

MINUTES  
**SENATE AGRICULTURAL AFFAIRS COMMITTEE**

**DATE:** Tuesday, March 13, 2012

**TIME:** 8:00 A.M.

**PLACE:** Room WW53

**MEMBERS PRESENT:** Chairman Siddoway, Vice Chairman Smyser, Senators Corder, Pearce, Hammond, Vick, Bock, and Schmidt

**ABSENT/ EXCUSED:** Nuxoll

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

**CALL TO ORDER** **Chairman Siddoway** called the meeting to order at 8:00 a.m.

**MINUTES** The Committee reviewed the minutes from the Agricultural Affairs Committee meeting on March 6, 2012. **Senator Hammond** moved, seconded by **Vice Chairman Smyser**, to approve the minutes as written. Motion carried by **voice vote**.

**PRESENTATION** **Chairman Siddoway** invited **Deana Sessions**, Idaho Dairy Products Commission, to the podium to share the Commission's annual report.

**Ms. Sessions** said she's pleased to report that they had a very clean audit with no findings. She then shared the 2011 Financial Highlights, including that assessment revenue increased approximately \$478,000, and expenses increased \$3,497,000, resulting in a decrease in operating income of approximately \$478,000.

She noted the Commission increased commitment to nutrition and product and ingredient manufacturing through the Unified Marketing Plan and increased marketing activities to facilitate increased demand for dairy products. The reason for that is with the economy the way it is, consumers have a very limited budget, and when they have an incidental or emergency expense, they take it out of food dollars. She said they are trading good nutrition for fuel for their vehicles. That means the sale of milk and cheese has been in the red for over a year now. **Ms. Sessions** said that is not good for the fight against obesity, nor is it good for the return on investment for Idaho dairy farmers.

**Ms. Sessions** said there has been discussion among legislators that the Idaho Dairy Products Commission has a lot of money in reserves, but she said it has long been her practice to encourage the Board to not spend money for the sake of spending money, because there will be a rainy day or a project that needs those funds. She said right now they are using part of the reserve for a long term investment, and if they didn't, they would be in a \$3.4 million deficit.

**Ms. Sessions** went on to describe some economic factors that affect the dairy industry. Commission activities and expenses are all based on milk production. She said every dairy farmer in the United States has a mandatory checkoff of 15 cents per hundredweight. Ten cents goes to the state program and five cents goes to the National Dairy Board federal program. The Idaho Dairy Products Commission also assess one cent for the Idaho Dairyman's Association.

They are projecting 2012 to be flat, with no increase in production, maintaining what was a 3.75 percent increase in 2011 over 2010. That means they're expecting an assessment income of \$13.2 million.

Milk prices went down in 2009. Prices increased in 2011, but are still below levels that allow for a favorable return for producers and their input costs. Milk prices are predicted to remain flat in 2012. Idaho dairy industry continues to be dependent on the favorable export market.

**Ms. Sessions** said the Commission continues to focus on nutrition programs, noting that milk is highest quality product that carries nine powerful nutrients, and no other single food item on the market has that level of nutrients. Consumers need three servings of dairy per day, and they have only reached 1.78 servings, so there is plenty of room for growth.

**Ms. Sessions** outlined 2012 budget highlights that include increasing the commitment to the national Unified Marketing Plan, and nutrition, product and ingredient research. **Ms. Sessions** said as Idaho is a cheese manufacturing state, the Board decided to make a \$2 million investment in research to transition McDonald's from processed cheese to natural cheese. The McDonald's project will require testing and research to the tune of \$6 million over three years.

She also described the Board's commitment of \$300,000 to pay the difference in cost between cardboard and resealable plastic bottles for milk in school lunches, she said to provide students a better "milk experience" and create life long milk drinkers for their own health. Focus groups show the students believe the bottled milk to have better flavor and stay colder, and since the schools cannot afford the difference in cost, the Board will pay for it. In 2012, the Idaho Dairy Products Commission will invest \$2.2 million in schools.

**Ms. Sessions** shared how the Commission is implementing the "Fuel Up to Play" program, in cooperation with the National Dairy Council, in an effort to combat childhood obesity by getting kids off the couch to get sixty minutes of exercise per day and eat more nutritious foods. Out of 750 schools in Idaho, 557 are participating. There are about 273 students who are helping to move the program forward. The dairy industry nationwide is spending \$34 million on this program, of which half a million is coming to Idaho. **Ms. Sessions** quoted a statistic that shows this is the first generation that is not expected to out live their parents, so the Commission will maintain its focus on nutrition to help combat that.

**Ms. Sessions** directed the Committee to the packet that includes two DVDs, one of which is "Milk Victory" with Boise State University's Head Coach Chris Peterson. The Commission worked to replace the sports beverages and supplements in the training rooms, such that now only milk or water is available, because she said science has shown that milk is good for refueling muscles. **Ms. Sessions** said the Commission is working with two other universities to do the same thing. The Commission provides educational materials to schools at every grade level for teachers to use in the classroom because the Board decided years ago to support improving health in the community.

Supporting documents related to **Ms. Sessions'** testimony have been archived and are accessible in the office of the Committee Secretary. (See Attachments #1, #2 and #3.)

**Senator Hammond** asked to have a better understanding of the bottom line and the deficit. **Ms. Sessions** answered the Commission has \$6 million in long term investments that are totally liquid if needed. She said they don't want to use it if they don't have to, based on what happens with production.

**PRESENTATION** **Chairman Siddoway** invited **Bob Naerebout**, Idaho Dairyman's Association (IDA), to the podium to share the Association's annual report. **Mr. Naerebout** recognized and commended **Ms. Sessions** for her 33 years of service to the dairy industry. He also said he will miss **Senator Hammond** when he moves on to his new position.

**Mr. Naerebout** shared some information about the status of dairy farms in Idaho. He said according to the most current figures from a national survey, there are 569 ISDA licensed dairy farms with about 551,000 head of cattle from the Treasure Valley to the Magic Valley to Eastern Idaho. That figure does not include raw milk dairies, of which there are about 80 small operations. There are 13 fewer dairies but 12,000 more head of cattle than last year. Idaho is the second largest milk producing state in the twelve western U.S. states, and third in the whole nation, with production levels holding steady at 13.2 billion pounds of milk (which amounts to 1.537 billion gallons.)

**Senator Pearce** asked about the reasons for the loss of 13 dairies. **Mr. Naerebout** said it is from natural attrition, noting the industry is under a lot of stress right now with the economic reality of the nation. He said if one looks at the history going back thirty years, in the U.S. in 1980, there were 225,000 commercial dairy farmers. Today there are only 52,000.

**Mr. Naerebout** continued with his presentation and said about 33,000 jobs are created in Idaho by the dairy industry. Of those, 8,300 are on dairies. He shared a story of one dairy that had an audit of its employees and found that 32 of the 40 were not legally qualified to work. So the dairy operator advertised in the paper, and no "second generation" individuals applied. He described that on farms, the people who take the jobs are "first generation" workers. The operator replaced the labor with more Hispanics with correct data, and people from local refugee centers. **Mr. Naerebout** said this demonstrates a need for a good immigration policy, because dairies need to have the ability to bring employees in, and he said right now, there is not a good policy.

**Senator Pearce** asked what the current average pay is for cow milkers or dairy workers. **Mr. Naerebout** said it is right around \$12.00 to \$14.00 to start. The highest paid Hispanic worker is making \$55,000 per year. **Senator Pearce** asked if there is something in conditions that the Committee isn't aware of as to why people don't want to milk cows. **Mr. Naerebout** said he milked cows when he was young. He then said it's just not something people aspire to do. He said they aspire to be the owner, like **Mr. Naerebout** did. He said that's why it is a "first generation" entry level job.

**Mr. Naerebout** said 2009 was a bad year and most dairies burned through their equity that year. He described 2010 and 2011 as treading water. Current cost of production is \$17.50 to \$18.25 per cwt. That is largely driven by feed costs. This year there was a big competitor for hay as Texas suffered drought.

He described the average futures market is predicting a yield of \$16.35, which causes concern of where the industry will land in 2012. He said they can add value on the pounds of milk for protein and butterfat of about \$1.50 to \$1.25 and puts the yield at about \$17.85, which is above the low mark, but below the high mark, so it will be interesting to see what happens. He said if commodity cheese can't pay the bills, they will have to find other product mixes to make it work.

He said there is still 800,000 pounds of milk being shipped outside of Idaho, which adds an extra burden with the cost of transportation. So they need more plant passages to process milk.

**Mr. Naerebout** said the Idaho Dairy Association is also looking at government involvement in the industry, because policy does affect price on the net side of the equation. One factor is the ethanol policy. He said the Crop Reserve Program (CRP) that takes ground out of production, lowers the feed available and then raises costs. They are also trying to stay ahead of the environmental curve and EPA regulations.

**Vice Chairman Smyser** asked how much of Idaho producers' feed is coming from out of state and what trends has he seen for going out of state to get it, and what is the Association doing with the Commerce Department to bring and grow new business in Idaho. **Mr. Naerebout** answered most of the feed grains (soy bean, cotton seed, corn) and roughages (corn stalks and hay) are coming from out of state. Because Idaho is farther away from the corn belt, producers pay a higher transportation cost. Ten years ago, about five percent of corn was used for ethanol, and today 39 percent is used for ethanol, and livestock pays the price.

He said they are working closely with Economic Development groups so that other organizations will look at Idaho for business, and in fact, one is coming to the banquet this evening. The Idaho Legislators are invited to see how important dairy is to the economy. He said the IDA has offered to help the Commerce Department with development and cost of high gloss, high quality brochures.

**Vice Chairman Smyser** asked if the dairy industry was involved in the Governor's recent trade mission. **Mr. Naerebout** said yes, from a processor's side, but not the producer's side. The Dairy Commission has offered to pay the way for processors who want to go on trade missions, and the IDA will support them. The checkoff funds the U.S. Dairy Export Council.

**Mr. Naerebout** shared about the need and their efforts to protect the dairy industry through research, legal, immigration and education programs, noting that immigration is an especially important issue for them, so they fund local and national organizations that they hope will have an impact.

**Senator Corder** asked for information on the difference of economics between Holstein versus Jersey cattle, noting his understanding that one might be better with a smaller cow that wasn't eating quite as much feed to produce the same butter fat. **Mr. Naerebout** said that is absolutely correct, and that many dairies are trying to turn over to Jersey cows because they have a better yield on butter fat and protein and the Jersey is a smaller and more efficient animal. But Jerseys are a high demand animal and not the same value as a Holstein. More dairymen would like more Jerseys if the banks would let them.

**Senator Pearce** asked what are the two or three main factors that are keeping other manufacturers or processors from coming to Idaho so that local producers aren't shipping as much out of state. **Mr. Naerebout** said the number one reason is the location of Idaho to the population base. For example, Jerome cheese goes to the East Coast, so someone who is looking at Idaho versus Wisconsin (the second largest producing state) might say that's closer than Idaho so their price will be less. Secondly, Idaho has lost good processors because Idaho could not compete with the "give-ups" of other state and local governments. He cited Chobani Yogurt in Twin Falls as an example of a great team effort from a lot of players putting together a good package to get them here. **Mr. Naerebout** said that's the financial game that is being played, and it doesn't make it right, but it's competition.

**Senator Pearce** said it seems when all the water is taken out when making cheese or yogurt that it should be able to be shipped less expensively. He said it seems like it should be more competitive. **Mr. Naerebout** said it's called a nickel balance sheet. The cost is a nickel a pound higher than Wisconsin's cost to get to New York. So a nickel compounded becomes a lot of money, so they have to lower the cost of product here by more to make up for that.

**Mr. Naerebout** said the other issue that hasn't been talked about is the proposed livestock research at the University of Idaho. There is really good research being done in South Dakota and Wisconsin, and IDA would like to replicate that here in Idaho.

Supporting documents related to **Mr. Naerebout**' testimony have been archived and are accessible in the office of the Committee Secretary. (See Attachment #4.)

**Chairman Siddoway** thanked the guests for their presentations and their efforts.

**ADJOURNED** **Chairman Siddoway** called the meeting adjourned at 8:47 a.m.

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Senator Siddoway  
Chairman

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Christy Stansell  
Secretary