

COMMISSION OF AGRICULTURE AND RURAL DEVELOPMENT

Baker College of Cass City
6667 Main Street
Cass City, Michigan

MEETING MINUTES MAY 18, 2016

PRESENT:

Fred Walcott, Chair, Michigan Commission of Agriculture and Rural Development
Dru Montri, Vice Chair, Michigan Commission of Agriculture and Rural Development
Bob Kennedy, Secretary, Michigan Commission of Agriculture and Rural Development
Trever Meachum, Past Chair, Michigan Commission of Agriculture and Rural Development
Diane Hanson, Past Chair, Michigan Commission of Agriculture and Rural Development
Jamie Clover Adams, Director, Michigan Department of Agriculture and Rural Development

CALL TO ORDER AND ROLL CALL

Chairperson Walcott called the meeting of the Commission of Agriculture and Rural Development to order at 9:00 a.m. on May 18, 2016. Commissioner Kennedy called the roll with Commissioners Hanson, Kennedy, Meachum, Montri, and Walcott, and Director Clover Adams present.

APPROVAL OF AGENDA

MOTION: COMMISSIONER HANSON MOVED TO APPROVE THE MEETING AGENDA FOR MAY 18, 2016. SECONDED BY COMMISSIONER MEACHUM. MOTION CARRIED.

APPROVAL OF MARCH 30, 2016, MEETING MINUTES

MOTION: COMMISSIONER MONTRI MOVED TO APPROVE THE MARCH 30, 2016, MEETING MINUTES. SECONDED BY COMMISSIONER MEACHUM. MOTION CARRIED.

NEXT SCHEDULED MEETING

The next scheduled meeting will be held on Tuesday, July 26, 2016. The location is tentatively Michigan State University (MSU).

COMMISSIONER COMMENTS AND TRAVEL

Commissioner Kennedy advised it has been mostly cold and extremely wet in his region. As a result, it will likely be this weekend before planting of corn can begin and some growers may need to switch to soybeans. Sugar beets are planted and over 90 percent are up with indications for a good crop. Although prospects on the farm are somewhat downtrodden with current commodity prices, with recent worldwide demand issues, some decent level soybean contracts have been negotiated. In response to inquiry from the Director, Commissioner Kennedy advised Michigan sugar beet growers,

although nervous, are trying to remain positive relative to the market. The Director noted nearly all major food companies are reformulating and switching to cane sugar to avoid the GMO (Genetically Modified Organism) labeling requirement. The U.S. Department of Agriculture (USDA) shifted a portion of the domestic cane quota to imported cane to maintain certainty in the market; however, she feels if food producers want to change to cane sugar, the market should live with the resultant demand and increased prices. Commissioner Kennedy reported there is considerable concern among sugar beet growers and anything that could be done to assist the situation would be a positive.

Commissioner Montri reported they had to replant for spring due to the unexpected cold spell this month. Crops in the hoophouse are on target, including strawberries ready for picking. Their outdoor market began the first Thursday in May and there is excitement as farmers markets across the state are opening.

She will be attending the National Farm to Cafeteria Conference the first week of June, where she will have the opportunity to present regarding the Hoophouses for Health Program and share other Michigan food and agriculture stories with national partners.

Commissioner Walcott asked Commissioner Montri to share her Hoophouses for Health Program presentation with the Director and other Commissioners. Commissioner Montri explained it is a program on which they work with the MSU Center for Regional Food Systems and Department of Horticulture. It is funded by the Kellogg Foundation and its two objectives are (1) increase season extension capacity for Michigan farms and (2) increase access to fresh, healthy foods for low-income families. Farmers are given zero interest, five-year loans, for up to \$15,000 to build a hoophouse on their farm. About 50 farmers are currently participating and the loans are repaid in produce.

Commissioner Hanson reported she is very pleased MSU has hired Monica Jean to fill the position in Delta County, which had been vacant for over two years; she should be on board mid-August. Weather has been cold and primarily dry in the Upper Peninsula (UP) and no leaves are on the trees. Small grains have been planted, as well as corn. Numerous acres of soybeans are being planted in Menominee County, which is new for that area. Her farm began planting potatoes a few days ago. Across the UP, there is considerable hardship for the dairy farmers and some may be going out of business because of the low milk prices.

Commissioner Meachum advised the warm and dry weather earlier this year that allowed them to plant corn and soybeans was followed by cold, wintery, and wet weather. Asparagus growers are excited to begin the season, and although a bit nervous regarding labor, it has not yet been a problem due to the cold weather and slow crop growth. Interestingly, there is a group of Amish from Central Ohio offering cash for cropland in his area.

In response to question from Commissioner Kennedy, Commissioner Meachum advised there was some frost in the strawberries, but no frost damage has been seen in the tree fruit. However, the weather has been extremely poor for pollination. Bees prefer 55-60 degree sunny weather and no wind to fly up into the trees. There is no shortage of bees in their area and they have had no disease issues. The weather has been the only

concerning factor affecting pollination, and they are just now seeing what may or may not set for this year's fruit crop.

Commissioner Walcott visited a fish hatchery in Grayling that has been the center of attention for the headwaters of the AuSable River. He was impressed by the system being utilized by the hatchery and it seems to be working well.

Corn and carrots in his area are planted. The asparagus growers have labor concerns again this year. Many have switched to the H2A Program and are having to pay people when the crop is not yet ready to be picked. There also are reports of numerous deer in the area and farmers are inquiring about deer permits and control policies.

Commissioners Hanson, Kennedy, Meachum, Walcott, and Montri 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 MEACHUM. MOTION CARRIED.

DIRECTOR'S REPORT

Director Clover Adams reported the Governor recently created the 21st Century Infrastructure Commission and she and Director Creagh sit on the Water/Sewer/Stormwater/Drain Subgroup. All infrastructure issues are being addressed by the Commission, including transportation, roads, ports, bridges, rail, broadband, energy, and financing. She is hopeful this effort can be used as an opportunity to bring concerns of the rural community into the spotlight, including wastewater treatment issues being faced in some communities and the broadband concerns she heard from food producers during her regional meetings held across the state. The Commission's report is due to the Governor by the end of November.

Yesterday, the last of seven sampling team exercises around the state was conducted. These entailed emergency preparedness Incident Command System training to prepare staff for potential incidents, such as food contamination or animal disease outbreak, where staff from every division would assist. Training in this area helped considerably with the department's response to the Flint where Michigan Department of Agriculture and Rural Development (MDARD) was clearly better prepared than the other agencies.

Through the National Association of State Departments of Agriculture (NASDA), she spoke with one of the Department of Labor (DOL) Assistant Secretaries, as well as the Deputy Secretary of USDA regarding H2A issues. In addition, she and Constanza Farms, near St. Joseph, participated in an American Farm Bureau Federation press conference and conference call on this subject. Congressman Upton also held an H2A event at Constanza Farms in which Chief Deputy Wenk participated. She continues to highlight government inefficiencies in this regard. For instance, Homeland Security will not use email; therefore, if someone has a deficiency, details do not arrive until several days later through the U.S. Postal Service. Because there is a small window within which to complete the process, this practice presents a considerable disadvantage. In

comparison, she emphasized what has been accomplished within MDARD to meet citizen's expectations. She will continue to work on those issues that can be remedied.

Recently, she toured the new yogurt lines at Yoplait in Reed City, which now produce a go-pack for older children. She also visited Cherry Capital and the Grand Traverse Food Innovation Hub, which received funds through MDARD's grant program. She noted the Traverse City Tyson Foods operation, which she also visited, produces 70 percent of the nation's cherry pies.

Two weeks ago, she was in Marquette to visit the Marquette Food Coop, another recipient of the department's grant program, and the MSU Research Station in Chatham. On the way home, she stopped at the Weyerhaeuser plant in Gaylord that is currently expanding. There are road and gas line issues in the area. The department will be working to assist with the gas line issue, which currently is not large enough for the amount of gas needed for Weyerhaeuser's dryers. Because there are other plants in the area as well, MDOT is working to improve the highway interchange, as well as a bridge currently not wide enough for their large trucks to pass by each other.

Yesterday, the temporary Blueberry Checkoff Committee met. They are organizing to implement a checkoff opportunity for the blueberry industry.

She attended the Ag Business Summit in Indianapolis sponsored by a large law firm in the area. As part of the financing panel, a venture capital specialist that focuses on food and agriculture advised a recent survey indicates there are only six or seven venture funds in the entire world that focus on the food and agriculture industry. That gentleman also mentioned a company that has developed an artificial pollination system, which is in the experimental stages. Another company in his portfolio is working on spider venom as a type of insecticide that does not harm the beneficial insects such as bees. The Dean of Purdue advised Indiana is working on a robot to prune grapevines, whose technology takes pictures of the vines and then snips the vines only as needed. Many innovative approaches are on the horizon to help solve problems in agriculture.

Relative to the 21st Century Infrastructure Commission, Commissioner Walcott commented farmers in his area would ask that not another roundabout be installed before bridges are repaired so they can haul their crops to market. The Director advised she would raise that concern, in particular those bridges that fall in between the culverts, managed by the Drain Commissioners, and those larger than 25 feet, monitored by the counties and state.

Commissioner Meachum advised the industry now has a robotic orange picker designed for the more high-density trees. Cameras map the grove and specifics as to desired size and color can be programmed for select picking.

PUBLIC COMMENT (AGENDA ITEMS ONLY)

There was no public comment relative to agenda items.

TERRESTRIAL INVASIVE SPECIES DRAFT MANAGEMENT PLAN: Sue Tangora, Section Manager, Forest Health and Cooperative Programs, Michigan Department of Natural

Resources Forest Resources Division; Dwayne Etter, Research Biologist, Michigan Department of Natural Resources Wildlife Division; and John Bedford, Pest Response Program Specialist, Michigan Department of Agriculture and Rural Development Pesticide and Plant Pest Management Division

Sue Tangora thanked the Commission for the opportunity to talk about the development of Michigan's first Terrestrial Invasive Species (TIS) State Management Plan. As part of the statewide initiative on invasive species, the Michigan Departments of Environmental Quality, Agriculture and Rural Development, and Natural Resources were directed to develop this plan. Staff are already working day-to-day on this issue and implementation of the plan will help address the impacts still being experienced. This plan will complement the state's Aquatic Invasive Species (AIS) Management Plan for a comprehensive approach to Michigan's Invasive Species Program.

The target audience is everyone. This plan will help citizens understand the problem and learn to take action whenever they can. It will help our state leaders prioritize resources better to minimize impacts from TIS. It will outline actions of all of our partners – academia, industry, local, federal, and tribal governments, non-governmental organizations, other state departments, and private landowners – can take to help implement the plan. It will also provide guidance to staff in our departments who are struggling with the impacts from invasive species.

To begin drafting this plan, a core team from the various departments was implemented. It included Michigan Department of Natural Resources (MDNR) Wildlife, Forest Resources, Parks, Law Enforcement, and Marketing and Outreach; Michigan Department of Environmental Quality (MDEQ) Water Resources and Office of Great Lakes; MDARD Animal Industry, Environmental Stewardship, and Pesticide and Plant Pest Management Divisions; and the Michigan Department of Transportation (MDOT). During development of the plan early in 2015, partners were surveyed and asked for their input into the plan's draft goals, objectives, and strategic actions. Partner review of the plan was conducted in December 2015.

The team is proposing four overall goals in the plan, including prevention, early detection and response, control and restoration, and collaboration. Each of the resultant 19 objectives and associated 62 strategic actions are organized into one of six activity areas. Our first line of defense is to prevent terrestrial invasive species from entering Michigan. It is not possible to prevent all invaders, so we need to be ready to detect them and respond swiftly and effectively. For those widespread species, we will look to strategically control and restore landscapes. Finally, we cannot do this work alone. We must collaborate with our partners for effective and efficient use of resources.

Objectives and actions are grouped into the six activity areas of risk analysis, management practices, monitoring and research, outreach and education, regulation and policy, and leadership and coordination. This allows for a streamlined structure and implementation of the plan.

Monday kicked off the public review process, which will run for the next six weeks. The final plan will be available this summer and will be updated every five years. The recently published Invasive Species Annual Report highlights the collective

accomplishments under this and the AIS plan in one document. The report is posted on the website www.michigan.gov/invasives. Creation of this single website for the three agencies was a recent accomplishment and gives the public a one-stop place to find invasive species information.

In response to question from Commissioner Meachum, Ms. Tangora advised feedback on the plan from the Commission at any point in time is most welcome to help ensure they have a plan that works for the departments and for the public.

Commissioner Kennedy asked about any new invasive species. Ms. Tangora advised last year, three new aquatic invasive species were reported. One is Didymo (also called rock snot), which is a macro algae and can be very detrimental to aquatic habitat and anglers. They also verified Yellow Floating Heart, which is prohibited in Michigan and was found in a pond in Dearborn. And for the first time, they verified the New Zealand Mud Snail. It is extremely small and is transported through recreational aquatic activities, as well as wildlife. There is a Watch List of invasive species that includes a handful of forest pests and plants that exist in other places with potential to be damaging for Michigan if they spread here.

In response to question from the Director, Mr. Bedford noted Hemlock Woolly Adelgid is a small aphid-like insect that is very prevalent and has caused great devastation to the hemlock resource in the Eastern part of the U.S. It has been identified in Muskegon and Ottawa Counties within or adjacent to cultivated areas. Although it has been addressed in the past, these infestations are of a scope not seen before. Currently, staff are working in eight distinct locations where it was introduced, most likely through nursery stock in violation to Michigan's quarantine. Insecticide treatments are planned in those areas, with eradication as the goal of this long term project.

In response to questions from Commissioners Kennedy and Hanson, Ms. Tangora advised there is nothing conclusive yet to suggest that Zebra Mussels are affecting the fisheries. However, it might be a long-term impact. Asian Carp is not in the Great Lakes; and there are a number of initiatives and many people working on that issue, which include basin-wide efforts to address all of the potential entry points.

DAIRY FARMERS OF AMERICA CASS CITY PLANT UPDATE: Chuck Courtade, Northwest Region Manager, Dairy Farmers of America

Mr. Courtade advised he is presenting today on behalf of Plant Manager Erik Macevoy, who is out of town, but will return in time for the Commission's tour this afternoon. Mr. Courtade reported Dairy Farmers of America (DFA) is the only national dairy cooperative and has 10,000 member farms in 48 states. DFA is one of the largest dairy manufacturers in the country, owning outright 41 plants across the nation. Some of their known products include Frappuccino and the cheese on Doritos. Two of the plants are in Michigan, located in Cass City and Adrian. DFA is also involved in many joint ventures across the country, bringing their total to almost 80 plants when combined with those they own outright.

They are close to processing 50 percent of their members' milk and selling the other 50 percent. This is becoming important in light of the announcement of Walmart's first dairy

plant in the U.S. That plant in Fort Wayne plans to serve Indiana, Illinois, Michigan, Ohio, and Kentucky and will affect Michigan dairy farmers. Currently, Michigan Walmart and Sam's Club stores are served by Michigan dairy processors and that volume will move to Indiana. In addition, Meijer bought the dairy plant in Holland, built a new plant in Ohio, and plans to expand into producing some of their cultured products this fall. This will take additional processing out of Michigan at a time when production is growing and dairy farmers are not in a good financial position.

Milk prices are down to about \$13 per hundredweight (cwt), which puts us back about 30 years and presents a definite challenge. In addition, Dannon has announced it wants milk from cows fed only non-GMO feed, which may spread to other manufacturers for marketing aspects. Meijer, Walmart, and Dannon are also requesting milk only from farms that can ship a full truckload or more per day, which could significantly affect the market for our smaller dairy farmers. This reemphasizes the importance of dairy cooperatives to invest in processing plants to provide a home for that milk.

The initial development plans for the DFA Cass City plant includes three phases and the plant completed just one year ago represents phase one. They anticipate an announcement this summer of plans for phase two, which is good news for the area.

The plant has a daily total milk capacity of three million pounds and is currently processing two and one-half million pounds each day. Milk is processed to remove the water and make it less expensive to transport elsewhere for further processing. Phase two would produce a finished product that can be marketed directly for consumers.

Equipment includes four receiving and load-out bays, two separators (80,000 pounds/hour each), two pasteurizers (160,000 pounds of skim/hour and 14,000 pounds of cream/hour), one reverse osmosis for condensing (skim feed rate 160,000 pounds/hour), and a wastewater treatment plant. The city made promises to build the wastewater facility, but as the plant was nearly half completed, they advised it was too large a project for them to accommodate. DFA then had to undertake building the wastewater plant while finishing the main plant, and subsequently delayed opening of the plant by three months.

The first milk was received at the plant on February 8, 2015. Much larger loads can be hauled in Michigan as compared to other states, up to 110,000 pounds, and milk shipped out of state must be loaded onto 50,000 pound tankers. This can be a challenge to manage as product leaves the plant. The plant currently employs 33 people, who are mostly local residents. Visuals of the various plant operations were reviewed.

In response to question from Commissioner Meachum, Mr. Courtade advised future dairy markets are anticipated to grow in cheese products for both the U.S. and export markets. Last month, there was a five percent increase in milk production, only a two percent U.S. market increase, and exports were down. Even though U.S. dairy farmers are struggling, our prices are higher than the world market price in U.S. dollars. The challenge is how to process the extra milk, and 18-24 months is the best that could be expected for the building of a new plant. In response to questions from Commissioner

Hanson, Mr. Courtade advised the largest export product is whey powder. Long term, this area of Michigan is prime for dairy production.

DAIRY INDUSTRY UPDATE: Ken Nobis, President, Michigan Milk Producers Association

Mr. Nobis reported Michigan's dairy industry ranks sixth nationally in total milk production and dairy is the top ranking segment of the state's agriculture industry. Dairy contributes over 20 percent of Michigan's cash receipts for agriculture and represents more than four percent of total U.S. milk production.

Milk production in Michigan has increased 80 percent since 2000, while cow numbers have increased only 36 percent during that same time. Michigan has a phenomenal dairy industry and ranks second nationally for milk produced per cow, which is 25,130 pounds annually. This is a testament to the producers and the infrastructure in this state, which is not matched anywhere else in the country.

Michigan definitely provides an advantage for dairy production and it will continue to grow. Factors include the amount of agricultural land available, climate, water availability, infrastructure, access to population centers, and the cooperation between producers and the land grant college, legislators, and regulators.

In considering milk production and the market outlook, the U.S. and European Union (EU) milk production continues to increase, 1.3 percent and 2.2 percent respectively. Interestingly, the dairy herd in the 28 countries of the EU is 1.7 times larger than the U.S. Twelve percent represents the U.S. share of the global dairy trade market, while EU represents 31 percent. Since 1995, milk exports from the U.S. increased significantly.

Major headwinds for U.S. and world dairy exports include (1) large drop in China's imports from 2013-14 levels, (2) Russian dairy product embargo imposed on EU that began August 2014, (3) end of EU production quotas in April 2015 causing large production increases, (4) collapse of petroleum prices, (5) drop in world dairy product prices since 2013-14, (6) increased competition from EU and New Zealand exports, and (7) strong U.S. dollar that creates export problems for every manufacturer in this country. Will this be the new normal for world markets? At this point in time, no one knows.

U.S. milk production is a tale of two milk sheds with Michigan and the Midwest up significantly in milk production (Michigan up 6.7 percent) and California being down almost 3.5 percent. Primarily this is due to economics. Californians receive on average \$1/cwt less than here in Michigan because of their price structure. U.S. milk production continues to inch forward; in March it was up 1.8 percent, with steady gains over the last five years. Michigan's production was up 7.7 percent in March, when we already had too much milk. In the states contiguous to Michigan, their average year-to-date increase is 4.6 percent. USDA is projecting another record year in milk production.

Milk prices in Michigan were \$20.00/cwt in December 2012, rose to \$26.20/cwt in September 2014, and took a sharp decline to \$12.40/cwt in March of this year. The overall U.S. and EU prices have paralleled that same pricing. There is uncertainty on when prices will improve significantly and the futures curve in 2016 is mostly flat.

Per capita consumption of dairy products in the U.S. increased from 539 pounds in 1975 to a high of 614 pounds in 2014. In the U.S., the story has been about milkfats. Domestic butter now accounts for nearly one-fifth of milkfat consumption and milkfats were a much larger portion of milk checks in 2015. This change is based on modern research and a new realization of the health aspects of milkfat, as well as resurgence in the taste of food.

In response to question from Commissioner Hanson, Mr. Nobis advised dairy farms in the EU are much smaller on average than in the U.S. Commissioner Kennedy asked if the price trend continues for two-three years, how serious the impact would be for the state. Mr. Nobis advised it is already beginning to tightly pinch dairy producers and appears to finally be affecting milk production. He doesn't know of any producer of sufficient size with the capability of making money at the current price. If it does continue another two years, it will have significant impacts.

Mr. Courtade added some members have advised they are requesting interest-only loans. Mr. Nobis noted bankers are more concerned today than during the cycle in 2009 and aren't allowing people to use as much equity as they did previously.

In response to inquiry from Chief Deputy Director Wenk, Mr. Nobis advised the increased production of milk has been driven by prices in order to increase cash flow. Our producers continue adding more cows when the market is not calling for that addition. The production increases in this country are not being balanced by increase in consumption, which has flatlined. As dire as it appears today, we still are seeing a good future because as more and more people across the globe enter the middle class, they want a higher quality diet from dairy and meat.

RECESS AND RECONVENE

Chairperson Walcott recessed the meeting at 10:37 a.m. for a brief break. He reconvened the meeting at 10:53 a.m.

FOOD AND DAIRY DIVISION OVERVIEW: Kevin Besey, Division Director, Food and Dairy Division

Mr. Besey provided an overview of the department's Food and Dairy Division (FDD), noting their primary focus is on food safety, dairy safety, Pure Michigan FIT, and food policy among all of the state agencies involved.

About three-quarters of FDD's \$16.6 million budget is expended on food safety activities, with the other one-quarter in the dairy safety area. General fund represents the major portion of the division's budget. Approximately \$3.0 million in fees is received annually, which will be increasing due to the recent fee increase approved by the Legislature. Federal funds make up 10 percent of the budget, primarily for Food and Drug Administration (FDA) activities. Constitutionally, food safety is the responsibility of the state. The federal government becomes involved somewhat due to interstate commerce.

We delegate our Food Service Program, which is schools, hospitals, and restaurants, to the Local Health Departments. Local health is basically given \$.20 on the dollar to

provide those services for which they subsequently are required to meet accreditation quality standards established by FDD. This demonstrates the excellent collaborative working relationship between the agencies.

The Food Safety Education Grant Fund was developed when the law was changed in 2002 and provides \$250,000 annually to the division. Each food licensee pays into that fund that is used for education and training purposes.

The division is comprised of 111 staff members, of which five are management, communications, and nutrition, and six make up the Business Unit. The Food Section has 66 staff, the Dairy Section 24, and the Quality Assurance and Emergency Response Unit has 10 staff. In light of the number of recalls, considerable emergency response is coordinated. Being a very field-focused division, 91 staff work from a home workstation and their vehicles. This allows the division to keep staff close to the customer.

In response to question from Commissioner Meachum, Mr. Besey advised the division is currently in a growth mode due to the fee increase and feels the division is finally reaching the point where they will have sufficient staff to meet their inspection levels on the food side. The division is always strained on the dairy side, and consideration of additional staff is being evaluated.

MDARD handles dairy, food, and retail processing directly with state staff. Local Health Departments cover food service work. USDA meat inspectors handle wholesale meat in the state and FDA does direct inspections of some interstate food processing plants, although about 40 percent of that is actually contracted with the state. Some of the non-profit and non-governmental groups with whom FDD works include the National Sanitation Foundation (NSF), International Food Protection Training Institute (IFPTI), MSU, Michigan Public Health Institute (MPHI), and the industry. The main three state agencies that work with the division are MDEQ on the water and sewage side, Michigan Department Health and Human Services (MDHHS) on non-smoking issues, nutrition, etc., and the Michigan Department of Education (MDE) on food safety in schools and local farm to school efforts.

The Integrated National Food Safety System provides a means for avoiding duplication. States perform the vast majority of inspections, food sampling, and illness investigations each year. Michigan adopts by reference the Code of Federal Regulations governing the operation of a business so that the state is nationally consistent. FDA attempts to stay consistent with EU, Canada, and Mexico. States have sole responsibility for dairy, retail, and food service programs, which are not covered at the federal level. MDARD coordinates closely with FDA in terms of food processing inspections to avoid any duplication. Over 90 percent of food safety inspections are conducted by state and local agencies across the country.

Michigan's regulated community includes 45,000 food service establishments, 18,000 retail food establishments, and 2,000 food processors. FDD staff also inspects 1,850 dairy farms, 1,008 milk trucks, and 88 dairy processors.

Trends we see include strong dairy growth, which challenges staff to keep pace, not only with volume, but with changes in technology. We see general, but moderate retail growth in retail and processing. There also is increased exporting activity on both the dairy and food side.

The Director mentioned the department has been discussing challenges on the dairy side with how the BTUs (Bulk Tank Units) are structured, how that has changed, and how that affects the farms when staff conduct inspections and surveys. Mr. Philibeck explained that some large dairy farms have decided to sell their milk directly to dairy plant processors and bypass belonging to a dairy cooperative. These large farms are single or multiple farm Bulk Tank Units (BTUs) and sell directly to the dairy plant. Every two years, these farms are audited by MDARD survey officers and must pass with a collective score above 90 points. If these large farms score below 90, their BTU is delisted and they cannot ship milk to the Grade A market. Their milk can only be sold to manufacturing grade plants at a greatly reduced price. Whereas, if they had been affiliated with a cooperative, their milk would have been marketed and the loss absorbed within the cooperative. The large farms are direct marketing to achieve a higher price, but at a higher risk if they fail to achieve a 90 score on a Grade A survey. Mr. Besey added this has presented challenges in working with farmers to ensure they understand the consequences of those national system sanitation and enforcement scores. It is critical they meet PMO standards. FDD currently has two full-time dairy rating officers who conduct these ratings for groups of farms for quality assurance. More BTUs with fewer farms in each requires additional ratings be provided. The division is at the point where three full-time rating staff are now needed. The Director advised MDARD is developing a system to provide for the required inspection and still be cognizant of the increased risk that farmers are facing.

The FDD Food Section licenses and evaluates food establishments on a risk-based rotating schedule, either 6, 12, or 18 months. Hopefully, by 2018, there will be sufficient staff to meet that schedule on time. They are also responsible for food sampling, recalls, tracebacks, plan review for new and growing establishments, emergency response, and complaints. Since last year, staff are beginning to spend time in farmers markets on a regular, routine schedule every two years. That also assists in keeping track of the cottage food people, because they are exempt from licensure. The division is contracted by FDA to conduct 350 inspections each year in food processing operations. There also are a number of FDA grants to help meet voluntary manufacturing standards, work with them on a learning management program, and in conjunction with IFPTI for a number of training activities.

The Dairy Section licenses and evaluates all segments of the dairy industry, including farms, trucks, haulers, and processing plants. They are responsible for dairy sampling, recalls, tracebacks, assisting new establishments, and complaints. Under a USDA Cooperative Agreement, staff conduct butter grading for food and dairy plants.

The Quality Assurance and Emergency Response Unit includes four food service consultants who provide accreditation, evaluation, and training of 45 local health departments. Two dairy rating officers are also part of this group. Emergency Response Unit staff coordinate activities around recalls, tracebacks, emergency

response, and foodborne illnesses. The Rapid Response Team coordinates Incident Command system activities. The Director advised the Sampling Team Exercises she referred to were coordinated by FDD's Rapid Response Team Field Expert Jennifer Bonsky. Mr. Besey added Ms. Bonsky has a very unique background to provide needed expertise on site when there is an emergency.

Business Unit staff are responsible for the division's budget, information technology support and data management, and providing supplies and materials to staff statewide. They also issue approximately 3,000 export Certificates of Free Sale each year.

There are several emerging areas in FDD. The division is growing food inspection staff from 47 to 59, including addition of an internal audit position, and increasing the amount of specialized training required. Food establishment compliance is being improved by creating a better culture of food safety in more places and providing additional tools for establishments to use. The Food Safety Modernization Act (FSMA) is a huge activity and the division is pursuing funding and resources to implement those rules. FDA is expecting states to conduct that program and only limited funding will be received for the effort. The Director added even those producers not needing to meet FSMA for produce safety will be affected because buyers are already demanding Global GAP (Good Agricultural Practices) Certification for some not covered by the FSMA rule. It has been a difficult message with producers that FSMA will affect everyone, which represents 6,000 farms in Michigan. In response to inquiry from Commissioner Meachum, the Director advised they hope to find a way to provide education and assistance on the farm for what needs to be accomplished. Assistance from the Commissioners will be needed in educating the legislators as to what this actually involves and the fact that farmers want MDARD, not FDA, on their farms.

Mr. Besey noted that in addition to produce safety under FSMA, food processors need to have a food safety plan, preventive controls, and improved import verification. The state's role in the recently released Transportation Food Safety Rule is yet to be clarified.

The Dairy Section may need additional staff as the industry grows. State milk production is moving from seventh to fifth nationally. New technologies, such as robotics and milk protein fractionation, while helping the industry grow, require staff to be the experts in those new areas.

Legal issues to be addressed include updating the Pasteurized Milk Ordinance adoption. The Food Law also needs to be updated, including FSMA rules, manager and employee training updates for the industry, 2017 Food Code adoption, and a bill to move vending inspections to MDARD from local health. There also is a bill in process to allow dogs on restaurant patios.

In response to inquiry from Commissioner Walcott, Mr. Besey advised food processing by restaurant establishments significantly escalates their needs to work with the regulators. For the most part, they are paying the same fee as other restaurants, but are consuming much more time. The division is studying the ramifications and developing

solutions and systems to allow health departments to handle those complex situations. Local health can encourage county boards to implement additional fees as applicable.

In response to question from Commission Montri, Mr. Besey advised the timeline for implementation of a similar regulatory process for the restaurants as there would be for meat processors is anticipated to be completed this year. Commissioner Montri asked about the 56 plants that have not yet submitted their required retail specialized meat processing variance. Mr. Besey advised staff are currently visiting those establishments, who will be required to submit, or be placed under enforcement.

BIOFUELS INFRASTRUCTURE GRANT: Jim Zook, Executive Director, Michigan Corn Growers Association and Corn Marketing Program of Michigan

Mr. Zook thanked the Commission for the opportunity to provide an update on a USDA grant that overall provided \$100 million to increase the infrastructure or the number of biofuel dispensers available at the retail locations. Of that, Michigan secured \$3 million. Michigan Corn Growers are a part of the Ag Auto Ethanol (AAE) Alliance, whose mission is to develop strategies and action plans to accelerate the transition of transportation fuels to higher octane/lower carbon blends for use in the North American light duty vehicle fleet.

The OEMs (Original Equipment Manufacturers) continue the push for high-octane gasoline. General Motors, Ford, Fiat Chrysler, and Honda have all indicated they need higher octane to meet carbon dioxide reductions and increased mileage performance imposed by the U.S. government. With higher octane, they can manufacture smaller motors that actually produce more power with less fuel required. Ethanol is currently the cheapest octane available. Engineers like that component because it also has cooling properties within the motor itself.

The grant's purpose is to increase the number of dispensers distributing higher level blends of ethanol. Currently, there are 7.4 million vehicles registered in Michigan and 898,000 of those are flex fuel. There are 41,708 gasoline dispensers (one for every 177 vehicles) and 689 flex fuel dispensers (one for every 1,304 vehicles). Part of the reason for that disparity is marketing agreements that dictate how brands are offered under a retailer's canopy. However, this is beginning to shift.

AAE is comprised of 40 partner organizations from National Corn Growers Association (NCGA) and state corn grower associations, ethanol industry, automobile industry, and agribusiness industry. There are 12 steering committee members, six action teams, and two co-chairs (General Motors and John Deere). A group of very professional people are moving the organization forward.

The USDA Biofuel Infrastructure Program (BIP) is supported by \$100 million in funding through USDA. A funding match is required which gives a \$210 million total investment, with the matching state and private funds. Twenty-one states received funding under the USDA program. Nearly 5,000 additional pumps will be installed nationwide as a result. This enhances another program, Prime the Pump (PtP) that has entered the high volume markets to push for the inclusion of blender pumps (E15 up to E85) or dedicated

E85 pumps. Actually, 80 percent of the nation's fleet can run on a 15 percent ethanol blend and that presents a ready-made market.

Michigan will receive \$3 million in funds, for a total investment from all sources of \$5.34 million. Requested to date are \$1.7 million in funds which provides for 20 blender dispensers, 37 E85 dispensers, and 17 underground storage tanks (USTs). Available to grant are nine E15/E25 retrofits, 20 blender dispenser, three E85 dispensers, and three USTs.

The process challenge is a required federal form, which is very complex and results in about 70 pages for each vendor's application. This is extremely time consuming for the retailer who is not to begin construction until they have approval. To date, we have only one approved and all of the others are pending as the construction season is dwindling. He has been working closely with MDARD's Agriculture Development Division Director, Peter Anastor, to develop a solution. Michigan may not be able to spend the \$3 million unless it finds a solution Washington will accept. Today at 2:00, EPA will release the volume number for the Renewable Fuel Standard. It will be based on our consumption of regular gasoline and not these higher level blends of ethanol. Unless we obtain data that proves those numbers should be higher, they will stay with that methodology. Giving the consumer opportunities at the pump is extremely important. Even though mileage drops somewhat in flex fuel vehicles burning higher ethanol blends, the price advantage at the pump gives the consumer an economic advantage, and they are burning cleaner fuel as a result.

In response to questions from Commissioner Walcott, Mr. Zook advised they do not know the content of EPA's report today. No one can deny the most wealth in agriculture has been built over the last ten years. We will still produce enough corn to feed the livestock because we are better stewards of that corn by separating it out to ethanol, distillers grain (protein part of corn that is extracted) that goes into feed, and extracted oil that can go into the feed, biofuels, or human consumption market. The growth for the corn industry will be in ethanol and distillers grain and much of that can be exported.

POET BIOREFINING CARO PLANT UPDATE: Emily Boynton, Quality Manager, POET Biorefining

Ms. Boynton noted POET has over 20 years of ethanol industry experience and 1.7 billion gallons of production capacity. They are the largest ethanol producer in the world, with over 1,500 team members, 10,000 farmer investors, and 30,000 farmers who supply grain. They are organized under an integrated business model, a low-cost producer, and technological leader. Every project POET has undertaken has been successful. In addition to the Michigan plant, there are 26 other production facilities located in seven other states.

POET's Caro facility was the first ethanol plant in Michigan and consumes 21 million bushels of local corn annually. They produce 58 million gallons of ethanol, almost 9,000 tons of corn oil, and 153,000 tons of distillers grains each year. She provided a visual tour of the various production areas of the plant. Corn received is probed and checked for quality, divided into bins, and brought into the plant based on moisture and some other quality concerns. After the hammer mill, it goes to slurry processing and once in a

flour form, water is added. POET has a patented enzyme process that allows them to eliminate two steps of fermentation and run a continuous 24/7 process. After approximately 80 hours of fermentation, product goes to distillation and then to the sieves which physically separate the last of the water molecule from the ethanol. After distillation, the solids and water produced go to centrifugation where the solids are separated and the liquids go to evaporation. Halfway through evaporation, corn oil is removed and fat extracted. That corn oil can either go into feed or the biodiesel industry. After oil extraction, the result is a syrup which is condensed down and contains the protein, fiber, and nitrogen. The only thing removed is the starch. The syrup goes with the wet cake into the dryer and the dryer creates the dry distillers grains with solids, which goes back into the feed industry to replace one third of the corn removed. POET Caro plant produces three products, ethanol, Dakota Gold (named-branded dry distillers grains), and corn oil. Two co-products are currently produced, the syrup and wet cakes, which are sold together. The plant is also energy efficient through capture of steam to offset electrical requirements.

The Environmental Protection Agency (EPA) requires renewable fuel to be blended into U.S. transportation fuel by increasing amounts each year, escalating to 36 billion gallons by 2022. The RINs (Renewable Identification Number) is a 25-digit number EPA assigns to every gallon of renewable fuel produced in this country and uses to track compliance. POET Caro production is capped at a (RINs) allotment of 66,780,822 gallons. Currently, their three-year average is at the 55 million gallon rate and they are attempting to gain that last almost 11 million gallons through a planned expansion. This will involve a high-level scope of work, including a new building, several equipment upgrades, and numerous new pieces of equipment.

In response to inquiry from the Director, Ms. Boynton advised a producer must fit into each category, renewable fuels and advanced biofuels, in order to qualify for additional RINs. In the future, POET Caro would need to make various technological advancements to take them to the advanced biofuel level.

The current expansion project is anticipated to be complete by August 1, 2016, with the potential of adding three new staff positions. They will be able to grind about 3.2 million more bushels, produce about 9 million more gallons of ethanol, produce approximately 1,300 additional tons of corn oil, and produce about 27,200 more tons of feed annually.

Relative to FSMA requirements, she mentioned POET Caro would be very interested in having MDARD in their plant, rather than FDA. She noted 20 years ago, water usage was 5.5 gallons per gallon of ethanol produced and the national average as of 2015 was 2.7 gallons per gallon. POET Caro is already at 1.9. The national average kilowatt usage has been reduced by 38 percent over the last 20 years, and Caro is currently at a 35 percent reduction.

In response to question from Commissioner Montri, Ms. Boynton advised the ethanol produced in Caro is distributed within Michigan, unless one of their entities in Ohio needs product because of unplanned downtime.

WIND ENERGY UPDATE: Stanley Pruss, Principal, 5 Lakes Energy

Mr. Pruss advised 5 Lakes Energy is involved in a community conversation pilot with Wind on the Wires, which is the Midwest affiliate of the American Wind Association. They are conducting community engagement meetings across the state and he reviewed the information typically shared at those meetings, noting it is a good overview of the current state of the wind energy industry in Michigan.

Wind energy is a better choice, offering multiple benefits, including the least cost energy option in the state, it doesn't pollute, and it doesn't consume water. Wind energy does come with the burdens of noise, flicker, bird and bat mortality, and aesthetics. The first three can be managed through good siting practices. Other benefits of wind energy include the county tax base can increase significantly, schools and local government receive tax revenue, and families participate in land royalty payments.

Based on Michigan Department of Treasury data, of Michigan's 83 counties, Gratiot, Huron, and Tuscola (the counties with the most wind farms) experienced the largest tax base increase from 2011 to 2015. Those increases ranged from 26.02 percent to 38.48 percent as compared to the state average increase for all counties of 1.28 percent. That is because almost \$3 billion of new investment went into those three counties and dramatically increased their tax base. In response to question from the Director, Mr. Pruss advised it was a combination of wind energy investment and the value of land. The wind turbine industry pays industrial personal property taxes, which were eliminated statewide in 2014, except for electric infrastructure.

Wind energy has also provided an economic benefit to communities. Gratiot County realized \$16.6 million in new tax revenue from 2012-2014. In that same timeframe, Huron County gained \$18.89 million in new tax revenue, and Tuscola County received \$4.07 million in new tax revenue in 2014. That new revenue has benefited the communities in various ways, from schools, roads, seniors, veterans, county parks, and emergency services to helping with operating expenses.

Local businesses also benefit from wind farms. The manager of the Holiday Inn Express in Bad Axe advised their revenues in 2006 were less than \$900,000 and in 2014, revenues approximated \$1.7 million. Other businesses benefit as well, such as snow removal contractors, fleet vehicles serviced at local service stations, corporate accounts maintained at local hardware stores for necessary supplies, and staff meetings often catered from local restaurants.

Wind revenue matters because state policymakers control the purse strings to resources that local governments rely upon to provide services. In the past, state distributions to local governments have been reduced and new strings are being attached as a condition of receiving funds. Revenue from wind farms supports local communities and compensates for reductions in state support.

Wind farms also benefit Michigan agriculture. Professor Sarah Miles from the University of Michigan spent over two years in the thumb area talking with farmers, and her dissertation focused on wind energy and its affect and impact on agriculture. She found farms hosting wind turbines invest twice as much in their farm operations and homes,

they acquire land at a far greater rate, and they are more likely to engage in succession planning to keep the farm within the family.

Wind projects help preserve agricultural land and open spaces. In addition, they help keep young people interested in farming and benefit rural communities in many ways. Wind is a drought resistant and flood proof cash crop and provides certainty and peace of mind to landowners. Each turbine occupies one acre, yet it does not greatly impact crop or livestock production.

Wind power significantly reduces water use. The 144 coal plants and 38 operating nuclear plants on the Great Lakes account for 76 percent of all water withdrawals from the Great Lakes Region. Every megawatt hour of wind energy avoids 8,420 gallons of water used to cool coal plants and avoids 270 gallons of water lost.

Money spent on wind energy stays in Michigan, multiplying through our economy. Currently, Michigan spends about \$22 billion per year importing fossil fuels and that money leaves Michigan's economy. If we produce electricity with wind and solar and electrify vehicles, then all of those dollars could stay local.

Businesses want more renewable energy – Apple, Google, Facebook, Walmart, Microsoft, Amazon, Costco, Johnson & Johnson, Proctor & Gamble, Starbucks, Steelcase, and many other companies have 100 percent zero carbon goals. They make investment and business decisions based in part upon the availability of clean energy resources and that is a trend that is quickly escalating. In response to inquiry from Commissioner Meachum, Mr. Pruss advised energy transmission is comingled from all sources. Intel, Costco, and Staples hit their clean energy targets years ago by purchasing Renewable Energy Credits. It is the attribute of clean energy that creates a separate market. That is changing to companies actually buying the output from wind and solar projects directly, or purchasing the projects themselves. Over 500 U.S. companies are now deriving 100 percent of their electricity from green power sources.

Renewable energy accounted for 68 percent of all new electric generation resources added to the U.S. grid in 2015. Wind and solar power installations are currently emerging faster than any other electric power source. The transition to clean energy resources is clearly underway.

In response to questions from Commissioner Hanson and the Director, Mr. Pruss advised it is becoming divisive, and the community engagement meetings are designed to help educate people to the fact there are no perfect energy solutions and burdens are associated with each, but there also are many community benefits of wind energy that can be clearly demonstrated. Perception has improved as a result of the community engagement meetings, for which they utilized a proven methodology. What they have seen consistently is more than two-thirds of participants actually support wind energy, and as a result of the meetings, many other people are moved from a position of neutrality or opposition to neutrality or support. Phase two of the community meetings will most likely be more intensive across the state.

In response to questions from Commissioner Montri, Mr. Pruss advised their website www.windworksmichigan.com lists the 20 most recent peer reviewed medical studies on health impacts of wind energy. There is no single peer reviewed medical study that has connected the operation of wind turbines with health impacts other than annoyance. Improved technology is on the horizon that will require the red blinking lights only when aircraft are in the vicinity and that will help considerably. Expected life expectancy of a wind turbine is not yet clearly defined, however blades, cells, and transmission and gearboxes are expected to last 15-20 years, with the towers lasting much longer. In addition, refurbishing and upgrading to more powerful machines that perform well in low wind is expected in Michigan. Time that a contractor would need to be servicing a turbine is minimal and there are best practices in place, which include prior notice to the landowner. They would like to see something similar to the Generally Accepted Agricultural and Management Practices developed for wind in agriculture and conversations toward that have already begun.

In response to question from Commissioner Kennedy, Mr. Pruss advised the wind energy industry is looking to expand and would like to double or triple the amount in Michigan. The wind developers are resolved to the fact they will not be siting within three miles of any of Michigan's 3,233 miles of coastline. However, it is very well suited for agricultural areas.

COMMISSIONER ISSUES

There were no Commissioner issues.

PUBLIC COMMENT

No public comment was requested.

ADJOURN

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

There being no further business, the meeting was adjourned at 12:40 p.m.

Attachments:

- A) *Agenda*
- B) *Agriculture and Rural Development Commission Meeting Minutes March 30, 2016*
- C) *Director Jamie Clover Adams – Issues of Interest Report*
- D) *Michigan's Terrestrial Invasive Species Draft Management Plan Overview Presentation*
- E) *Michigan's Terrestrial Invasive Species Draft Management Plan*
- F) *DFA Cass City Presentation*
- G) *Michigan Milk Producers Association Presentation*
- H) *Food and Dairy Division Presentation*
- I) *Biofuels Infrastructure Program Presentation*
- J) *POET Biorefining – Caro Presentation*
- K) *Economic and Agricultural Benefits of Wind Farms*
- L) *Legislative Status – May 16, 2016*