as a supporting mechanism, allowing private sector banks and lending institutions to provide farmers and processors access to funds.

On May 25, Governor Snyder made the formal request to USDA for weather events that occurred between January 1 and May 11, 2012, including the blizzard in early March, the frost and freeze issues that caused extensive damage in the fruit and asparagus industries, as well as other weather issues of excessive rain and high winds, hail, tornados, and flooding. It has been a rocky year so far for a large portion of the state. Because the devastation is fairly evident, subsequent communication has urged more expeditious action than normal.

Mr. Nye advised the encouraging part of the situation is that we have a process to help address the situation and an agriculture public/private peer group in Michigan that comes together to solve problems – MDARD, commodity groups, MSU, MSU Extension, bankers, Legislature, other state agencies, farm organizations, and the farmers themselves to work toward remedies. The situation began with the relatively mild winter experienced this year, with two weeks of very unseasonably warm temperatures in March that set up the food crops for a gauntlet of potential damage over an extended period of time. Beginning the last week of March, frost events began to take out fruit crops in Michigan, and by the end of April, there really was not much left. Some of the wine grapes survived, as well as the later varieties of blueberries. Most all of the commercial side of apples, cherries, peaches, and juice grapes were lost, which the industry has estimated to be an over \$250M loss.

The department organized critical conversations with commodity groups and other key players that initiated the legislative process to consider either zero or low interest program. The legislators are very interested and there is considerable support to implement such a program. It appears that the appropriation and funding will be completed relatively soon. There also have been discussions about crop insurance. This event should stimulate the industry to take action, with help from MSU Extension and risk management agencies, to make improvements to address why current crop insurance does not cover these problems in Michigan. There also have been significant discussions about assistance at the federal level and a Michigan group will be traveling to Washington next week, which is being coordinated by growers, commodity groups,

and MFB. This is an example of everyone working together to make something good out of something so devastating.

This will be extremely painful for growers, and even with the low interest loan program, it will be very difficult for some. It is also very difficult for some of the handlers, both fresh and processed – some are realizing they may not even open their doors this year.

Commissioner Coe noted that follow-up diseases are now taking the trees, we do not have sufficient nursery stock available for replanting, and even when new stock is planted, it is 3-4 years before bearing fruit appears. Many of the growers will have no cash flow for a minimum of 15-30 months, and the young beginning farmers will not have resources to carry them through. The processors are faced with having to source from other countries, determining who will absorb that additional cost, breaking the labor chain, and the loss of downstream customers.

In response to question from Commissioner Kennedy, Mr. Nye advised cold storage is relatively low on apples and there may be some carryover of frozen fruit. There is no excess storage of tart cherries, that commodity will be gone.

Commissioner Coe advised crop insurance that had been available was very expensive; therefore, many growers did not have that insurance. The federal representatives made it very clear that if the farmers were not insured and were asking for additional funds at the federal level, it would be very difficult. This is why the state initiative is very important.

Director Creagh extended appreciation to Ken Nye and Bob Boehm for their leadership through MFB in developing an assistance program. It is anticipated that GreenStone Farm Credit Services will carry the lion's share of the loan program, just as they did in 2002. The department appreciates private industry coming together to develop a program that will work for the agriculture industry. The Governor, the Budget Director, and MDARD's Director are committed to the program. The \$15M will help support a program developed through a public/private partnership to assist producers and processors/handlers who, through no fault of their own, lost crops in 2012.

ADJOURN AND RECONVENE

Chairperson Green adjourned the meeting at 10:50 a.m. for a brief break. He reconvened the meeting at 11:02 a.m.

SAGINAW VALLEY TRANSPORTATION UPDATE: Tim Hoeffner, Director, Office of Rail, Michigan Department of Transportation; and Jeff Haarer, Producer Security and Ag Products Manager, Pesticide and Plant Pest Management Division

Mr. Haarer reported that as part of Governor Snyder's Special Message on Infrastructure, MDARD has assumed a key role in developing a comprehensive strategy. Chief Deputy Director Wenk is leading the department's efforts through the Transportation, Distribution, and Logistics (TDL) Steering Committee, which is partnership developing a strategy for transforming Michigan into a "Gateway for the Midwest" – a center for global freight, logistics, and supply change that will drive significant job creation and investment over the next decade. We have also increased

partnerships through mining and agriculture businesses in working with rail transportation. Currently through the Producer Security and Pesticide and Plant Management Division, inspectors are asking customers what can be done to improve infrastructure and how rail service can be improved. He currently has on his desk 20 different rail spur and rail expansion projects in Michigan. One of the key partnerships developed is with the Michigan Department of Transportation (MDOT) and their Director of the Office of Rail, Tim Hoeffner is here today.

Mr. Hoeffner confirmed they have been working with other agencies to coordinate transportation through economic development. The increased yields in agriculture caught the attention of MDOT's Director Steudle and how that impacts the road system and rail service. They have been working very closely with their agents throughout the state because of the sheer economic volume involved.

Some of the larger issues include car supply and car timing, and it may very well become worse before it improves. In the railroad industry, most of the cars are not owned by the railroad companies or shippers. Other companies, banks, and investment groups own the cars and put them out for lease.

One of the big concerns is upcoming lease termination on the majority of the covered hopper cars, which are the same cars used for frack sand for gas and oil exploration. From the railroad standpoint, some of the lowest margin commodities are agricultural and a larger portion of the covered hopper cars very well may be going instead to frack sand supply.

The good news is we are working with sister states to address the issues, not only of car supply, but availability at the time needed. There might be opportunities for scheduling sand deliveries toward stock piling to make the cars more available during the grain season.

MDOT has been in discussions with railroads, state legislators, and agriculture industry organizations. Some of what they are hearing is that you can truck product to Chicago cheaper than by rail car. There is a huge bottleneck in Chicago from the rail industry standpoint, which we have been aware of for years. There is a large project called CREATE that is attempting to address many of the freight issues in Chicago. MDOT is in communication with counterparts in Illinois who are working very closely with the railroad industry on that project. About 15 separate projects are completed, another 20 are in progress, and 30-40 projects will be addressed in the future. This is a multi-billion dollar investment that needs to be injected into the rail infrastructure to create better flow of traffic through Chicago. Delays are not only with boxes, but in moving bulk grain covered hoppers, etc. This project ultimately will help the rail transportation picture tremendously.

The other issue is dealing with the short-line railroads and making connections to the Class I rail lines. Class I lines do not want to give up equipment to the short-lines and they prefer to move the bulk commodities of coal, iron, etc., because they receive a good price. With agriculture, the Class I rail lines want to only move higher volume large cuts of cars. The key is devising means to use that to our advantage. Michigan has the

ability to place goods on truck for a short distance and quickly transfer to rail, which can create the advantage of higher volumes. This is one area on which we will be concentrating in conversations with Class I railroads. There also are some potential opportunities to reconfigure existing rail facilities to better serve Michigan agriculture.

MDOT is also talking with the short-line railroads to better understand how they are conducting business. They are making improvements and much has to do with how the equipment flows from the Class I railroads to the short-line industries. We are not on the main transcontinental railroads, so that is one of the things we will have to overcome. We do have some potential opportunities, for example with Michigan's weight limits and we are trying to use that to our advantage.

The key to the future is the fact that there has never been this much attention afforded to the rail lines. His office will continue to work very closely with all parties involved. In response to question from Commissioner Coe, Mr. Hoeffner confirmed MDOT understands rail transport is an economic development tool. The main concern is car supply during the grain season, which is to a great extent dependent upon the outside leasing companies. Railroading is one of the most capital intense industries in the country and that industry owns one of the largest private infrastructures, for which they generally pay completely on their own. Any state or federal money typically is applied to maintenance of railroad crossings.

Commissioner Kennedy asked if MDOT sees any difference when working with state-owned short-line companies versus the straight-up short-lines. Mr. Hoeffner advised they are small businesses and the reason Michigan became involved with ownership is that many railroads in the state were not of national interest, but were of significant value to Michigan. Predominately, the day-to-day business is left to the railroads and the state requires them to put a portion of their gross profit back into capital improvements on the line. Commissioner Kennedy noted the state lines seem to be more engaged and concerned about Michigan as a whole.

2013 BUDGET UPDATE AND IMPLEMENTATION STRATEGY: Amy Epkey, Budget Officer; Kevin Besey, Director, Food and Dairy Division; Mike DiBernardo, Grants/Economic Development Specialist; and Jim Johnson, Director, Environmental Stewardship Division

Ms. Epkey advised the department's fiscal year 2013 budget (October 1, 2012 – September 30, 2013) was approved by the Legislature and is currently on the Governor's desk for signature. The 2013 budget recommendation is \$76.9 million, including \$36 million general fund. The proposal reflects a 6 percent total budget increase and 25 percent general fund increase from fiscal year 2012. The FY2013 budget stabilizes funding for core MDARD programs and contains additional funding for initiatives supporting increased on-farm environmental protection, food safety, and opportunities for regional economic growth.

The amounts of specific general fund increases were noted, some of which provide for one-time funding. Enhancements included \$1M for the Michigan Agriculture Environmental Assurance Program (MAEAP), \$400,000 for the Migrant Labor Housing Program, \$600,000 for Rural Development, \$300,000 for the Dairy Program, \$600,000

for the Forest Development Program, \$500,000 for new food safety requirements, and \$1.9M for the Value Added Grants Program. \$486,700 is also included for unclassified positions. Each agency is authorized to have up to six unclassified positions within their budget. MDARD currently has two, the Director and the Legislative Liaison. These funds will provide for consistency across state agencies.

Mr. DiBernardo provided details on the budget enhancements relative to the Agriculture Development Office. Two economic/community department analyst positions will serve as recognized resources functioning as rural development analysts responsible for coordinating with business representatives, community officials, food and agriculture industry representatives, state and federal agencies, and other partners to identify regional needs and implement action steps to meet community growth and development goals for specific geographic regions. Those new staff will function as field staff in assigned portions of the MEDC regions through which they will work in assisting the agri-businesses in their area. Mr. DiBernardo will coordinate their work, as well as having primary responsibility for the UP and Detroit activities.

Event coordination and recruiting will be key duties for a promotional agent position that will coordinate with Michigan companies on MDARD sponsored marketing programs. This position will also assist with multiple on-going projects that support the program goal of assisting Michigan food and agriculture firms with increasing exports, as well as facilitating agricultural sales in new markets. This will provide Jamie Zmitko-Somers with opportunity to pursue higher level international marketing opportunities.

The department is excited about the opportunity to administer the \$1,950,000 "Agriculture Value Added/Regional Food System" grant program. This program allows the department to enhance and accelerate value-added agriculture and regional food systems. The program will accept proposals intended to establish, retain, expand, attract, and/or develop value added agriculture processing and/or develop regional food systems by enhancing or facilitating aggregation and distribution of Michigan grown agricultural products. This program offers an opportunity for MDARD to help organize and provide leadership for regional food systems going forward. And for value-added, it assists in obtaining investments in new technology and developing new opportunities, new products, and new product markets. Appropriate activities for the grants include, but are not limited to, technical assistance, marketing, equipment and innovation, and training and outreach. All projects must be completed in the 15-month timeframe between October 1, 2012 and December 31, 2013. He and Nancy Nyquist will be available to assist applicants through the grant writing process.

Mr. Johnson advised the 2013 budget allows the Environmental Stewardship Division to address a number of program issues. The addition of two inspectors, a program manager, and an administrative support person will allow for a fully functional Migrant Labor Housing Program in-season inspection process for 2013. The intent is to work with the U.S. Department of Labor to manage our respective inspections so there is less duplication of in-season inspections.

Enhancement to the Michigan Agriculture Environmental Assurance Program (MAEAP) will provide additional workforce to assist with reach 5,000 verifications by 2015 through

addressing both the need for more one-on-one technical assistance for producers and MDARD staff for verifications.

Two additional engineers will assist with addressing the increased need for engineered solutions to environmental risks on farms which will help with reaching 5,000 verification in MAEAP and assist the processing industry with various aspects of their operations associated with engineering issues including, but not limited to, the land application of Biochemical Oxygen Demand (BOD) waste water as a means of treatment.

With the addition of \$600,000 general fund and the \$200,000 Forest Development Fund transfer from DNR, MDARD will fund approximately 11 foresters covering up to 22 counties. Their work will be public outreach and technical assistance regarding better forest land management.

Relative to food safety enhancements, Mr. Besey advised a veterinarian will be hired in the Animal Industry Division to assist and educate individuals involved in food systems (farmers, veterinarians, salespersons, etc.) on the proper use of antibiotics to ensure products longevity and protection of the food supply.

With the anticipated loss of federal Microbiological Data Program (MDP) funding, two existing staff will be supported to provide continued monitoring of critical products in Michigan's food supply to assure safe and wholesome food.

An emerging issues specialist in the Food Section will work with Michigan's farm and processing communities to assist them in complying with new federal rules that are currently being promulgated under the authority of the Food Safety Modernization Act.

For the Dairy Program, the additional funding will allow hiring of additional staff and to conduct milk safety inspections on all Michigan dairy farms and processing plants. MDARD is responsible for overseeing Michigan's 2,170 licensed dairy farms and 84 dairy processing plans. Currently, industry field representatives are conducting inspections on dairy farms in nine Central Michigan counties.

A nutritionist position will work to promote healthy lifestyles by connecting Michigan's agriculture industry with residents looking to purchase healthy Michigan food. MDARD will grow current efforts, such as Farm to School and Pure Michigan Fit, as well as coordinating with other state and federal agencies, such as the Michigan Departments of Community Health, Human Services, and Education, and USDA, to improve nutrition and reduce obesity.

Ms. Epkey confirmed the department is excited about the opportunities the budget enhancements offer. The department will be focusing on additional areas needing increased capacity as it moves forward with the 2014 budget development.

Commissioner Coe noted the department remains significantly downsized in staffing levels and requested a chart be developed to depict total employment in the department over the last ten years. Ms. Epkey confirmed in 2003, there were approximately 1,000 employees in the department and the current level is approximately 400; however, the

budget does make a positive statement for MDARD. Chief Deputy Director Wenk noted that, in a number of programs, we have actually become more effective and efficient, as well as realizing benefits through cooperative and collaborative efforts with other agencies.

LEGISLATIVE UPDATE: Gordon Wenk, Chief Deputy Director

Chief Deputy Director Wenk advised the Legislature is concluding business this week prior to the summer recess and Legislative Liaison Derek Bajema is involved with those activities.

The Food Law, House Bill 5130, is anticipated to become a public act through the Governor's signature in the coming days. The administration was able to reach a compromise with Senator Hune that increases the cottage food threshold from \$15,000 to \$20,000 in 2013 and \$25,000 in 2018, while keeping honey and maple syrup producers at their current \$15,000 level. The items supported by the department were included in the much needed update to the law.

The Agriculture Disaster Loan Origination Program Act of 2012 through House Bill 5717 was introduced by Representative Franz on May 31 and has passed the House. Many have worked diligently to make this happen, including the department, the commodity groups, and MFB. It is scheduled for a hearing in Senate Agriculture on Thursday and will likely be voted out of the Senate chamber the same day and sent to the House for concurrence on two necessary changes.

The Grain Dealers Fees, Senate Bills 887-888, were signed by the Governor as PA 148 and 149. Following four years of work, this moves the program from general fund to an industry funded program.

Wolf Depredation, Senate Bill 996, was reported by the Senate Natural Resources Committee. The sponsor, Senate Casperson, has asked that the bill not be moved on the Senate floor until more conversation has taken place between the department and his office. Pets have been removed from the possibility of indemnity, but the bill would still require "future market value" payment for cattle killed by wolves or coyotes.

House Bills 5595-96, making technical amendments to the Weights and Measures Act, were approved by the House and are expected to be approved by the Senate and sent to the Governor today.

The Microbiological Data Program (MDP) will now be unfunded at the federal level. House Resolution 265 was approved by the House last week and was forwarded to Congress to urge the inclusion of MDP funding in the 2012 Farm Bill.

Senate Bills 1057-62, the Family Forest legislation, were reported by the Senate Natural Resources Committee last week. These bills would incentivize the active management of private non-industrial woodlots through tax benefits and partner conservation districts with private consulting foresters to increase the amount of private forestland with active management plans.

Commissioner Coe requested an update on Senate Bill 582 which would make axle weight revisions on trailers. He has been receiving inquiries from processors in his area. Mr. Bajema will provide that information as soon as possible.

CHIEF DEPUTY DIRECTOR'S REPORT

Chief Deputy Director Wenk reported he participated in two events on behalf of the department yesterday. Ford Motor Company farms about 2,000 acres in southeast Michigan, including the 900-acre Cherry Hill Farms, which is managed by the VanWashenova family. The farm received MAEAP verification yesterday. This is particularly noteworthy because the Ford family encouraged the farm to seek verification and this recognition gives great credibility to the MAEAP Program. Commissioner Coe requested the department draft a congratulatory letter to the Ford family on behalf of the Commission in recognition of their MAEAP verification and in appreciation of their helping to preserve the state's agriculture heritage through Henry Ford Village. Commissioner Green noted his wife's family originally farmed that land and she served on Ford's Tractor Council.

The other event was an announcement at a Lansing Kroger store of their campaign to sell and highlight Michigan products in all 131 of their stores in the state. Through a partnership with Michigan Milk Producers Association, Michigan Grocers Association, MSU Product Center, the Michigan Ag Council, and Pure Michigan, Kroger is using the Pure Michigan brand to link food and agriculture products from the farm to the consumer's table. Kroger's in store campaign and the Tim Allen narrated television commercial depict the heritage and vital role Michigan's family-based farms play in their local communities.

Commissioner Coe also acknowledged the Michigan Grape and Wine Industry Council's Pure Michigan radio campaign currently ongoing to promote Michigan wines.

COMMISSIONER ISSUES

Commissioner Hanson reiterated her concern that more regulation is needed in helping producers with the feral swine issue in the UP. Mr. Wenk advised the department is working very closely USDA Wildlife Services to help fund the trapping of animals and efforts toward eradication. A proposal has been developed for expanding that program next year. In response to question from Commissioner Hanson, Mr. Wenk advised Nancy Frank would report to the Commission on the number of feral swine that have been trapped or killed.

Commissioner Coe requested MDARD, through the Michigan Grape and Wine Industry Council, make a presentation to the Michigan Liquor Control Commission (MLCC) regarding the trade tasting issue that arose at a recent educational conference.

Additionally, Commissioner Coe requested the department inquire from the Executive Office on the status of the Office of Regulatory Reform study on MLCC, which is currently stalled. It would be helpful to wine producers in the state to be aware of the status and if there is anything they can do to help.

Commissioner Kennedy advised today's meeting location, the Bonnymill Inn, was previously a grain elevator. He introduced Cliff Vennix, President of Auburn Bean and Grain Companies, noting that he actually managed this location when it was a grain elevator. Mr. Vennix will be hosting the Commission tour of Frutchey Bean Company this afternoon.

PUBLIC COMMENT

No public comment was requested.

ADJOURN

MOTION: COMMISSIONER KENNEDY MOVED TO ADJOURN THE MEETING. COMMISSIONER COE SECONDED. MOTION CARRIED.

The meeting was adjourned at 12:12 p.m.

Attachments:

- A) *Agenda*
- B) *Agriculture and Rural Development Commission Meeting Minutes April 11, 2012*
- C) *Revised Proposed 2012 Meeting Schedule for Michigan Commission of Agriculture and Rural Development*
- D) *Map of Feral Swine Damage in Deerfield Township and Photocam Image*
- E) *Director Keith Creagh – Issues of Interest Report*
- F) *Auburn Bean and Grain Companies PowerPoint Presentation*
- G) *MDARD 2013 Budget Information*
 - a. *2013 Budget Summary*
 - b. *2013 Budget Detail*
 - c. *2013 Budget Update – Program Enhancements*
- H) *Legislative Status – June 2012*