

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

[LR560]

The Committee on Agriculture met at 1:30 p.m. on Tuesday, December 2, 2014, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR560. Senators present: Ken Schilz, Chairperson; Norm Wallman, Vice Chairperson; Dave Bloomfield; Ernie Chambers; Tom Hansen; Burke Harr; Jerry Johnson; and Steve Lathrop. Senators absent: None.

SENATOR SCHILZ: Good afternoon, everyone. I see it's just now 1:30, so we'll go ahead and get started today. Thanks for coming. I'm Senator Ken Schilz from Ogallala, Chair of the Agriculture Committee. Today, we've got LR560, an interim study to provide a forum for receiving the dairy industry report that was authorized pursuant to LB941, which was enacted during the 2014 legislative session. Today, I think I will do this as Director Ibach has a presentation, we'll kind of run this first to let him come up and kind of do his briefing first. We'll give the committee members a chance to take that in, ask him some questions, and then once Director Ibach is done with his presentation and the committee is done with questions or comments or whatever, then we'll allow anybody else that wants to come up and give input or comments to do so. And we'll just go in that fashion. So, Director Ibach, if you'd go ahead and get us started we'd greatly appreciate it. Thank you very much. [LR560]

GREG IBACH: Okay. Do you want me to state my name and spell it like usual? [LR560]

SENATOR SCHILZ: Yeah, we'll go ahead and do that, yeah. [LR560]

GREG IBACH: Okay. My name is Greg Ibach, G-r-e-g I-b-a-c-h, and I'm the Director for the Nebraska Department of Agriculture. So I think you guys all are fairly familiar, the Legislature passed LB941 which asked the department to work to put together a dairy growth and development study, and we have done that. The copies of the study have been filed with the Legislature. They're on-line and available several places. I think you

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

guys have hard copies today as well. And so, you know, we'll just kind of briefly go over that study and hopefully not repeat too much of what you guys already have read and/or know. So we're, you know, very happy to be able to...on behalf of the department to be able to have conducted this study and written the study and report on behalf of the dairy industry as this is a, you know, an important segment of our livestock industry. And dairy development, as you know, has been a priority for a number of years, and we have a number of historical events as well as market events, you know, profitability in the industry which has affected our ability to attract and grow dairies over the past few years. But we seem to have a renewed interest in dairy growth and development here in Nebraska over the last few years. And through those last few years, the department has worked cooperative with the State Dairy Association, the industry, with A-FAN, and the Corn Board, and others to try to, you know, spur some development of our dairy industry and take advantage of the opportunity to add value to some of the commodities that we grow here in Nebraska. Counties have also recently joined that process of dairy recruitment with their own recruitment actions, and some counties have been more aggressive than others. And...but it's so great to use this as an opportunity to take a broad overview and see if there's other things that we can do differently or refocus on what our opportunities and challenges are. But I think as you read the study and looked over it, I don't think there were any real surprises in the study. A lot of it was what we expected to find and, you know, maybe that's good. That shows that we weren't off base and it reinforces where we needed to go. But we also at the end of the report I will suggest maybe some priorities that we have identified in the department as opportunities to maybe move forward in a little bit more focused direction. Maybe just to kick us off here, this is the Nebraska dairy industry today. We have, at the department, 195 licensed dairy farms that have approximately 55,000 cows. We have ten processors that are located here in Nebraska, five purchase milk and five additional processors process their own milk, and then we have four main processors outside of this state in Iowa that utilize Nebraska-produced milk. This is a...slide depicts what the dairy industry looks like. You can see the numbers in the counties show how many dairies are licensed in those counties. And then the alphabet shows the processors and their

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

location in the state of Nebraska. As you can see, there are...both the dairies and the processors are fairly concentrated in eastern Nebraska, and I think later on in the report that will lead us to one of our opportunities and conclusions. As we went through the process to put together the report, I'd like to share with you a little bit of our methodology and how we researched and gained the information for the study. We attempted to survey all 195 Nebraska producers assisted by UNL in the rural poll, you know, we...those were reached out to. In this slide you can see the size of dairies and how many were solicited, how many responded, and the percentages in each category. So you can see that we had a fairly diverse and balanced approach to not only our outreach of course but to our responses as well. So I think that this study proves to...will prove to be able to be very useful in that we had lots of input from all different kinds of producers. We also conducted processor interviews and these...they were similar questions to what were on the survey about future growth plans and obstacles for growth for dairy in Nebraska, but they were also asked a few more questions themselves. And you can see that we had eight out of ten Nebraska processors participate, four out of five self-processors, and four out of five purchasers, and then also three out of the four dairy or Iowa processors participated. And we had help in this step of the methodology from UNL ag econ department and Extension assisted with some of the survey and interviews as well. And so then we also continued, we didn't stop there, we went ahead and then gathered additional information from some outside resources that included the USDA National Agricultural Statistic Service, the Midwest Dairy Association, the Nebraska State Dairy Association, as well as information that we have available in the Department of Agriculture through our dairy licensing program as well. And so then as...this is kind of a picture of some of the things that we found out as a result of our survey. As you can see, this shows the dairy cow trend in numbers from the early 1990s through current times. And you can see that overall the trend is how we all know it is. It's down. Although in the last ten years while we still decreased, you can see that we seem to be leveling out maybe a little bit. As we...this isn't necessarily included in the survey but this is data that I think was...I wanted to present to the committee as well. As we look to the future and some of the dairies that we have been

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

working with on the recruitment team and the outreach team that this is kind of the trend that we see developing looking into the future that maybe we have reached a point where we're actually...we'll be growing our dairy numbers and so we'll hopefully be effective in that trend as well. So the study also looks at, you know, what's the future for dairy. And as we look around, the U.S. is...as well as around the world we see that per capita consumption of milk-based products is rising--cheese, yogurt, yogurt especially, and powders. And this is not only in the United States but in the world as well, and China is a very rapidly growing customer for milk-based products. Fluid milk consumption in the United States is down, but the products is making up for that demand. We think that there's evidence that suggest in the studies done elsewhere that traditional dairy-producing countries are reaching their peak production. This would be...New Zealand would be an example of this. And so the United States continues to be well positioned for supplying some of these world markets. Some of the numbers that we have according to Nebraska Public Power District studies show that the impact of a dairy on a local community is about \$5,000 per cow. And Iowa State conducted a study that shows that when you add processing in your state to that milk, the impact goes up to \$23,000 per cow. And so being able to not only produce the milk but process the milk appears to be an important consideration as we look at the future of dairy in Nebraska. So that is especially highlighted when we consider the fact that over half of Nebraska's milk that is produced here in the state is shipped out of the state and we're missing that opportunity to add value. So we're...that means that of a potential \$1.2 billion, we're capturing less than \$600,000 of that opportunity. So definitely something for us to look at in the future as we try to grow our dairy industry. So this is a little bit of a summary of surrounding states, and I think the thing that we notice in this slide is that while all states over the past 20 years experienced a drop in overall dairy production, with the exception of Colorado, well, I guess and Kansas as well, but some of these states then have changed the curve and are growing now more rapidly than we are in Nebraska. So it shows that Midwest states, there are opportunities here in the Midwest for growth with only Nebraska and Missouri really continuing to show decline. Some of the...there's many key findings that are depicted in graphs throughout the reports. A

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

couple that we picked out that I think also point to outcomes and opportunities here is that those producers that are considering transition or succession of their operation to the next generation is really, you know, the larger operations are considering that, over 82 percent of them are. But as we look at the smaller operations across the state, less than 50 percent of those operations have a succession plan in place to pass it on to a next generation within the family. And so that shows that we're probably really, if we don't reverse this trend or do something to change their plans or provide them an opportunity to change those plans, that we're going to continue to struggle to keep our small and medium-sized dairies intact here in Nebraska. So some of the other key findings that are included in this report are that, of course, and this is no surprise to any of us that Nebraska does and is viewed to have the great natural resources that are needed by dairies if they...when they are looking for a place to locate. We, of course, have available water even though we are very concerned about our water. I think that that's been a benefit to us in that we as a state have really done a lot to take steps to make sure that we have put in what responsible water use that not only provide water for today but provide water for the future as well. We continue to have great production ability for feedstuffs. We have available land and much of our rural Nebraska has lots of open space, and we have an established transportation infrastructure. When you look at, you know, Nebraska and not only from a dairy perspective but just from a supply of all the commodities we produce perspective, the blue represents the parts of the U.S. that are within one day of legal trucking hours from the center part of Nebraska; the green, two days, and you can see almost the entire United States can be reached in two days from the state of Nebraska. And probably if we moved to the western and eastern zones, we would...and put their star in the right place there, we would encompass all of the western states and may get nearly all of the eastern states as well. So then some of our key findings then that also are part of this is that county zoning always comes up as a discussion point around any type of livestock expansion discussions. And so we're finding that, you know, many counties have...are working to recruit dairies. Many counties have taken steps to become livestock friendly. But we did find in the survey that some of our past challenges with local regulations are still in the memories of

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

people even outside the borders of our state. And some of those challenges go back 20 years or more that come up that we would hope would be in our past and that we have, you know, improved the ability for siting and, as far as public opinion, for livestock expansion, but some of those events from 15 and 20 years ago are still part of that memory that we need to be aware of and have to address. And then I think we can also, you know, we were pointing earlier in the slide to the anticipation of some growth in dairy numbers. We've also had some successes here recently in dairy and swine expansion as well. And so I think that that is very interesting. You know, this shows again, and we saw this slide earlier in the presentation, but we need processing available all across the state. And processing or dairies find it to be most economical if their farm is within 100 miles of a processor. And so as you can see, there's a big hole in central Nebraska. And central and western Nebraska have the...definitely have the resources for feed, water, open spaces, distillers grains, to be able to accommodate milk production, but right now we really don't have any processing that is convenient or within that 100-mile zone for them. And so I think that is hampering our efforts to develop. And there are counties in that central Nebraska region that are very interested that have put together dairy recruitment teams and have asked their economic development people to focus on dairy recruitment. So we definitely...that further underscores the opportunity that exists in central Nebraska. So with that, then I think we would move into maybe a few of what we think are the conclusions or recommendations that we as a department have that are included in the written study as well. But those recommendations would kind of revolve around retaining and growing our existing farms. So we think that the survey results that we reviewed and the comments that show that our small and medium-sized producers don't have succession planning in place and don't have a plan to...their plan actually is to close their operation down, I think there's an opportunity for us as a department to look at that, to talk about, you know, programs that might help them...if their children don't want to return to the farm, to look at ways to bring in other individuals outside the family that might be interested in taking over those farms. There's also, you know, labor for those small and medium-sized farms is one of the reasons why I think sometimes children don't want to

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

return to the farm. So there are some technologies that are available that I think that we could work with the university and other groups to help expose those producers to as well, you know, robotic milking or other things that would help them to be able to free the family to not have to be there for every milking, the whole family to be there for every milking event that takes place. We have some state assistance available within the department. We have the NextGen Program that's based on some tax incentives that the Legislature passed. The rural advantage Level 1 and 2 provides some opportunities to upgrade and update within the rural advantage. And then also included in that is the livestock modernization act that requires some monies if you're not adding jobs but you're updating and improving your equipment and facilities, provide some tax incentives. The next area that we would highlight as an opportunity are recruiting new dairy farms. As we talked before, we have been working at the county level with economic development officials. We've partnered with the industry, the State Dairy Association, A-FAN, and other groups like Corn Board have been very helpful in providing support of our...going to trade shows in California and in Wisconsin recently and continuing to get the word out and develop materials to get the word out that Nebraska is open to dairy expansion. We think that there's great opportunities to allow current Nebraska producers to build additional farms but also bring those out-of-state producers in as well. And we have some site development projects going on right now at the state and local level as well. And then probably the final outcome, and this has been one that has been debated over the years is, you know, does this come first? Do we recruit processing first and the cows will come or do we find the cows and the processing will follow it? And we think that there's, you know, looking at states surrounding us is through the process of putting together the report, it seems that there's, you know, a strong trend toward if you develop the processing the cows come. And so I think that while all three different phases of our recommendations are important for success, I think that maybe we should put some additional focus and priority behind the processing side of this based on what the survey says. And so we have, again, the same opportunities we have with our cow numbers. We need to encourage and look for opportunities for existing processors to expand, but we also

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

need to recruit new processors. And if somebody is going to expand their capacity by building a new facility, a current processor or when we recruit a new one from out of state in, I think we want to try to incent that or steer them towards the central part of the state to be able to expand those opportunities for those producers that might want to site in the more rural areas of central and western Nebraska. And, again, you know, as we step forward with this process, we can utilize the Nebraska Advantage program. There will be enough investment and enough job creation that they won't have to qualify under the rural advantage, that they would be able to qualify under the regular Nebraska Advantage incentive programs. So that, I think, would kind of summarize what I had planned to be the overview of the study, and I would be open to questions at this time. [LR560]

SENATOR SCHILZ: Senator Johnson. [LR560]

SENATOR JOHNSON: First of all, a very complete report. Like the graphs and...laid out and very extensive analysis. A couple of questions. One, zoning is one of the big questions. The dairy takes up so much space and there's regulation. But how many acres of ground is needed to support a dairy like per cow? If you talk about the feedstocks, you talk about alfalfa, talk about manure disposal and everything else. How big an area for a 10,000--5,000 head dairy would it take? [LR560]

GREG IBACH: And I think Rod Johnson will be able to answer that number specifically. [LR560]

SENATOR JOHNSON: Okay. [LR560]

GREG IBACH: I've been told that number but right now it's not coming through my Rolodex to be able to (laughter) be supplied. [LR560]

SENATOR JOHNSON: I'll wait for him, so. Okay. That's fine. [LR560]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

GREG IBACH: And so I'm sorry I can't help you with that. [LR560]

SENATOR JOHNSON: Yeah. The other thing I... [LR560]

GREG IBACH: I mean, you know, if a producer wants to control...I do know that many of the producers coming in to Nebraska want to control a fairly sizable percentage of those acres that are required both on the feed side as well as on the nutrient management side of it. And so that's, as we look at the value of Nebraska farmland right now after the increase, escalation in values over the past few years, we are not the most expensive state that's expanding but our values are fairly high compared to some of the western states. But, you know, we have other advantages in the water and the feed availability that I think kind of, you know, counteracts that. But that is one of the things that we have to work with producers coming in to help them understand that there are other ways than controlling that land mass. [LR560]

SENATOR JOHNSON: Okay. Oh, the report talked a little bit about maybe the processing that would come in would be a cheese production, is that...it lacking in the industry or... [LR560]

GREG IBACH: I think the demand is growing for... [LR560]

SENATOR JOHNSON: It's a new market. [LR560]

GREG IBACH: ...worldwide and I think we're...more and more we're seeing the dairies in the states that are located on the coasts are taking advantage of those export opportunities, which are providing opportunities for Midwest states and to backfill some of those markets that traditionally California and New York maybe supplied. But now if they're shipping some overseas, you know, that product is going somewhere else so we can slide over into those supply zones. [LR560]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

SENATOR JOHNSON: Is there different requirements anymore for a Grade B dairy that would go like for cheese or Grade A? [LR560]

GREG IBACH: Yeah. We have...yes, there are, and...but... [LR560]

SENATOR JOHNSON: So there would be some economic or cost difference anyway. [LR560]

GREG IBACH: There's starting to be very narrow differences and I think the trend is for almost all dairy farms that the department licenses now are trying to upgrade and to having the opportunity for fluid milk as well as for processing. I think that, you know, there's emerging opportunities in baby formula development. That's becoming a very exportable item. Yogurt consumption in the United States is exploding, and so there's more opportunities for yogurt. And then dry milk is also becoming in demand worldwide because in, you know, rural low-income areas, you know, they can't preserve it, fresh milk, and so dry milk is becoming more in demand for those areas. [LR560]

SENATOR JOHNSON: Thank you. Thanks for the report. [LR560]

SENATOR SCHILZ: Thank you, Senator Johnson. Any other questions from anyone? Thank you. I, too, would like to say that the report was very well done. I commend you and the agency for doing a fine job. I have one question. There's a section in here that talks about what some of the other states are doing around us, and I was wondering, do you have anyone coming up later or could you touch on that and go into some detail on what the states around us are doing and what kind of successes they're having? And then are there any of those that you...are any of the things that the other states are doing, do you feel that there's some of those things that we could do as well? [LR560]

GREG IBACH: You know, I think that there's been...I think Rod might be a good one to

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

try to address this question as well, but maybe I would just give kind of brief overview of, you know, my perception of that. You know, I went back to the slide that kind of shows our neighboring states around us, and if we refer to the study that the department partnered with the University of Nebraska to author the two livestock development studies over the past year or 18 months, you know, the first one was basically an analysis of the numbers much like this one that showed that while Nebraska, you know, has remained very competitive and passed neighboring states or other states in developing our beef industry that we haven't grown at the same rate in some of our other industries--dairy and pork and poultry. And so that provided us with some opportunities. You know, at different times we'll, you know, have concerns pop up that, you know, South Dakota is doing it a lot more than we are. They have a lot better system than we do or more incentives. But I think as we have stepped back to analyze some of their programs, they're not doing all that much differently than we are, their incentives aren't that much different. In South Dakota, for example, they still have local zoning just like we do. And so, you know, it really becomes, you know, that perception of, you know, that when you reach out of, you know, how aggressive do you...are you perceived to be. And then they probably don't have some of the past, you know, 20-year-old baggage that seems to still linger and provide some...you know, we have to talk our way around some of those old experiences that people still remember in California. [LR560]

SENATOR SCHILZ: Great. Director Ibach, thank you very much for your testimony today. We appreciate it. [LR560]

GREG IBACH: Oh, before I step aside I would like to... [LR560]

SENATOR SCHILZ: Sure. [LR560]

GREG IBACH: You know, you complimented the report and I don't think anybody here probably presumes that I wrote much of it, but I would like to give credit to Steve Martin

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

and Jordan Schlake and then, of course, Bobbie Kriz-Wickham. Steve and Jordan did the bulk of the actual taking the statistical data and the survey data and organizing it around the framework that Bobbie put together, and I, of course, approve, but...and turned it into the report that you have today. So I would like to...they're here in the room together so I'd like to recognize them at this time. So thank you. [LR560]

SENATOR SCHILZ: Duly noted. Thank you. Next, please. You want to come up? Good afternoon. Welcome. [LR560]

ROD JOHNSON: Good afternoon. My name is Rod Johnson. I'm speaking to you today as the executive director of the Nebraska State Dairy Association, but I also wear a hat with the checkoff organization which is the Midwest Dairy Association. So I kind of cover both sides of the aisle there. While I have some prepared comments, I'm not going to read this to you because I think you've heard most of this already. Do want to compliment...thank, first off, thank Senator Schilz and the committee for taking a look at the dairy industry and compliment the Department of Ag and Director Ibach for the work they did. And he beat me to it by about two minutes. I was going to make sure to mention and compliment the staff that put this report together because I think it's very complete and comprehensive and I think it gives a good look at the dairy industry in Nebraska. So between Jordan and Steve and Bobbie, I want to thank all of you for the work that you've done. And I do agree that with what Greg said that he probably didn't do a whole lot of writing on this report. (Laughter) About three years ago when I joined the dairy industry when I started looking at where we were at, I could see that states around us were growing and we started looking at taking a close look at what was going on in Nebraska. And at that time, we definitely partnered up with the Department of Ag and with A-FAN, the Alliance for the Future of Ag in Nebraska, and along the way the Corn Board has become very supportive of the efforts that we're doing. Along the way, we have adopted the name of "Grow Nebraska Dairy" as a name for our coalition that we're working on. And one of our first objectives was to work with a lot of the counties and talk to counties about the economic development side of what a dairy could bring to

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

them. Greg mentioned that \$5,000 worth of milk per cow per year which, you know, a 200-cow dairy is not a very large dairy but that's a half-million dollars into the local community. And if you took...put a half-million dollar business in downtown whatever community you picked out, why that would be a pretty significant increase there. Take a thousand-cow dairy and all of a sudden you're talking a \$5 million business. And most of that money is spent within 50 miles of the dairy as they're buying feed and local goods and services. So it does have an impact there. The investment that they make into their facilities runs about \$5,000 to \$6,000 per cow on a brand new facility, and that adds to the tax base. So there's a lot of economic development that comes into a community that expands into the dairy industry. As we looked at the industry, we...at the state, we basically split the state into three different segments. The east area of Nebraska, as Greg pointed out, has most of the dairies and that's where the processors are. And that's also where the...a lot of the markets are that extend into northwest Iowa, South Dakota along the I-29 corridor. That has been the growth area in the industry. As was mentioned by Greg, about half of the milk produced in Nebraska is shipped out of state. So basically that's where it's headed is into the areas where they have developed the processing and they're needing more milk. And they're aggressively looking in those parts of the I-29 corridor to add more cows because they've got the processors there already. The next thing we looked at was the central part of Nebraska. This area, a couple of years ago, lost a cheese processing plant, and this has created a problem of where the milk goes. It is out there. It's not a large number of cows out there but there are some very good operations out there. And as we look to what could happen out in that area, there's a lot of potential for growth. The irrigated corn country, so to speak, is out there. There's a lot of feed sources, and if we had the processing out there, that area would really be prime for growth area. A lot of the dairies now want to be able to, you know, apply nutrients through center-pivots. And with DEQ and EPA regulations, why, flat ground is a whole lot better. We don't have to worry about runoff and some of those type of things which the hillier, rolling ground that we have in northeast Nebraska has more challenges from that side of it. So central Nebraska is very, very prime country if we could just have the processing there because, as was mentioned, a

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

hundred miles is about the radius that they feel they can afford to transport milk. Then we've got the western part of the state, and out there they could help support a plant in the central part of the state. Maybe we could have a potential for a plant in the western part of the state, but we'll also have access to the Colorado markets out there. The plant that we lost in Ravenna, Nebraska, actually moved to Fort Morgan, Colorado, and Greeley, Colorado, is a huge market. So while there is transportation issues from western Nebraska into the Colorado markets, that is potential out there. So I think there's opportunities in all three parts of the state but each portion of the state has a different challenge and different opportunities, so I think we need to look at them as three different segments that way. We are getting a lot of support in all three segments of the state that we've outlined for growth in the dairy industry. We've got communities that have actually specified a piece of ground that they would like to recruit dairies on to. And so we've got a lot of support out there. I think it's just a matter of moving forward and keeping the ball rolling now that we've gotten it started. The other thing that we have in central part of the...central and western part of the state is a lot more wide open spaces. We have a lot of large livestock facilities out there and the people are used to large livestock. So I think it opens up a lot of the opportunities that we may have challenges in eastern Nebraska. So it does create a lot of opportunities that way. As we...as Greg spelled out the three different kind of focuses, the existing producers we have out here are the group that we really need to work with and continue to support. As is identified in the report, there's several incentive and programs out there that are available, and I guess I'm going to say that Grow Nebraska Dairy will take on the challenge of working with the administrators of each of those programs to make sure, number one, we understand what's available, see if there's any tweaking or anything that needs to be done to make those programs more user friendly, so to speak, so that we can get the information out, and then take that information to our existing producers because this is an area that I think we need to cultivate and make sure that we don't lose all those producers out there. Like I mentioned before, a 200-cow dairy is still putting a half-million dollars worth of milk on the streets every year. So it continues to be an economic driver for those communities. The comment about whether the cows or the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

processors come first, as we have looked to recruit new dairies to come to Nebraska, that's one of the questions they continue to ask. Once we discuss the advantages we have with water and everything else, the next question is what about markets and processors. So I think this is maybe one of the factors that if we could get that ball rolling it would really make an impact on movement of animals looking at Nebraska. We have...as was mentioned, we've been going to two of the largest dairy expos in the country, one in California and one in Madison, Wisconsin, and we have taken two messages. Number one is, what can Nebraska do for you; and the other one is, water, land, and opportunity. And this is our message that we're taking out there. The California situation with drought is creating a lot of lookers. We have a lot of people looking to move someplace. One of the areas that they've been going to is southwest Kansas has grown considerably over the last few years. And it was just announced that they're getting a new plant down there sometime in the next year, 18 months, which will become a drying plant in a partnership with a Chinese company. So, number one, would have been nice to have that in Nebraska probably, but they've got the cows down there right that will take care of that plant. What opportunity that opens up for us is the fact that that will take milk that's already going someplace else and so that will probably open up that Colorado market a little bit for us. So that helps western Nebraska. So, you know, it's not like it's a lost cause just because that plant went to Kansas and didn't come to Nebraska. The other thing that we need to keep looking at is what can we do to encourage more communities to want to get involved and get involved with helping us recruit and bring dairies in there as well as making sure that those communities are supportive of the current dairies that they have in their community. So that's just some of the thoughts and some of the rambling thoughts that I might have on some of those things. Some of the questions that were mentioned, what are other states doing? South Dakota...I guess I already mentioned Kansas. They have been very active in recruiting dairies to southwest Kansas over the years. And they have been very successful. Part of that is their access to some of the markets into Colorado and just the climate and everything that they had down in that area and it was wide open spaces and once they start moving, it just kind of starts the snowball effect of others move to a same area.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

Because these dairymen, it's a small...while it's a fairly large industry it's a small, close-knit group of dairymen. Basically they all know each other and there's a lot of families involved. And when you're starting to look at trying to encourage a recruit or bring a dairy to Nebraska, for instance, it's more than just loading a bunch of cows on a truck and moving them. You're talking about relocating your family, your business. You're talking about what do the community...what kind of facilities, what kind of amenities do they want in the community. You know, it's a family; it's not just for the cows. So that's one of the processes we have to work on. I've been saying it all along that we're going to...in a marathon here. It's not a sprint. This isn't going to happen overnight. But I think we've started the ball rolling and people are starting to recognize that Nebraska is on the map. Another state that's been very successful is South Dakota. They have been going to these trade shows, expos for about 12 to 15 years. And they have gotten things started happening there. As the cows started to move, then they got the plants. So this has been an ongoing process. For years, they actually had a staff person on their department of agriculture that that was his job, to go out and recruit dairies. They have gone to the Netherlands. They've gone overseas. They've brought in dairymen from all over the place. So they've put a lot of commitment into it and they're seeing the rewards of it right now. See, export markets. About 18 percent of all the milk right now is moving into the export market either through dry powder, a little bit of cheese, and different dairies like that. As these products move that direction, it is picking up some of the growth that the dairy industry is having in production, but it's also creating some opportunities as the exports naturally move from the coast. So as plants develop more powder processing and things on the West Coast, for instance, that is creating some opportunity for the Midwest to maybe fill in the gap, so to speak, of what's been translocated from that area. The export market, the Chinese are becoming very interested in milk and milk dairy products from the United States. And so this area has been really a big growth area. Mexico, though, continues to be the largest export destination of U.S. milk. Grade B. It's not like it was many years ago when we were milking cows out on the farm. The Grade B dairies are basically phasing out. About two, three years ago the standard procedures for dairy processing were revised, and I'd have

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

to look exactly, but I think there's a time line in there where all the Grade B dairies will be phased out and there is no new Grade B dairies coming online. So that's gone the way of the H Farmall, so to speak, so. The number of cows per acre, basically we say one cow per acre. And this will take care of the feed supplies as well as the nutrient application. And in a lot of cases, you know, the model in Nebraska for the larger dairies has been to own the footprint that the dairies are on and then contract with the grain farmers around the area for the feed and nutrient application. And this has worked very well. A lot of the people we're talking to these days coming from an area where they maybe were confined for getting feed and had other challenges, they're starting to say, well, they'd like to control a larger portion of their crop ground. But as was mentioned, the prices of land in Nebraska has been somewhat of a challenge at times. So one of our challenges is to convince them that Nebraska row crop farmers are used to feedlots and used to providing feed for livestock industry and they're willing to have long-term contracts and they're willing to work with a dairy farm in that manner. So that's one of the challenges, but I think that's something that we can get through once we get past the...any other objections. Zoning was mentioned. What can we say? Zoning has been a challenge, as was mentioned, over the 20 years. There's been a lot of nightmare stories, and people remember that. One example, one of the dairymen that we brought to Nebraska to look around from California as we were running around the country showing him opportunities and places to look at, all of a sudden we were talking about his family and his wife came from a dairy family and he said, oh yeah, we're cousins who moved to Nebraska one time and tried to get set up in dairy. But they went broke and got ran out of the state. Well, it happened to be the situation at Royal, Nebraska. So, I mean, like I said before, it's a small community and people know what has happened. So that's one of the challenges that we're working on. As we have taken this approach, we have decided that we want to make sure that when someone comes and looks at an area, the county, the local community is throwing out a welcome wagon instead of showing up later with a lynch mob. So this was what we're working on and I think this is becoming a successful pattern. As has been mentioned, there are several counties working specifically on developing dairy in their area, and this is basically the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

approach that we're trying to take. I think I hit everything that I was going to mention on my notes here, so I guess I would be open for questions or as we move forward would certainly be glad to provide any information or any research or anything that may be needed. One other thing, I did notice here that I had jotted down as we talk about the footprint of the dairy, basically, you know, for any dairy of any size we're basically talking they would like to have a quarter at least, 160 acres. But what we have found over the years, over the last 40 years, the water usage for a dairy has declined by about 65 percent per gallon of milk produced. So this is for the whole dairy usage, and along with that is the total amount of nutrients produced, manure that's produced, and everything else, per gallon has been cut dramatically. And the sustainability of the dairy industry is a key focus of the industry. There's a large partnership put together with all the retailers, the various suppliers, and everybody involved in the dairy industry to make sure that we are working to be a very sustainable industry into the future. With that, I'll answer any questions. [LR560]

SENATOR SCHILZ: Very good. Thank you. Any questions? Senator Johnson. [LR560]

SENATOR JOHNSON: I've got a couple. Around the Ravenna area, like I said, there's still some dairies there. [LR560]

ROD JOHNSON: Right. [LR560]

SENATOR JOHNSON: How much of a base is there today that has a succession plan and how many more cows would we need to put in that area in order for a cheese processor to come back? [LR560]

ROD JOHNSON: Right in the most...the closest proximity to that area, out in that area, where I would say there's somewhere around 8,000 cows. And some of that could pull from the east, from the north, you know, that whole area. And there is some growth potential in those existing dairies out there if they felt it was in their best interest to grow

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

because they had good access to processing and everything else. I think to really get a processor to take a close look and be ready to do something, we probably need to be closer to that 20,000 to 25,000 cow area. But I don't think...I would like to think that if we had a commitment from a processor that was...we could take to the bank and we went out and we started talking to producers, I think we could bring them all up together because they don't...if they decide to build a plant today, we're talking a couple of years before it's actually in production, and we can move a lot of cows in and get a lot of dairies built in that amount of time. So I think we can bring them both up together if we had something going. There is...I mentioned that 8,000 cows, those are the ones that are the furthestmost out in the area out there. But there in some other conversations that I've had with dairymen, I think we could...the new plant that is going into southwest Kansas is going to process 4 million pounds a day of milk. And so basically you're talking somewhere in that 30,000 to 35,000 maybe 40,000 cows. A lot of the cows today are producing about 100 pounds a day, and that's top of the line production. Average is going to be more in that 6 to...maybe 7 to 9 range, 7, 8 range. But...gallons, 7 to 8 gallons, you know, somewhere in that 80 to 90 pound range per day. So you figure out that way, you know, what it would take. Like I say, that plant down there is a 4 million pound per day plant. I think you'd have to...to get anybody to seriously consider doing something, they probably wouldn't look at anything less than a 2 to 3 million pound per day plant. And they tend to build them in 2 million pound segments. That's just the way the equipment works and everything else. So that's kind of what you're looking at.

[LR560]

SENATOR JOHNSON: You said take to the bank with something. I talked to one of your directors and he said, and I don't know if this is a trade show or something like that, but talking with different people that some states have had a, I'll call it a turnkey location when they've gone out to try and recruit. So then, okay, we're talking to John over here about coming in. We've got a location. Here's where it is. Here's the acres available to you. We've contacted so everything is...knows it's ready to go. Is that necessary in order to entice somebody here or do you find out what they want and then go find the place?

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

[LR560]

ROD JOHNSON: We have flip-flopped a little bit on our approach to this at different times. We started out thinking we wanted to find a quarter that the community was behind 100 percent, but we still can't go out and get a permit for that site until we know exactly what needs to be on there. DEQ would not permit a site unless we knew the operator and we knew everything that was going to happen there. But we've got some sites that the local community has said, yes, we would support a dairy on this piece of ground. That's one approach. The other side of it is, as I mentioned before when you're relocating a family and everything that goes with that sometimes there are other factors involved such as what kind of church is in the community. Is there the church school that I want to send my kids to? Those types of things. What are the recreation facilities because I like to waterski. So there's some of those kind of factors too. So when you start, one of the first things that we do when we talk to a potential dairy or dairy person is to, we've got about a ten-question checklist. What are some of your key things that you're looking for and trying to kind of zero in on something like that? But by the same token, we do have, you know, several communities right now that we will work to steer them to. [LR560]

SENATOR JOHNSON: Thank you. That's all I have. [LR560]

SENATOR SCHILZ: Thank you, Senator Johnson. Anyone else? Rod, thanks for coming in today. Director Ibach showed a slide there that had some projections of some projected growth there. Is there any...I mean, can you give us any insight as to what that's about, what you're seeing? [LR560]

ROD JOHNSON: Today, there is a 4,000-cow dairy that should be up and running at least about half production by the end of the year up in northeast Nebraska. So that's reality. There's another dairy in south-central Nebraska that changed hands recently and they went from milking 400 cows to 1,200 cows. So that's reality. There's another

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

dairy that has sat vacant out in the McCook area for five, six, seven years that now has a contract on it. And hopefully that contract is fulfilled by the end of the year. The jury is still out. We don't know for sure if they're going to be...start milking there right away or if they will use it as a heifer development to start with, but it has the facilities there that can be developed into active dairy. So there's...you know, the first 5,000 cows are basically here now. The next phase, we have two or three prospects right now that are actively looking to get something set up and going. So it's just a matter of...one of them we thought had a site developed and then they changed their mind on that site, but they still want to build in Nebraska in 2015. So we're working to make sure they get the site that they want and we're ready to go because the permitting process is going to be, you know, six months and then the construction is going to be six months. So they're challenged to be in production yet in 2015. But then we've got a couple other prospects that we've been working on. I've said at different times a year from now we could be taking 5,000 cows which are reality or we could be talking the prospects of 15,000 cows just because there's a lot of potential there. [LR560]

SENATOR SCHILZ: It's amazing what a study can do, huh? (Laughter) I'm just kidding. [LR560]

_____ : It's successful already. [LR560]

ROD JOHNSON: So it's a matter of if the stars all align, why, a lot of things could happen positively. And we'll be going back to Tulare, California, again this next February and we're looking for some good things. Our second trip out there, I think, is going to be a lot better than our first one was because we were still learning what it takes to make the contacts and get together with people out there, so. [LR560]

SENATOR SCHILZ: Very good. Senator Brasch. [LR560]

SENATOR BRASCH: Thank you. I wasn't sure if I was allowed to ask... [LR560]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

SENATOR SCHILZ: Oh, yeah, absolutely. [LR560]

SENATOR BRASCH: Okay. Thank you. Good testimony. I do have a couple of questions for you here, is if you could identify one single largest barrier, is there one that...what is the most single, common concern that makes people walk away? [LR560]

ROD JOHNSON: I think right now it's the processing. [LR560]

SENATOR BRASCH: The processing? So that is a priority. [LR560]

ROD JOHNSON: Do the study people agree with me? Okay. Good. (Laughter) [LR560]

SENATOR BRASCH: Okay. Very good. And then the next question I also have is when you mentioned the central Nebraska cheese facility that closed, why did it close? [LR560]

ROD JOHNSON: Their story was lack of cows. [LR560]

SENATOR BRASCH: Lack of cows. [LR560]

ROD JOHNSON: And if you look back five years prior to them closing, there was a dairy that tried to go in right outside of town and due to local situation, they ended up walking away and five years later the processing plant was closed. So you can read into that why did they walk away? [LR560]

SENATOR BRASCH: And my next question is you had brought up the EPA and the DEQ. Over my first term, I've often run interference for our feeders and the DEQ. What is your belief about the regulatory environment concerning dairy cattle? Is it... [LR560]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

ROD JOHNSON: That's not a challenge in Nebraska. [LR560]

SENATOR BRASCH: It's not a challenge at all that... [LR560]

ROD JOHNSON: We have four...you know, you can never say a hundred percent, but most of the time, 99 percent of the time I would say we have a very good working relationship with DEQ. They're very helpful. Usually when there's been a problem, that it's a legitimate problem. And maybe the producer is not willing to accept that, but reality is there probably was a reason for the problem. [LR560]

SENATOR BRASCH: And they are very good to work with. [LR560]

ROD JOHNSON: Yeah. [LR560]

SENATOR BRASCH: I would also agree. Senator Wallman had a bill that we had a few questions and they've been very cooperative, but compared to surrounding states, no one has raised any issues or concerns. [LR560]

ROD JOHNSON: No. I don't think that's a problem at all. In fact, I've heard compliments on the situation in Nebraska as compared to some of the other places where people have moved. So that's not a problem at all. [LR560]

SENATOR BRASCH: And finding sites for a new dairy is or is not an issue? [LR560]

ROD JOHNSON: That is probably the second...after processing and getting people to take a look at us because we've got the processing and getting the sites and getting everything established is probably the next thing that we have to get working on just because we need to...like I said before, we need to make sure that we have communities that are very supportive of it and the site that we find meets what the dairy wants. So that's probably a secondary that we need to put a lot of effort into. [LR560]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

SENATOR BRASCH: Has there been any dialogue with the university? During this last interim when I went on the ag tour that the chancellor was on, they talked about agricultural land owned by the university and the future of that land. Is there any dialogue of that land being incubator sites for... [LR560]

ROD JOHNSON: Is Jill still here? Maybe we should ask her that. She left! (Laughter) No, that's new to me. I know the university has done and put together some white papers and done some studies and things like that, but I guess anything like what you're mentioning is not something that I have heard any talk about. [LR560]

SENATOR BRASCH: That's what's coming to my mind. Because of Innovation Campus, I'm thinking if the university could help be an incubator area location, if there's a need. If there's not a need, then... [LR560]

ROD JOHNSON: I guess my first reaction is if you build a dairy there, you're not going to pick it up and move it on to another site. [LR560]

SENATOR BRASCH: No. [LR560]

ROD JOHNSON: So they would have to... [LR560]

SENATOR BRASCH: Just a success program. [LR560]

ROD JOHNSON: It would have to be sold off in parcels. Yeah. [LR560]

SENATOR BRASCH: To ownership, private ownership. Absolutely. Excellent. I'm looking forward to hearing more. I have no other questions. Thank you. [LR560]

SENATOR SCHILZ: Thank you, Senator Brasch. Just one more thing. You talked about

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

the number of dairy cows. On that same topic, have you had any increases or any growth on the processing side or any of that? Has there been any work on that? [LR560]

ROD JOHNSON: I can't say that we've had any successes. We've asked a lot of questions. We've talked around a lot, but I can't say that we've had any successes on that, no. [LR560]

SENATOR SCHILZ: Okay. [LR560]

ROD JOHNSON: I know in the study it addresses on-farm processing. That's good for that farm but that's not going to help us in the big picture. [LR560]

SENATOR SCHILZ: Right. [LR560]

ROD JOHNSON: We are...you know, while we talked a little about recruiting larger dairies and things like that, I will say we are getting some good movement and some good growth in some of our existing dairies. There are some positive, very positive things happening. There are several young people in the dairy industry right now that I'm hoping we can continue to cultivate. And I think one of the things...the State Dairy Association convention is coming up in March and that's going to be one of the topics I think we're going to definitely try to address is some of these...try to put together a forum on succession planning and some of those types of things because I think that's something that we need to develop and hopefully take the information that we have on some of the programs for incentives to help put those together. So I think that's something that we definitely want to work on. [LR560]

SENATOR SCHILZ: Right. So that's a good segue into this question then and I was going to ask this. I'm glad you spurred me on this. So are all the dairies at the state, are they all part of the association? Do they all belong to the Dairy Association? [LR560]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

ROD JOHNSON: They are pay checkoff. (Laugh) [LR560]

SENATOR SCHILZ: Okay. Well, and the... [LR560]

ROD JOHNSON: No, that's...the NSDA is a membership organization; the Midwest Dairy is a checkoff organization. [LR560]

SENATOR SCHILZ: Right. [LR560]

ROD JOHNSON: The membership organization does not have a hundred percent participation. We're somewhere probably between 40-50 percent. [LR560]

SENATOR SCHILZ: Okay. Well, and the... [LR560]

ROD JOHNSON: That's another one of our goals. [LR560]

SENATOR SCHILZ: Right. And the reason I ask is that seems to me the logical place to this succession plan and move forward with that as far as outreach and things like that. I was just wondering. [LR560]

ROD JOHNSON: That is the duty, that is the purpose of the NSDA. Midwest Dairy, the checkoff, by USDA statutes is not permitted to get into that ball game even, so. [LR560]

SENATOR SCHILZ: Absolutely, yeah. Okay. Thank you. Any other questions? Seeing none, thank you for your testimony today. Appreciate it. Next person. Anyone? Going once. Twice. We got everything there was to get it. Is that right? Nobody else? Okay. Well, thank you very much. We appreciate everyone's time and all the effort that went into the study and we will take it back and throw it into the mixer and we'll see what comes out here. But we appreciate all your time. If anybody has any further comments,

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Agriculture Committee
December 02, 2014

I'm sure that all of us up here will be more than excited and willing to take your comments, further comments. So thank you very much for your time, for your efforts, and have a great day and we'll talk to you soon. This will end the hearing. Thank you.

[LR560]