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Appropriations Committee and Agriculture Committee October 4, 2019
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STINNER: --Senator Bolz and fellow committee members of the Appropriations and Agriculture Committee. For the record, my name is John Stinner, J-o-h-n S-t-i-n-n-e-r, and I represent the 48th District, which is all of Scotts Bluff County. For the purpose of LR212 is to assess the financial status of the Nebraska Brand Committee and to identify core operational needs, opportunities for efficiency improvement, and long-term sustainability of the Brand Committee's cash fund. To improve operational efficiencies and facilitate coordination of core agency objectives, the financial stability of the Brand Committee must be maintained through the responsible management of its budget balancing, infrastructure modernization, and normal operating costs with revenue flows. To manage the long-term goal of the Brand Committee, LR212 will review the financial positioning of the Brand Committee, along with key operational objectives and other needs. The study will incorporate any recommendations stakeholders behind me may have for any necessary statutory, policy, or structural changes. My intent is to look at a comprehensive review of the financial position of the Brand Committee to assess its long-term viability as a sustainable state agency through its sources of funding and budgetary challenges, including information derived from audit reports issued by the Auditor of Public Accounts. Two: the relevance of the Brand Committee as a public benefit, including input from con-- constituencies of the Brand

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Committee, a historical narrative on its establishment, and the current challenges that necessitate services provided by the Brand Committee. Three: the operational needs of the Brand Committee, including field equipment, information technology infrastructure, and operational support. And four: other responsibilities and objectives of the Brand Committee. I'd like to thank Senator Halloran of the Agriculture Committee for agreeing to conduct a joint hearing on-- on this interim resolution, LR222, and for the legislative expertise of the Brand Committee. I'd like to just break off for a second and to-- and reference-- in-- in your books, there-- there is several different exhibits. I call them exhibits but they are different pages. And it really kind of-- what I want to try to do is portray to you what-- what we've been through from the Appropriations side and remind Appropriations Committee where we've been through. But last session, we had the Brand Committee in, and there was testimony by Dave Horton, who is the interim executive director of the Brand Committee, and there was a budget deficit request of \$510,000. Now, after the committee looked at least on the preliminary side, we granted \$292,500, which left \$217,500-- in the middle of the page, it really denotes what-- what they will use the \$217,500 for. And obviously it's for a computer and trying to upgrade from a paper system to a paperless system. So the committee did grant this \$510,000 after the hearing. But as you can see at the bottom of the page, the agency also requested an \$873,000 increase in cash fund expenditures for '19-20

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and '20-21. That, if you take a look at our base appropriations of \$5 million, is a 17.3 percent increase. If you look at LB660A, which they referred to in the top, that was a request to add a chief investigator. Normally, what has happened is the chief investigator is also the executive director. So I believe it was Senator Brewer brought this. And the first year will cost the commission \$119,000 and \$124,000, so when you start to add those up, this is well over a 20 percent increase. And if you want to catch my eye, that will catch my eye and should catch everybody's eye. So what we did was to go back and say, your budget is not sustainable. Give us a sustainable budget. Well, we-- we meaning Jeanne Glenn-- actually worked several scenarios, and we were never able to get something that I would call sustainable. And actually in your packet, if you look at the Brand Committee's cash flow scenarios, it looks like this; and I'll give you some time to find it. But the assumptions are spending authority for '20-21 increased to equal '19-20 levels. The feedlot revenue is sustainable at \$968,000, and inspection fees increased to \$1.10. They are at \$1.00 right now. The Legislature passed then a maximum amount of \$1.10 in fiscal year 2020 and 2021, which is just next fiscal year, to increase the fees to \$1.10. That will net the agency about \$362,000. What you see is '19-20, and all you have to do is follow the estimated year end balance in the cash fund and the operating costs associated with that, and you can see we go from \$1.7 million to a \$1.6 million to a \$1.3 million to a \$1.1 million to 700 to 232. Now if

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we also wait till the end of the biennium and increase fees, you see the ending results are -\$29,000 in a period of about five years. That is not sustainable. It doesn't even get close to meeting the definition of sustainability. So that's precipitated an LR. I wanted to study this. I want to make sure that we haven't laid in permanent cost in this that would require an increase in revenue. In other words, the cost structure has to equal the revenue that you take in. And so that's what this is about. And we also-- I will refer to you to the Brand Committee's questions that we, myself and Senator Halloran, asked this letter regarding our questions to the committee and I think embedded in the first-- in the first paragraph of the page 1, you can see that they talk about savings, but the savings that they're talking about is January 1, 2016, to January 1, 2019, which means those savings are already estimated and are in our analysis. OK. The second thing in our ana-- that I'd like to turn your attention to is page 3. Now this has happened. Technology, when you implement it, you get these estimates, you're going to have all these savings. By God, they forgot to tell us about X-Y-Z. I've been there, I've done that. This is what happened to the Brand Committee as well. But if you look at cost, infrastructure costs were the largest financial requirement to the project aside from licensing. While most developmental costs and hardware costs were included in the Nebraska Interactive contract, there was an extensive requirement that we were not itemized or budgeted for when contemplating the project. The first one's an

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e-mail. Went from \$11. Everybody had to sign up for it to get on the e-mail. Now it's \$24 times 85 in the staff, and you have \$2,000 a month or \$24,000 a year added, \$2,400 was added per month. Internet for all field staff and what the cost was \$30 a month. Project-- interestingly, they had a consultant, gonna help them do the project. Consultants usually come and then they go at the end of the project. They had to hire this one full-time. So now you have a full-time equivalency to that. I have not added these numbers up nor have I put them in the projections or contemplated it. But this is normal-- normal situation. I'm not pointing a finger at the Brand Committee at all. What I am pointing out is there is additional costs that are not contemplated in the scenario that we put together. The next item that I'd love-- like you to turn to, page 5. And it really-- in the bottom one-third, there are two items: our major driver, staff comp/overtime and travel expenses. That is the major driver here and I'll try to demonstrate that to you from a functionality basis. But interestingly, they talk-- for every dollar that is spent to do inspections, it cost them \$1.33. So one would say, who's subsidizing the inspection function? And that-- that raises a question that I think we, as a committee, need to dig into that to try to see if we can do a break even where revenue equals expenditures, so there's no subsidy from other parts of it. And then a very interesting commentary on page 6, and I think what the Ag Committee needs to follow is this CattlePass. The CattlePass is a blockchain method. They've actually-- there-- they

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meaning the state of Wyoming, there's feeders over there that are supporting this blockchain concept. If you remember what blockchain is, it's a ledger concept and it will keep records for the animals. This is something, I think, that is futuristic, it will be something that we can look at. Actually there was a grant by the federal government that both the commission applied for and the Department of Agriculture applied for, and we didn't get it. But should it be in the Department of Ag, would be one of the questions. But also as we evolve and this commission evolves, I think it's something to keep an eye on. It's certainly worthy of discussion, and I think that everybody could be involved in this as we move forward. The last exhibit that I put in here was really for information purposes. The Nebraska Brand Committee revenue side, you can see what the breakdown is. Local inspections are \$1.3 million; \$1.4 million the auction markets pay-in; \$979,000 is the feedlots. There is 100 registered feedlots and they pay in fees of \$979,000. We will have a feedlot operator come in and-- and-- and give us some testimony, which should give you some background and color into-- into those numbers. So you're \$5.1 million in terms of revenue and then-- had Jeanne really break things down functionally. And so when your cost structure isn't-- let-- let me put it this way. If the revenue and cost structure is out of line, you have to do what? You have to cut. In order to cut, I think, and certainly my committee understands this, you have to set priorities. You have to understand what function is most critical. So if I look down, is-- is inspections

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most critical? Is recording most special? And so then you start to pull that onion back and you start to say, this is essential, this isn't essential, from a functionality basis. So my fear is, right now and basically with all the work that we've done, and all the look that we've laid in a cost structure that is not equitable and not sustainable. So that's what this is about today. I think, too, it's about the brand commission and understanding what the commission's about, what their mission is, and-- and reflecting on that. But here's something else for the committee to reflect on: estimated funding for cattle industry disease prevention and control, Department of Agriculture-- their budget inclusive of federal grants of \$362,000 is \$2.4 million. That's what we spend in Ag on animal health. We're at 5.7 on a policing and identification system. So that was some of that stuff out. With that, I'll turn it over for questions.

BOLZ: Since our Senator Stinner--

STINNER: I have no answers so go ahead. [LAUGHTER]

BOLZ: Senator Blood.

BLOOD: Thank you, Senator Bolz. Senator, I keep wanting to talk in the microphone. I think you can hear me OK, right?

STINNER: Yes.

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BLOOD: So the question that I have and what I'm not seeing in here is: Have you had access to the NBC's strategic plan? Do we know what they put in writing that was going to be their five-, ten-year plan? Because I see a lot of oopsies that-- that concern me, where--

STINNER: I have-- I have not, but I think Jeanne would be best to answer that or a testifier in back and they could answer that.

BLOOD: Because I think that would be really telling, to let us know if they sincerely planned for a lot of these issues that we're seeing and certainly would address the fact that their budget is not sustainable. You would see that when you did your strategic plan, yes?

STINNER: Yes.

BLOOD: All right. Thank you.

BOLZ: Thank you, Senator Blood. Senator Moser.

MOSEER: Senator Stinner, in your comments you said you-- you felt there were expenses that were not reflected in this ledger where we were--

STINNER: Yes.

MOSEER: --losing the sustainability. So you think it's actually worse than that sheet shows?

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STINNER: I think there are some adds that they had not contemplated nor is in the projections based on what you see in that letter.

MOSER: And--

STINNER: Certainly the email has added to the cost. Certainly the full-time position now, which would have been a consultant in and out, is now part of the permanent cost. So you've got some-- some costs that you haven't contemplated nor have we contemplated in the projection.

MOSER: Do you have any idea what percentage that may--?

STINNER: No, I do not.

MOSER: OK.

STINNER: I do not. And it would be irresponsible of me to even guess.

MOSER: All right. Thank you.

BOLZ: I just have one question, one clarification. In your cash flow analysis, it contemplates an inspection fee increase to \$1.10. Do you know what the current inspection fee is?

STINNER: Currently, it's \$1.

BOLZ: Current-- so they have not made any changes to the inspection.

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STINNER: They have not yet. Actually, we passed it during two sessions ago, I think, to-- from 75 cents to \$1.10.

BOLZ: Uh-huh.

STINNER: I believe that's right.

BOLZ: OK. Thanks, Senator Stinner. OK. Thank you.

STINNER: Thank you.

BOLZ: Testifiers, please.

STINNER: And I am coming up there to ask questions, so this will be a little different.

BOLZ: Very good. Come on back, Senator Stinner. [INAUDIBLE]

STINNER: Senator Halloran, would you like to make a statement, please?

HALLORAN: Thank you, Senator. I appreciate that you have agreed to allow the Agriculture Committee to join your committee on-- for this hearing. I would also like to thank the Brand Committee and its staff for effort put into responding to the letter Senator Stinner and I sent earlier this summer. It helped set the stage for matters that we would like to learn more about. LR222 is specifically intended to look at the progress in installing and implementing what I will refer to as the brand record I.T. system and how that system, when fully operational, can improve the efficiency of the agency's operations. I

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am hopeful, as Senator Sid-- Stinner mentioned, that this hearing provides an opportunity for you to explain how the system, along with other managed-- management interventions, is resolving issues that were brought up in the Auditor's report from a couple years ago. Overall, I think this hearing provides a forum for exploring how the Brand Committee envisions its role as the cattle industry continues to evolve. In particular, I am interested in learning more about how the I.T. system might be leveraged to expand service to the industry and the Brand Committee's vision for how brand inspection might be integrated with EID. Thank you, Senator Stinner, and I will turn it back to you unless there are some questions from the joint committee.

STINNER: Questions?

LATHROP: Can I ask one?

STINNER: Senator Lathrop.

LATHROP: Can you give us a--? City guy. I know I've been on Ag Committee, previously served there, and I know there was some dustup about brands, whether we should have them, what counties should be in, and what counties should be out. Can you briefly tell me why we still need branding or the Brand Committee, and why we are--? I see a map and half the state is in it and half the state isn't. Tell us what the purpose is, so I understand why it's important.

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HALLORAN: Well, the Brand Committee is-- was put in place by statute to give the livestock, particularly cattle industry, some ability to protect itself from thefts and identify animals when they go to market to be sure that the proper ownership prevails. There was a-- a lawsuit sometime back, regarding your question about the-- the line, which I think the plaintiffs at the time declared-- that it was suggested that it was rather arbitrary, but the Supreme Court ruled that it was quite fine. The-- the delineation, while it may seem arbitrary, to the west of that line you'll find much larger operations. They are combined cow-- you-- you find both cow-calf operations, obviously, more out in the ranch country. And intermingled in that whole brand area are, of course, large feedlots. When you get east of that line, the units become smaller, cow-calf operators are smaller. There are feedlots east of that line. Also, it's a great question. It does at some level seem a little arbitrary to me as well. But to those people that are on the east of that line, that aren't in-- in the brand area, they can ask for a-- a-- a brand inspection and they're charged for that brand inspection. That's a question I'm going to have of testifiers of how often voluntarily people request a brand inspection in the nonbrand inspection area, which I think is-- will be interesting to find the answer to that, because it's quite telling whether, you know, they see value in it and ask for that brand inspection.

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LATHROP: And I won't go-- I won't ask any more questions, but along the way somebody who's testifying may-- may want to educate me because Senator Brandt here, his district is not in that brand inspection area, and there's cattle down there. And out in Brewer's district or in Stinner's district, it's all brand inspection. And I, as a city person, don't really understand why not having it works in one district and why you need it in another.

HALLORAN: Well, as you pointed out, there are people behind me who--

LATHROP: OK.

HALLORAN: --[INAUDIBLE] much more history--

LATHROP: OK.

HALLORAN: --and I'm sure they will elaborate on the history a little bit.

LATHROP: Thank you.

STINNER: Any additional questions? Seeing none, thank you.

HALLORAN: Thank you again, Senator Stinner. I'll turn it back to you.

STINNER: And I will say this once again: this is invited testimony only. So next testifier, please. Thank you for joining us.

[BREAK BETWEEN TESTIFIERS]

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STINNER: Not very often we have multiple testimonies at once, but we can manage. Good morning.

JOHN WIDDOWSON: Good morning, Chairman Stinner and Chairman Halloran. Thank you very much. My name is John Widdowson, J-o-h-n W-i-d-d-o-w-s-o-n, and I am the chairman of the Nebraska Brand Committee. To my left is Mr. Dave Horton, the interim executive director, and to my right is Danna Schwenk. She would be the I.T. coordinator for the Nebraska Brand Committee. It is with great pleasure and excitement that we are here today. We appreciate you guys inviting us to Lincoln to share with us and answer your questions, and that's what we're here for today. To give you a little background, I am just starting in my second term of a four-year term of the Nebraska Brand Committee. And I would like to let you know that our committee is made up of five members, all appointed by the Governor, and I would be the longest tenured committee member on the committee. We have an interim executive director who's been in that position for-- going on about a year and a half. And that is the story and that's the situation that we are in. To give you a little background, when I got on the committee in August of 2015, I had all these same questions that all of you today have or are thinking of, and I do have experience with the Nebraska Brand Committee. I am in the livestock industry. I'm a fifth-generation farmer and rancher from the Gibbon-Kearney area. I'm in the brand area. I have ranches out in

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western Nebraska. I am in the purebred business, so I sell cattle all over the state of Nebraska inside the brand area, outside the brand area, and outside our state. And as the chairman of the Nebraska Brand Committee, I have to wear different hats. I have to take my personal thoughts and agendas and lay them to the side, and I have to represent the producers that we provide services for at the Nebraska Brand Committee. I will say this, that once I was put on the Nebraska Brand Committee, and I appreciate that opportunity that Governor Ricketts gave me, it wasn't very long into my tenure of being on the committee that this wasn't being run like a business. Grant you, I'm in the private sector. I'm in a fifth-generation family farm or private sector. I'm not used to state government but this wasn't being run like a business. So very shortly into my two-- first two or three months, I started being-- asking questions. What start-- what's our cost of goods or what's our cost of services? What's it cost us to provide inspection services? We generate \$1 per head; what's it cost us? Those questions and those type of questions couldn't be answered. And the reason being is not to the fault of the staff, it's just where the agency had been and where the direction and leadership had taken it. But the-- the main reason for that is-- imagine all the business that you guys do in your personal businesses and also in state government if you didn't use technology and computers. The Nebraska Brand Committee was formed in 1941. Every bit of business that they had done from 1941 had done-- been done by paper and pencil-- and

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paper, and it's all in filing boxes in the basement in the headquarters of Alliance. So at any point in time, if anybody wanted to ask a question about any kind of data, it was in a box downstairs in the basement in the headquarters of the Brand Committee. Can you imagine the time, the energy, and the ability to try to formulate and quantify questions? How do you manage something that you can't measure? So that's where I pledged, as being the new freshman committee member, that we have to put something in place to be able to actually manage this agency. And so therefore, we brought in the technology. We had to do a technology thing. And so we went out and we eventually got in the contractual agreement with Nebraska Interactive to develop us a technology ability where we could be real-time with things. Now on an average, we have anywhere from 70 to 100 employees throughout the agency, and they're out in the country doing their inspections and doing their investigations and stuff like that. It's all on paper. From a day-to-day, from an hour-an-hour basis, we do not know what those employees do. We do not micromanage them. And for 75 years we were given data by paper every month after all that stuff had already been tabulated and done. There was no managing the process. It was just collecting what happened. And hopefully what happened sufficed and we stayed in statute, we provided the service, and the most important thing, we didn't encumber business. We did not impede business. I'm going to jump around a little bit here, but our number one goal is the third-party audit for the protection of ownership of

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an asset. There are thousands of producers in this state. Our number one industry in this state is the cattle livestock industry. Billions of dollars. Today there's roughly 9.1, 9.2, let's just say 9 million--

STINNER: That red light is on. If you could conclude, we'll--

JOHN WIDDOWSON: OK.

STINNER: --try to ask questions [INAUDIBLE].

JOHN WIDDOWSON: OK. Sure. I'll just-- give me 30 seconds--

STINNER: OK.

JOHN WIDDOWSON: --and I'll just whip her up. There's 9 million-- there's 9 million cattle out there. Each individual animal is owned by somebody. Can you imagine the Brand Committee not being here, not policing, and not protecting a buyer or seller of a free title of that asset? Here's my analogy: Is the Nebraska Brand Committee relevant for the future? Could you imagine-- I think all of us in here probably own a vehicle. Can you imagine if we eliminated the DMV and the State Patrol? Say we eliminated license plates, we eliminated VIN numbers, we eliminated title and registration of cars. How would we be able to keep track? Who owns what? There was a white Chevy pickup going down the interstate 90 mile an hour. How is our State Patrol supposed to identify a white Chevy pickup with no license plate, no VIN number, no title, no registration, nothing? That's what it's going to be like in

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the cattle industry if there is not an agency that is protecting our producers. So if you want to ask the question of relevancy, yes, we have a bias because we are working for the agency and we have statutes that we will follow. There are producers, hundreds to thousands of producers, say that they could run their business without some third-party verification of ownership. There'll be some people that say that I can keep track of my asset-- excuse me.

STINNER: Thirty seconds is gone. Senator Blood.

BLOOD: Thank you, Chairman Stinner. Thank you for coming today. I have two questions. I'm going to ask them at the same time. That will give you more time to-- to answer quickly. One is to build on Senator Lathrop's question, and I just want everybody to hear this from you.

JOHN WIDDOWSON: Sure.

BLOOD: So one of the things that's clear to me about the Brand Committee that isn't coming across, I think, is that there is a safety issue. The more rural you are when it comes to what your employees do that-- that sometimes they deal with ne'er-do-wells and put themselves in uncomfortable situations that are dangerous. Would you say that that's correct? As far as-- when you're more urban--

JOHN WIDDOWSON: Uh-huh.

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BLOOD: --there's more people that have your back. When you're more rural and you're out there and you're doing inspections and it looks like maybe somebody stole somebody else's cattle, that can be a dangerous situation. Yes or no?

JOHN WIDDOWSON: To be honest, I would think it would be the other way around. Out in western Nebraska, everybody or lots of people make their living off of that. So you-- you neighbor a lot. You-- you're looking out for that guy across the fence because that's how he raises his family. That's how he feeds his family. And so you work together.

BLOOD: And I don't-- that's not the question.

JOHN WIDDOWSON: OK. Sorry.

BLOOD: The question is your staff specifically. That part of what the Nebraska Brand Committee does is-- is almost a law enforcement type of role.

JOHN WIDDOWSON: Sure. Yes, absolutely.

BLOOD: All right.

JOHN WIDDOWSON: Yes. Yes. Yes, absolutely. We-- we have--

BLOOD: So I-- I don't doubt neighbors look out for each other.

JOHN WIDDOWSON: No, we have criminal investigators--

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BLOOD: We're talking specifically about NBC.

JOHN WIDDOWSON: Yes.

BLOOD: And I don't think people understand that that can be a dangerous job---

JOHN WIDDOWSON: Oh, without question.

BLOOD: Thank you. That's what I am trying to-- to-- to clarify.

JOHN WIDDOWSON: I apologize.

BLOOD: No, no worries. And then maybe I wasn't specific. And excuse my voice. And then the other question I have, again, goes back to strategic planning. So you specifically said, you know, how do you measure what you-- what you treasure when you don't have that information?

JOHN WIDDOWSON: Yeah.

BLOOD: And so to get a clear path for any organization has to have a strong, strategic plan that you revisit every year. Can you tell me a little bit about your strategic plan, when it was written, how often you revisit it, how many times it's been changed?

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JOHN WIDDOWSON: Great question and I'll be transparent because that's how I am. I'm not aware of a strategic plan and I'm the chairman of the Nebraska Brand Committee. The minute you said that--

BLOOD: Uh-huh.

JOHN WIDDOWSON: --Senator Blood, mental note right here, and it will be on the agenda of the next committee meeting. But the one thing that we are really striving for, like any organization, some continuity.

BLOOD: Right.

JOHN WIDDOWSON: And when you've had five new committee members in the last three years, you've had new interim directors, you-- we have a new office staff that's-- the longest-tenured person, our office manager, has been there a year and a half. So you can only imagine budgets and state policies and regulations. The learning curve has been enormous. Plus going from paper to electronic has been enormous. Our staff and our agency has done more in 3 years than in 76 years combined.

BLOOD: So since you're being so transparent and I appreciate that--

JOHN WIDDOWSON: Sure.

BLOOD: --would you agree that had you had a strategic plan in place, regardless of how many people had come and gone, that you'd always had

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that foundation to refer to and people might be better trained and your budget maybe would be more sustainable, perhaps?

JOHN WIDDOWSON: I will not disagree. Having a good strategic plan is always a positive thing. Giving-- giving a direction, you know--

BLOOD: Right.

JOHN WIDDOWSON: --three, five, or seven.

BLOOD: You know where you're going, exactly.

JOHN WIDDOWSON: Absolutely. You have to have the flexibility to adjust with whatever comes up. And that's one thing that I will have to share with the committee is that, you know, we are dealing with animals, we're dealing with animal disease traceability, that's gonna be something that--

BLOOD: And floods.

JOHN WIDDOWSON: --and-- and floods. I mean, sometimes, what our strategic plan is, it gets totally changed by Mother Nature.

BLOOD: Which is why in a strategic plan you always have a what-if section.

JOHN WIDDOWSON: Correct.

BLOOD: Right?

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JOHN WIDDOWSON: Yes, ma'am.

BLOOD: All right. Thank you very much.

JOHN WIDDOWSON: Thank you.

STINNER: Additional question? Senator Brandt.

BRANDT: Thank you, Chairman Stinner. And this maybe is more geared toward Danna-- it's an I.T. question. So we've invested in technology and it sounds like you guys have been using this for a little while. How do you get around the broadband connectivity issue in western Nebraska? Because I live in eastern Nebraska and, you know, we actually have people out here but we don't have any Internet. How do you guys manage that?

DANNA SCHWENK: It was definitely one of our biggest challenges. We ended up working through the state to try and find if they had a solution for us first, if there was anything that they could provide. And because of all of the rural locations and all the different services, they basically said, we can't help. And so we ended up going with MiFi hotspots, which is not always the best option. There are some limitations to it, but at the end of the day it was really the only option we had for probably a good 30 percent of our staff. That's why we ended up with a stipend, a monthly stipend, that would-- just went towards those folks that already had high-speed. We didn't want them to give it up. Those that needed to get a hotspot, that covered a

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good portion of what their-- the monthly bill was. And because our system is actually an off-line system, they can do the inspections out in the field; and it's only when they come into town, they can connect at McDonald's, the library, the bar, God forbid. But there's always an option for them, especially if it's a hotspot, that they can find the time at the end of the day to get all their inspections transmitted in.

BRANDT: OK. Thank you.

STINNER: If you could-- if you could say your name and spell it for the record.

DANNA SCHWENK: Sorry.

STINNER: We've got transcribers that need--

DANNA SCHWENK: My apologies. Danna Schwenk, D-a-n-na S-c-h-w-e-n-k.

STINNER: Any additional questions?

JOHN WIDDOWSON: May I follow up Senator Brandt on that?

BRANDT: Sure.

JOHN WIDDOWSON: We went with the MiFi Spots because after analyzing it, you know, our-- our thought process was that the staff inspectors would be able to swing through town or swing through a community and get Internet Wi-Fi, those kind of things. But at the end of the day,

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we started looking at, we're paying those people mileage. It was gonna cost. They're going to have to drive 25 miles one way to go to the library to use free Internet. And if you want to do that on a daily basis or every two or three days to upload your iPad, it becomes pretty economically viable that MiFi was the way to go. And so we've analyzed all those things. But some of those things, you don't know what you don't know. And we didn't know what wasn't going to work and what was. We tried to prepare for everything. But we didn't have the absolute crystal ball.

STINNER: Senator Vargas.

VARGAS: Thank you. Thinking and comparing to other similar states like ours that might have like a-- a Brand Committee like this, how similar or different are we to other Brand Committees, other states?

JOHN WIDDOWSON: Thank you, quest-- thank you, Senator, for the question. I'm going to let interim Dave Horton answer that. He's been with our agency for 45 years.

DAVE HORTON: My name's Dave Horton, D-a-v-e H-o-r-t-o-n. As he said, I'm the interim executive director. I've been involved with the-- what we call the International Livestock Identification Association, which includes 30-some states and provinces in Canada and a couple of states from Mexico. And involved in that there are roughly 11 states that have brand inspection programs much like ours-- excuse me-- all but

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two states are statewide, encompass the whole state. The only two states that aren't are South Dakota and Nebraska. They are what we call split states. And in regard to an earlier question, that reason that the eastern third of the state is outside the brand inspection area is because-- that's fine-- it's a county option. So if a county opts to be inside the brand inspection area, they can bring it to the Legislature and request that they be added to the brand area. And then we would provide services there. So, you know, as far as other states, like you said, there's 11 other states that have similar programs. And so, you know, we communicate regularly with those.

VARGAS: Using your analogy of registration and vehicles, is-- it's interesting to hear that other states have this across the entire state. And I can't imagine we would have sort of an opt-in system if you can register your car, be able to track it. So the question is: is it sound policy to have this be a half-- sort of part state versus whole state? Is-- is that some place that we should consider going to?

JOHN WIDDOWSON: It's a very viable question, Senator, and that's been brought up at every meeting and every-- there's obviously arguments for-- for both sides of that equation. But it does make-- it is a challenge. And I think Mr. Horton would say is-- we spend a lot of time and we spend, actually, have more investigations in the nonbrand area than we do in our-- in the brand area.

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VARGAS: OK. Last, it's not a question, it's just a statement. I don't know who keeps the minutes up to date on the site. I was trying to get a sense-- I was trying to figure out if I can answer this question through some of the meeting minutes I'd-- I'd updated because I-- 2019 minutes aren't on there, and it would be good for-- I don't know what we're required statutorily in terms of open meetings with the statute. But I-- we don't have 2018-- '19 minutes aren't up yet. Just trying to get a sense, so updating that would be great.

STINNER: Senator Dorn.

DORN: Thank you, Chairman Stinner. Thank you. I'm-- I-- I also raise cattle and I'm in the nonbrand area. So some of those questions were a little bit-- a little bit interesting, also. If I understand you right, though, we went from a completely paper-driven Brand Committee--

JOHN WIDDOWSON: Yes.

DORN: --to now we're trying to update to technology, so that at some point, someday, we will be all, basically, computer-based. We saw some of the costs in here, of additional costs that you didn't expect or whatever. Where are you at, maybe in this, you know, on a timeline to get to the end where we're all 100 percent technology-based? Where are we at in-- I guess, part of what I see the additional cost has been

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because some of those costs with the technology that you didn't anticipate or did-- weren't included.

JOHN WIDDOWSON: Sure, and Miss Schwenk and I will-- will tag team on this. The local inspections, as far as the inspectors going out in the country doing that, that's been fully implemented and fully viable. Every inspector has an iPad, so instead of writing it down on paper, they're putting it in an iPad. And then at the end of the night, or whenever they submit that, it goes to our database system and then it gets pushed out to everybody else. So the real-time factor is-- when's the-- when was the effect-- when were we all installed there?

DANNA SCHWENK: December of '17 is when our first-- first eye-- locals went in and we were completed with all of our local inspectors being trained and we're 100 percent on our locals by August of '18.

JOHN WIDDOWSON: And so since then, we've now implemented all the sale barns. And just recently, every one of the sale barns is up and live and going with this same system. So we've gotten through a major bulk of our transactional things on a daily basis. They are all completed and live and going. Now we are going to start incorporating the packing houses and those kind of things. The smaller pieces of it, we will now be implementing those as time goes on.

DORN: Part of what my question is, though, then-- going forward, what-- do you see additional costs maybe you don't know about or what?

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I guess, what's out there that, as we in Appropriations Committee look at this, and you come back and ask for more funding or however we do that, what might be in the future? And that's hard to answer but--

DANNA SCHWENK: Actually, it's not.

DORN: Great.

DANNA SCHWENK: If you look at the second page on the letter that we submitted, there's actually a breakdown of the 12-- 12 milestone steps that we are currently working through. And what I tried to do is put a percentage to each one of the line items to give you an idea, in the greater scheme of things, what is that in relation to being-- completing the project? And we are a good 75 percent done with this project altogether. So the remaining items below the line actually show just things like our-- our cutbacks, which are just the-- the receipt for cattle that were still on a document that needed [INAUDIBLE]. So we're finishing that one up. The brand book, the online brand book is in testing right now. And then we get down to our violations and our estrays, which are smaller sections. They only make up about 3 to 2 percent of our daily transactions. So that's why those smaller items were down near the end. We do not anticipate much more expense because honestly all of that upfront was just getting the iPads, getting the folks trained on how to use it, which make no mistake, was not a small task with our staff. And then on top of it

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was getting the Internet connectivity to all our locations. We only have really two packing plants that need to get that Internet connectivity. And other than that, all of our hardware is basically covered, all of our training is basically covered, and it's going to be a smaller amount of any kind of financial burden for the remaining sections of this project.

STINNER: I have a couple questions. One of them is: on January 31, 2016, you went from 75 cents to \$1. Based on the numbers that we have here, we're projecting another increase by 10 cents. How are your members going to respond to another increase in cost?

JOHN WIDDOWSON: Thank you for the question, Senator. And we're very-- we're very in tune to our producers. I think you could walk in here and have this room filled with producers that say they can't do their business without brand inspection. So then I turn around and ask them, I say, what are you willing to pay for that service? And there will be some people says, whatever it costs, we need it. And there'll be other people say, don't raise my cost, or can you run it cheaper? Obviously nobody likes costs to rise, but yet it's a-- it's a risk and reward, it's a gain for what it costs. And when you look at the scheme of things, when-- if you have a ranch and it costs you \$1 to guarantee ownership of that or if an animal gets "stoled", it doesn't take too many issues where you're way money ahead to pay \$1, \$1.50, whatever that cost is, to guarantee that you have a clean title to that animal,

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or if some of your cattle get stolen, that you have a-- a source to be able to find them. So everybody on this committee is a producer.

Everybody on this committee raises livestock. We pay that same bill.

So we're going to do it as fiscally as we can possible. But yet we want to provide a service that is the absolute best service we can.

STINNER: I can tell you that in my part of the world, we got a large-- lot of large feeders. I used to be in banking and they were customers.

JOHN WIDDOWSON: Yeah.

STINNER: They don't see the value proposition. And maybe the other people do. The other thing I want to ask-- trends on the livestock side generate how many head are out there, how many we inspect, those types of things. It appears that we hit a kind of a high spot of 4 million cattle or so in 2001, 2002. Trends have been somewhat down, a little bit stable. And I noticed our revenue was projected to be \$5.3 million. We ended up at about \$5,088,000.

JOHN WIDDOWSON: Yeah.

STINNER: Talk about revenue. Tell me numbers and how you're going to keep that revenue in place.

JOHN WIDDOWSON: Sure. So this year--

STINNER: How does that work?

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JOHN WIDDOWSON: -- for the fiscal year of 2018-19, we inspected about 3.4 million and change for cattle. That was the lowest number since 1991. But the thing that we have to keep in mind it's cyclical. It goes, it ebbs and flows with the market. Without question, it's-- it's not rocket science. It's simple economics: expenditures versus revenue. Our expenditures are-- are rising every year. We as a Brand Committee have no control over mileage that comes to us and what we pay out in mileage. I can tell you right now as a committee-- we as a committee lose about 300-and-some thousand, \$400,000 a year in the red in mileage. What we generate in a fee in a surcharge is \$10. But yet we pay mileage to our inspectors. So that is one line item right there that we know as a Brand Committee that we're in the red \$300,000 to \$400,000. Now, if we can potentially get statute legislation that we can now charge mileage versus a flat fee just to recoup our cost, there is a \$300,000 in the red line item that goes back to zero. So we know there's things in there, but there are cost structures that are passed on to us as an agency that we have no control over. Health insurance, retirements, all those things, we have no control. That \$1.33 per inspection, we generate a dollar? Yes. Can we be more efficient with time and comp time? Yes, and we are working diligently on that and we have proof that we are doing that. But at some point in time, we are not going to be able to cut staff to the point where we can break even because we cannot impede commerce. And we work seven days a week and through holidays. We don't work 8 to 5, Monday through

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Friday. And there are peak times of the year where we have to provide service. So we have to have enough staff at certain times that we can't impede commerce, where other times of the year we have too much staff. That is the ebbs and flows of agriculture in a cycle business. And we are going to try our darnedest to be as efficient with that, with technology being able to do that. Dan and our team, we've put in a electronic timekeeping program that allows our district to-- district supervisors to manage people. Before, our employees would do their timesheets, and they'd hand them in every 30 days after they were already done. You can have somebody over here that only put in 28 hours and this person put in 60 hours. We had no way to control that because we didn't measure until it was after done. Now with our iPads, because of the technology, they are on a daily to weekly basis putting in their timeline, time cards so that our district supervisors can see real-time what we're incurring. We can then manage those people and say, you know what? You're tapped out at 40. This gentleman over here has only got 22 hours. He's going to cover your area for the rest of the week. It's working. We got results. Our comp time payout is going down, our comp time incurrence is going down. We just implemented this in January. We-- we will get this where it needs to be.

STINNER: That's precisely where I'm going to, and I'm asking the cost structure. Your cost structure, given to us, was \$5.7 million, \$5.9 million. That's what you're projecting that you're going to-- you're

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going to need to run it. The reality is that you're only going to bring in \$5.1 million to \$5.2 million.

JOHN WIDDOWSON: Sure.

STINNER: So what we're trying to determine is, what do you cut? Or are you going to just spend down your entire cash balance? That's all we've been asking for. Give us a plan that shows the cost structure in compliance, in conformity with the revenue stream. That's my frustration. And believe me, I'm frustrated as you guys are, and you have to deal with it every day. Technology is a great tool. I'm 100 percent behind technology, 100 percent behind tech.

JOHN WIDDOWSON: Senator Stinner--

STINNER: But you have to prove up the numbers. Your revenue stream sits at \$5 million to \$5.2 million. You have to put your scot-- cost structure into that. And because you can't control overhead or something along those lines, you know, the reality is you're losing-- you're going to be losing a whole lot of money and it's going to go down fairly fast. That's what we're trying to get to. So give us a plan long term about that. From the Appropriations side, these guys are policymakers over here. Senator Blood.

BLOOD: Thank-- thank you, Chairman Stinner. Yeah, I'm sorry, everything I keep hearing keeps ringing, where's your strategic plan. And I know you guys want to be successful. That's not something that

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can wait two years; that's something that should've been done ten years ago. I want to build on a question about the large feeders. I don't want to spend a lot of time on this.

JOHN WIDDOWSON: Sure.

BLOOD: So since I know in my heart you're going to follow through on a strategic plan, do you have any suggestions as to salli-- salutary ways that you can maybe find that middle ground between your large feeders that aren't necessarily big supporters of the NBC and those of you that are big supporters?

JOHN WIDDOWSON: Absolutely and thank you for asking the question. I think my record-- you can go back and look at the record and how I voted in my four or five years with the Nebraska Brand Committee. I'm fully aware of a sector or a portion of our producers in the registered feedyards that are not happy with the service or the cost structure of the Nebraska Brand Committee. Completely understand that. I have continual conversations with-- with those producers and I am trying to be solution-based with them.

BLOOD: Can you give me an example?

JOHN WIDDOWSON: Yes. So when we went from 75 cents to \$1, my motion was to go to \$1 on all inspections but to leave the registered feedyard cost at 75 cents.

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BLOOD: Fair enough.

JOHN WIDDOWSON: We sent that on to the AG's office to see if that was-- we could do that within statute, and it was denied. OK?

BLOOD: So are you saying, if I hear you correct-- I have a 10 o'clock phone call, so I'm not trying to rush you. I apologize.

JOHN WIDDOWSON: Sure, sure.

BLOOD: So are you saying that, if there were not hurdles, that you feel that you might be able to find that middle ground, but right now the times that you've tried there's been hurdles that prevented you from doing that?

JOHN WIDDOWSON: Absolutely. We've-- we've-- we've tried to be solution-based. We tried to do that. There's two things: reduce cost structure or add more value. The whole EID part, that portion is going to add value. That is going to add value to not only the registered feedyards that are currently-- a lot of them are using that technology already, but it's also going to reduce our fee structure. You look at Senator Stinner. How are we going to cash flow this? I apologize today. I can't give you the magic numbers because if I give all of you numbers today, it's just smoke. We have not had the technology in place long enough to have good data to make good decisions, but we can already start to see the savings. But we do know it costs \$1.33 to do a business-- a physical, visible inspection and we get \$1. If we can

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implement EID, where all of a sudden a computer is doing that and we don't have to send somebody out there, we don't have to pay mileage, our cost structure is going to be considerably different. Considerably different. But I don't have those answers today, Senator Stinner, to tell you that in 2022 our inspection cost is going to go from \$1.33 to 90 cents because we've now implemented the EID program, it's up and running, and we have a 28 percent penetration level, that 28 percent of our producers are using this technology. That's-- that's one of the biggest questions. We offer EID as a voluntary form of proof of ownership. What's going to be the penetration level? A hundred percent of our producers? Tell me what percent of our producers are going to use that technology. I will then be able to project to you what our cost savings are.

BLOOD: So--

JOHN WIDDOWSON: I don't think I or anybody can project that.

BLOOD: --to-- to build on that-- I don't mean to keep hitting you over the head but-- this is good for both the policy--

JOHN WIDDOWSON: Sure.

BLOOD: -- and-- and the appropriation side. That's why you do a strategic plan. And when does-- when does your fiscal year go from? September--?

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JOHN WIDDOWSON: June 30-- June 30 to July 1, yeah.

BLOOD: June to July?

JOHN WIDDOWSON: Yeah.

BLOOD: So--

JOHN WIDDOWSON: I mean, July 1 is the start, you know.

BLOOD: Prior to June.

JOHN WIDDOWSON: Yeah.

BLOOD: It would have been really beneficial, especially prior to this hearing, to have your strategic plan. Everything that you're talking about that you say you can't get a grasp on is why you do a strategic plan. And-- and don't bring somebody in and waste \$20,000 on it, you know. Find an expert from one of your local universities that I'm sure would probably donate their time. But I'm asking you as a policymaker that when something is this important, I want to see your road map. And that's what a strategic plan does. And a lot of these questions that you can't answer-- and-- and thank you for being so forthright-- you would be able to answer within reason at least, because you are going to do your five-year, ten-year. You can do a guesstimate and then you, as you get numbers, you revisit that. And then you can hand that to Senator Stinner and say, this is where we're at. And here's

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the flow sheet that goes along with our-- our map, our road map to success.

JOHN WIDDOWSON: Senator, you have my word that a strategic plan will be a high priority and it will be in place and we will work on it as diligently as we can to get one in place.

BLOOD: Thank you. I will not preach that anymore.

JOHN WIDDOWSON: No, no, that's OK. I need to be hit over the head a few times my-- you know. So that's OK. So--

STINNER: Senator Halloran.

HALLORAN: Thank you, Senator Stinner. For the clarity for the joint committee, who may or may not be aware of the basically two customers that you have-- you have cow-calf operators, right? And you have feedlot operators.

JOHN WIDDOWSON: We have dair-- we have dairy, lots of dairy.

HALLORAN: And dairy. And could you explain, real quickly, how you treat, how you deal with brand inspections for the cow-calf operator? And what you do with dealing with brand inspection as such with the feedlots, so that they understand what the pay scale or the pay rate--

JOHN WIDDOWSON: Sure.

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HALLORAN: --charge for that is?

JOHN WIDDOWSON: So for everybody here-- by statute, we are in charge of brand inspection. We also have a registered feedyard program that is available to-- to anybody that's feeding cattle in a confinement situation. It's a voluntary program. We have a set of criteria that you have to meet in order to be in that. And it's a permitted thing. You get a permit to be a registered feedyard. With that being said, if you have a-- you have the ability to be in that or not. So we have feedyards that are not a registered feedyard, so they fall under the same inspection guidelines, rules, statutes that every other producer does too. That's their choice. You talked about the registered feedyards. The people that have chose [SIC] to be in this-- in this program, there are some benefits. There's definitely benefits to them as-- as a registered feedyard. Our statute right now and our policies right now, we can only do brand inspection from sunrise to sunset. We all know in the registered feedyard business, these cattle are getting shipped 24 hours a day. For us to do an inspection, we have to visually inspect every single animal. Can you imagine running a feedyard that has 50, 60,000 head of cattle down an alleyway to be inspected? That does not have to be done in the registered feedyard program. We are basically doing an audit. Now, it is a requirement to have all those cattle inspected into that registered feedyard, so that we know going in to a confinement area that they are who they are and

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they are what they said they were. Now we go back and audit the records. The fee schedule on the registered feedyard program is-- the average one-time capacity for the last four quarters is what we charge them. So if the average for the last four quarters from your anniversary date is, say, 50,000 head, we charge you \$1 for 50,000 head. Most feedyards, you will see, fill that feedyard 2 to 2.3 times. I have a list of just seven random feedyards that are in the registered feedyard program. They charge-- they were charged a one-time capacity on their average. But when they-- when we find out what their totals were shipped out, they're paying anywhere from 38 to 51 cents a head. All of our other inspections, everybody else in the country, is getting charged \$1 per head. So-- so you have all these other people that are saying, the registered feedyard people are getting charged half the price. Now the argument comes back to is, we're not out physically inspecting those cattle either. We're providing a different service. Therefore we can justify a different cost structure. But if a registered feedyard doesn't like that cost structure in the program or doesn't like that service, they can voluntary go out of that service and go back to full inspection. But they don't. They don't want to have to sort all their cattle from 8:00 to 5:00. They don't want to incur all that shrink and they don't want to pay \$1 a head. So we as an agency have tried to be flexible with our industry, to not impede commerce. And we understand--

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HALLORAN: [INAUDIBLE] If I could interrupt a little bit. They have a choice but they really don't have a choice. To your point, if they opted to have each-- each of the animals brand inspected, there would be a huge amount of labor costs for them and then a huge amount of shrinkage and everything else, so it's really not a choice.

JOHN WIDDOWSON: Uh-huh.

HALLORAN: Right? They end up-- they end up opting for the audit, which is three or four times a year.

JOHN WIDDOWSON: But they do have a choice because we have other feedyards that are choosing to be inspected.

HALLORAN: Well, it could be, but it depends on the dimension of the feedyard, right?

JOHN WIDDOWSON: Well, there's-- there's-- there's a lot of different reasons for that. If you were a custom feedyard and your clients want to have brand inspection because they want to make sure that their cattle that you're-- they're paying for to be fed, they want proof of ownership. They want to make sure that their cattle are there, they want to make sure their cattle are getting sold.

HALLORAN: Which brings up another question. Your-- your mission is to authenticate ownership--

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JOHN WIDDOWSON: Yeah.

HALLORAN: --primarily, right?

JOHN WIDDOWSON: Yeah.

HALLORAN: So can you give us some record of-- some data indicating how many-- how many have been penalized for not having ownership of the proper cattle?

JOHN WIDDOWSON: I'll hand this over to Dave. He's got that data.

DAVE HORTON: I think I know what your question you want is. In there it shows that our investigations-- what our three investigators-- we have three criminal investigators that provide that service and-- and do that, they did a total of 66 investigations and there's never been anything that would have been a violation of any of the statute regulations that we are supposed to uphold that had also any theft or abuse cases or anything that they were involved in. It tells them that they-- how many court cases over this past year, how many written warnings, verbal warnings. We do some verbal warnings because it's an educational process and you run into some people that don't really realize what they have done is against statute. We work with a producer to try to educate them. And so I think that's what you--

JOHN WIDDOWSON: What's the dollar amount on the average?

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DAVE HORTON: On-- on our recovered estrays-- over the last several years, it has averaged a million dollars we have returned to producers on estrays or stolen cattle that we have recovered. So this year was down a little bit, but over the last 10 years or 12, it's averaged right at a million dollars a year that is returned to producers and [INAUDIBLE] --

HALLORAN: [INAUDIBLE].

DAVE HORTON: That includes the ones that are stolen and the stray cattle that we pick up [INAUDIBLE].

HALLORAN: All right. I appreciate that. Real quickly, I, you know-- the issue of the feedlots versus the cow-calf and the rates that they're charged-- can-- can you--? And if I'm-- if I'm mistaken correctly-- please correct me, but your exploration of integrating brand inspection with the EID system is part of the effort to resolve some of that concern, right? Can you explain to me how-- how that will resolve the issues between-- that the feedlots might have versus the cow-calf operators?

JOHN WIDDOWSON: Well-- and we tried not to pin one sector of the industry against the other. We're-- we're representing them all. And so we want to give everybody the-- the fair opportunity and quality of our service. So again, it's-- it's the EID is going to eliminate-- has the potential to eliminate some of the actual physical inspection,

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which-- which is going to reduce the cost structure and we want to pass that cost structure on to not only registered feedyards, but cow-calf people. If it's good for the registered feedyards, that service needs to be provided and good for the cow-calf people. And so we're trying to bridge common good business practices that doesn't just benefit one sector versus the other. And that's why we're providing the EIDs. The registered feedyards currently-- that sector of producers are currently using the EIDs much more than the cow-calf. So their-- their initial gain from that is gonna be much greater.

HALLORAN: So in the free market, the-- the feedlots are-- are-- further in on using the EIDs?

JOHN WIDDOWSON: Them and the dairy. Yes.

HALLORAN: And the dairy?

JOHN WIDDOWSON: Yes.

HALLORAN: Your response to question 6 of the letter, of the inquiry letter, suggests a great deal of planning has already occurred in moving into EID, electronic identification. Can you name individuals that you worked with and where exactly the concept is in terms of implementation?

JOHN WIDDOWSON: Dave and Danna and I have been through numerous meetings. We are in the research and development stage. We're talking

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anywhere from what kind of tags, how you do that, all the way back to the back end database and how we protect producers' information, who holds that information, and how we can make it industry-available so that no matter where you're at in the chain, you're able to put data on that. And so we've met with people. We've met with eight or ten different companies that are in the blockchain type format, whether they're in commodities with corn or soybeans or granola. We-- we visited with lots of these different people to look at how they handle that. So every week, every month, we are gaining more and more knowledge of what kind of direction we want to go. Danna, you want to add something more to that that I missed?

DANNA SCHWENK: I-- I think John's right, that we need to have a solid foundation. As Senator Blood said, we're having a game plan that is going to be well-thought through instead of having to come back and change what our game plan was. Because when this breaks, this is going to be a big deal in our business, and we need to make sure that we have all of our i's dotted, our t's crossed. So governance is going to be one of the most important structures that we look at first and how we build this, how we have that proprietary, private database for the individual data versus what's actually stored in our government database for all of our brand inspections, and then how we do that audit between the two systems. So these are some very technical situations that we've got some really great people, included--

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including Deloitte Touche, and we've got some-- some current blockchain providers that are very excited to work with us. They see the beef business and what we're doing as very progressive and definitely a milestone for what the industry in general across the United States and the world is actually looking at. So we're definitely under a spotlight right now with a lot of those technology companies.

JOHN WIDDOWSON: We've met with Mastercard, we've met with John Deere, we've met with Wal-Mart, all these other businesses that are using blockchain technology-- I hate to say it but--

HALLORAN: So will it be--

JOHN WIDDOWSON: --we're doing our strategic plan on the fly so--

HALLORAN: Will it be on a voluntary basis, then, those EID tags?

JOHN WIDDOWSON: Absolutely. EID will be no different of a proof of ownership form--

DANNA SCHWENK: Evidence of ownership.

JOHN WIDDOWSON: --evidence of ownership than all the other things that we have. Hot iron, freeze, anything. It's-- it's completely voluntary.

HALLORAN: So you'd be running multiple systems of authen-- of authenticating ownership, then.

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JOHN WIDDOWSON: Just like we currently do today. We're just adding one more tool to the toolbox.

HALLORAN: And the cost of that is? Do we have some good projections on what that will be?

JOHN WIDDOWSON: Not at this-- not at this very moment. I mean, the-- we might have to have some readers you know, that's going to actually read the EID. But at the end of the day, it's not our responsibility to have branding irons and all those other kind of things. So all that cost structure to use EIDs as the form of proof or evidence of ownership is still going to be on the producer. We just might have some in-- actually reading that. But that's part of what we are working on is what is that cost structure.

DANNA SCHWENK: USDA is actually implementing a mandatory for their brucellosis program with EID tags going forward that by 2023, they will have done away with the metal tags and all veterinarians will be administering EID tags. So for us, this is just a add-on to what USDA is already implementing. And if we've got producers that are going to be utilizing that technology, we want to create that value-added basis that if they've already got to do it, why not be able to do a brand inspection for a reduced price that provides them something else for having to have gone through the pain of it? That's how we were looking at this.

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HALLORAN: It's always a cost-benefit relationship, right?

DANNA SCHWENK: True.

HALLORAN: But until we know those figures, I mean, we're just talking blue sky.

DANNA SCHWENK: Until we actually establish who our vendor is going to be with our blockchain because there is a cost for being on the chain, all right? So until we actually start--

HALLORAN: So what is that cost?

DANNA SCHWENK: It-- it varies greatly--

JOHN WIDDOWSON: Varies.

DANNA SCHWENK: --between all of our different providers. There's public ledger systems and there's private ledger systems. And so depending on if we can have a private ledger system that we do all of our initial transactions on that and then only financial transactions need to get written to the public chain, there is a massive cost difference between those two.

JOHN WIDDOWSON: And that will be a user fee. So if a producer wants to use that public chain with keeping track of feed intake or all that stuff, he's going to pay for that. You know, that's going to be an add-on cost that-- that that producer will pay for. We want to build

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the platform that producers can use whatever data they are using. It goes right onto the brand inspection portion of that.

STINNER: Senator Moser.

MOSER: Well, I have some kind of fundamental questions about how this branding system works, so let's start with the the cow and calf operations. Do they pay on the cow and the calf, the fee?

JOHN WIDDOWSON: So the inspection--

MOSER: Individually?

JOHN WIDDOWSON: The inspection would be only on the animal that you are marketing or selling. So if you're transferring ownership of an animal, if you're going to sell a cow and calf together, that's-- that's two. If you're just selling the cow, it's just one. So--

MOSER: So they don't pay. And-- first of all, is this annual? Or when-- is this only paid when the ownership changes?

JOHN WIDDOWSON: That's correct. Or if you [INAUDIBLE]--

MOSER: So it's like title insurance on a house?

JOHN WIDDOWSON: It's-- it's when you have a change of ownership, you know. That's when you need-- or if you leave the brand inspection area, you want to come back in, then they got to be inspected to come back into the brand. So we do have a portion of our inspections that

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are nonchange-of-ownership. You leave the state and you want to come back in the state, they've got to be inspected to come back in the state.

MOSER: So-- so if the rancher's selling calves to somebody to-- to feed them, that's when they'd pay the brand inspection fee?

JOHN WIDDOWSON: So if I'm-- if I have a 100 cows and I sell my 100 calves to-- to Danna, when we do that transaction, a brand inspector comes out, inspects those 100 head. Me as a seller pays that. That brand inspector gives them a title copy that says John Widdowson has sold 100 head of cattle to Danna Schwenk. That is now her title, just like your title on a vehicle.

MOSER: OK. And then, when he sells them to a feedyard later to feed them up, then that process happens again?

JOHN WIDDOWSON: That's correct.

MOSER: And then when the feedyard sells them to the slaughterhouse, they pay that fee again?

JOHN WIDDOWSON: In a registered feedyard situation, if they're in that or-- no, they do not, because it's an audit situation, so they don't have to pay it again. But if you are not in that program, every time there is a change of ownership, just like every time there is you sell

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a vehicle, every time there's a new owner of a vehicle, there's a new title and a new fee.

MOSER: What would happen if you didn't inspect brands? If you just let the producers, the ranchers, the feedyards-- what if you just let them operate free will, and what would happen?

JOHN WIDDOWSON: I think everybody in this room can only imagine what could happen. I mean, there's been-- there's been cases in South Dakota, Kansas, and Colorado in the last six months of huge embezzlement. There's just one in the newspaper last week of somebody in Colorado was selling \$140 million worth of cattle and he never owned an animal.

MOSER: So who-- who lost the money: the bank or the--?

JOHN WIDDOWSON: The producers.

DANNA SCHWENK: The investors.

JOHN WIDDOWSON: Yeah. I bought 1,000 cattle from Danna. And I sent her and wired her the money, but I never had no proof that I actually got anything.

HALLORAN: Don't ever do that again, Danna. [LAUGHTER]

MOSER: Oh, thank you.

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STINNER: Senator Bolz.

JOHN WIDDOWSON: To answer your question, it would be-- for lack of terms, cowboy logic, the Wild Wild West.

STINNER: We-- we are running short on time. Keep your answers as concise as you possibly can. And your questions as well.

BOLZ: Yeah, I'll try to be brief. A-- a yes or no will-- will be just fine here. You have full authority up to \$1.10 to set your fees, correct?

JOHN WIDDOWSON: Yes.

BOLZ: You can increase or decrease. Correct?

JOHN WIDDOWSON: Yes, ma'am.

BOLZ: And currently, your cost of inspection is 33 cents more than what you're charging for inspection, correct?

JOHN WIDDOWSON: Yes.

BOLZ: OK. And do you agree with Senator Stinner's analysis that increasing that to \$1.10 will increase your revenue by \$362,000 per year? Is that accurate? Do you agree with it?

JOHN WIDDOWSON: Yeah. Yeah. It's gonna be 10 cents of-- the number of head. Yeah.

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BOLZ: OK. How many producers total in the state? How many producers are you working with?

JOHN WIDDOWSON: We have over 33,000 registered brands.

BOLZ: OK. It just-- it seems to me that-- that guaranteed income would help you in the short term no matter what. And given all of the uncertainty, why wouldn't you lock down that income?

JOHN WIDDOWSON: Why wouldn't we?

BOLZ: Why wouldn't you?

JOHN WIDDOWSON: And this is the short answer. We've made mistakes. Me as a chairman, being a freshman committee member, I didn't know and understand the state budgets and getting budget spending authority. Our cash reserves have went in my-- under my control as chairman, we went from \$1 million to \$2.6. All of a sudden, a couple of years ago, they want to take our cash reserves. So-- and-- why does it make sense to raise our fees and keep raising our cash reserves, when it's just strictly a cash flow that we-- we haven't done a good enough job because of my lack of knowledge of state-- state government, of being able to u-- utilize--

BOLZ: Uh-huh.

JOHN WIDDOWSON: --the revenue that we're generating?

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BOLZ: Uh-huh.

JOHN WIDDOWSON: So we're trying to moderate to our producers that we're running this fiscally, so we're not going to just take whatever we can. It's-- to me, it was hypocritical to increase our fees and just keep raising our reserves.

BOLZ: Uh-huh.

JOHN WIDDOWSON: We did increase our reserves or our fee from 75 cents to a \$1, because in my mind as a-- as a producer, private business, you can't spend it if you don't have it.

BOLZ: Uh-huh.

JOHN WIDDOWSON: So we generated the revenue so that we could pay for the technology and all those things, so that's my short answer.

BOLZ: So-- so in spite of your observations about the cash reserve, the cash flow that Senator Stinner has put in front of us still shows that your cash reserves are going to-- are going to--

JOHN WIDDOWSON: Diminish.

BOLZ: --are going to diminish, go down to zero over a period of years.

JOHN WIDDOWSON: Yes.

BOLZ: So-- help me reconcile those things.

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JOHN WIDDOWSON: Well, in-- in the projections, it's still with a cost structure starting out at \$1.33 with 2 percent increases and our revenue staying the same because we're tapped out at \$1.10.

BOLZ: So--

JOHN WIDDOWSON: So unless the legislation gives us the ability to go up--

BOLZ: Just to be-- to wrap up because I don't want to take too much of your time. At what point will you-- what is the signal that you'll-- you'll throw the flag and say, we're going to have to go ahead and increase this because we don't have the answers? What I don't want is for next year when-- when I'm not even here anymore and, you know, the-- the next committee comes in and you're coming in to say, we need help managing all of this because we never hear the flag and said, we need to make the hard choice to increase the revenue.

JOHN WIDDOWSON: Great question. An internal policy with the Nebraska Brand Committee that was shared with me as a freshman committee member was, there is an internal policy that we like to keep a 20 to 40 percent cash reserve of our annual budget expenditure. So when we get below 20 percent of our cash reserve to budget expenditure, we raise fees. Once we get above 40 percent of cash reserve to annual expenditures, we lower the fees. Now we went above 40 percent because

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we knew we had big expenditures. One thing you got to remember, we had huge liabilities on our books [INAUDIBLE].

BOLZ: So-- sorry. Just to expedite us. Your answer is if you get below 20 percent in your cash reserve, you'll raise fees.

JOHN WIDDOWSON: That has been the standard procedure for the Nebraska Brand Committee.

BOLZ: OK. Thank you.

STINNER: I want to make two statements. One of them is: I have no intention nor does these committees have intention to get rid of branding. I hope everybody understands that part of it. And I will comment on the director's comments about the value of estrays; 466 were recovered at what you say is \$638,000 of value. That's \$10,855 a head. If I reflect back on the four years you're either \$4,000 or \$5,000 a head in value. That makes no sense to me. I would hope that in the future, you would take a look at what that is and reflect the appropriate valuations. That said, we have three more testifiers coming in and we're running out of time. But thank you for your time. I know that this wasn't the most pleasant situation you've been in. But I appreciate you coming here. I appreciate what you're doing, technology-wise and et cetera. So thank you.

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JOHN WIDDOWSON: We appreciate-- we work for you guys and the producers. We thank you for your time.

[BREAK BETWEEN TESTIFIERS]

STINNER: Morning.

MELODY BENJAMIN: Good morning. Good morning, Chairman Stinner, General-- Chairman Halloran, members of the Appropriations Committee, members of the Ag Committee. I'm Melody Benjamin, M-e-l-o-d-y B-e-n-j-a-m-i-n. I'm on the staff in Nebraska Cattlemen. I live in western Nebraska. As part of my duties for the Nebraska Cattlemen in the last 20 years, I handle brand policy. I've attended most of the Nebraska Brand Committee meetings over that 20 years-- their quarterly meetings, their emergency meetings, their budget meetings to be there-- to be there to give input from-- to producers' point of view. We have a long history with brand and with Nebraska cattlemen. Our predecessor organization, the Nebraska Stock Growers, was founded in 9-- 1888 for the specific reason of establishing rules for brand recording and brand inspection to stop theft in western Nebraska. Our membership is still engaged as the Nebraska Brand Committee is a cash committee agency, and that's our members' cash that they're working with. Nebraska Cattlemen has had a policy for several years that held that the Nebraska Brand Committee needed to become more modern, and we applaud the move to the electronic system to get a better handle on

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what their employees are doing and accounting for funds in a more logical manner. Through the years, when questions have been raised regarding staffing needs, they had no way to manage it, no way to monitor it, because they didn't have good data. I see changes in this area already, as they haven't been implementing the different stages of the system. They have added some positions that were needed to better manage their employees, their expenses, and to improving communication with their employees. Efficiencies are starting to be accrued. For example: less time at the sale barn doing closeouts because now it's not on all paper-based system and it's electronic, is reducing amount of labor they need at those sale barns. The Brand Committee is now able to control their comp time. Those of you that have been around for a while realize that the auditors consistently concerned with the amount of comp time that was accrued, and they are now able to manage that. And one of the things that's helped the most is that new layer of district supervisors that they added to the organization structures. Now there's someone there to monitor who's working where, when they're working, and if they're starting to accrue comp time and make your decisions on not even allowing that to happen. There is potential to reduce the workforce as more data is coming in. They're beginning to decide where the work load is and where the needs are, and now they have something to analyze. I don't think anyone was prepared for how tough it was going to be to convert from an all-paper system. As you heard, the Brand

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Committee was started in 1941. Up until that time, the Stock Growers did manage brand inspection and the-- in the inspection area, and it was ruled that it was unconstitutional for a private organization such as ours to do that. So the Brand Committee was formed in '41. And basically, until they started this new system, every process was still done in the same way. All agencies have incrementally increased their technology. The Brand Committee didn't. No one anticipated how tough it was going to be to train their employees. Most of those brand inspectors are pretty darn good with a rope and a horse and a cow, but they're not that good with a tablet, and it took a lot of work for them to get them trained. So there was a lot of upfront costs. There are three divisions in the brand-- Nebraska Brand Committee. There's inspections, which you've heard a whole lot about; there's the investigation part; and there's recording, recording an investigation or statewide proposition. It's not just in the inspection area. The recording fees in the state of Nebraska, by comparison to other states, are quite low. There might be an opportunity to generate more revenue in these areas. There is concern that people will decide not to reregister their brands. If the fees are raised, some will not, but history says a majority will pay a higher assessment. The committee is challenged by mileage, and they-- you heard that discussion earlier. Perhaps we could cha-- charge producers the exact mileage that it takes to come to their operation. I know South Dakota does this, and I think it'd be worthy of looking into. Trying to cut out a whole bunch

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of stuff here [LAUGHS]. You've heard about the-- the registered feedyards. [RECORDING MALFUNCTION] inspection to help them make sure that their strays come home. We have stocker operators, which probably they have the most at stake here because those little guys tend to wander more. So this is a tough issue to tackle. We, we support making changes here. We want to see things develop in an equitable way. We're just not sure what that equitable way is. We want to stay engaged and we would like to stay at the table to help find the answers, and I will be glad now to answer any questions.

STINNER: Questions? Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Miss Benjamin. The Chairman Widdowson said they have 33,000 registered brands when he was asked how many producers there are. Are there that many producers?

MELODY BENJAMIN: I think the Department of Ag says there's 20,000 cattle producers in the state of Nebraska.

CLEMENTS: Right.

MELODY BENJAMIN: And of course, I myself have several brands registered so the reflection of number of brands to, to producers is a little bit off and I know people that do not own a cow that register a brand because it's a family heirloom.

CLEMENTS: OK, you're thinking about 20,000 actual producers?

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MELODY BENJAMIN: I think that's what the Department of Ag's number says.

CLEMENTS: Thank you.

STINNER: I have a couple-- an observation and a question,--

MELODY BENJAMIN: Sure.

STINNER: --but I'm looking for alternative strategies here. But when I look at brand renewal, transfer, expiration and reinstatement, we've got \$343,000 we charge for brand renewals, \$38,800 for brand transfers, expired and reinstated \$62,000. That's about \$450,000. On a functional basis, I look over at recording cost, personnel plus operating is about \$81, \$82,000. So this is actually sustainable generating a profit and obviously holding up some of the other costs associated with this. Is there another alternative that says we want to keep recording and the ownership and want to continue to brand but make it a voluntary inspection process?

MELODY BENJAMIN: I would say among our membership, we're split on that. We have members, of course, inside and outside the inspection area. The members that are outside the inspection area find little use for inspection because they've never dealt with it. My members that are in the inspection area, this would be one of the issues that go to

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the mat on because they do believe the inspection helps protect their asset.

STINNER: Them going to the mat tells me they're willing to pay more,--

MELODY BENJAMIN: I--

STINNER: --and maybe pay the fee for that.

MELODY BENJAMIN: --well I'm sure they tell me, no, they're not willing to pay more. But, yes, I think, I think in a general term that they see-- if they see value in it they're willing to pay more.

STINNER: OK. OK. Senator Halloran.

HALLORAN: Thank you, Chairman Stinner. So you have, obviously, members in and outside the inspection area, and I meant to and I should have asked Mr. Widdowson the question. So outside the brand area--

MELODY BENJAMIN: Um-hum. At the inspection area-- outside the--

HALLORAN: --inspection area, excuse me, they can, they can request to be brand inspected?

MELODY BENJAMIN: Yes. Yes, they can if they choose to.

HALLORAN: Do you know-- and it's not a fair question maybe to ask you, but do you know does that happen often that--

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MELODY BENJAMIN: I don't know the frequency. I know it has happened, and I know that several times lenders are the ones that request that.

HALLORAN: Then they should pay the fee.

MELODY BENJAMIN: And they do. There is-- that is the structure that they do pay the fee.

HALLORAN: Well my-- I guess, it's not a fair question to ask you and I should have asked the previous testifier. But, but if people outside the inspection area aren't asking for the inspection then it's a question of whether or not they see value in doing that for the fee they're being charged. But when you're in the inspection area, you-- it's, it's basically mandatory, right?

MELODY BENJAMIN: It is mandatory. I, I don't know the numbers. I can just secondhand from what I heard in their committee meeting recently, they did have a lot of time for their investigators coming out of the inspection area to look at carcasses after the flooding. So that-- and I'm--

HALLORAN: Under that--

MELODY BENJAMIN: -- and the investigative branch is statewide, so I do know that they had expenditures there.

HALLORAN: OK. Thank you.

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MELODY BENJAMIN: Um-hum.

STINNER: Any additional comments? I'd have one more question.

MELODY BENJAMIN: Sure.

STINNER: Wouldn't you think that you would want to make it mandatory that everybody goes to the electronic data identification system that would cut your inspection fees considerably wouldn't it? You'd sit in an office and kind of be able to access that. I mean, it takes telemetry and, and--

MELODY BENJAMIN: Right.

STINNER: --technology.

MELODY BENJAMIN: As soon as the technology and the broadbands get out there.

STINNER: How much money would the producer have to spend to do that? And are you pushing the cost off on the producer [INAUDIBLE] there benefit to that?

MELODY BENJAMIN: Currently, there's no mandate for electronic anywhere. But as, as we move forward and USDA is going to require at least on cows and-- cows and bulls crossing state lines to be electronically ID'd. I see somewhere down the future feeder cattle will be added to that. As that comes on-line, of course, that's an

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expense producers are already incurring to get those cattle tagged. At that point, yes.

STINNER: But that would be a cost solution to the committee.

MELODY BENJAMIN: That would be a cost solution. But that's a ways down the road yet.

STINNER: OK. Thank you. Additional questions? Seeing none, thank you.

MELODY BENJAMIN: Thank you.

STINNER: Senator, this is only invited testimony.

AL DAVIS: I'm with the Independent Cattlemen, Senator.

STINNER: Pardon me?

AL DAVIS: The Independent Cattlemen. Mr. Dinklage couldn't come today.

STINNER: I got a-- do I have somebody? OK. Jim Dinklage was supposed to be here. OK. Go ahead, Senator. I'm sorry.

AL DAVIS: Good morning, Senators. Al Davis from Hyannis, Nebraska. I'm the treasurer of the Independent Cattlemen here today to testify for our president, Jim Dinklage, who couldn't attend today. So I'm gonna just talk extemporaneously a little bit. I was the person who introduced the bill a few years ago to raise the rates to \$1.10, and the original bill was set at a \$1.25. Senator Bloomfield, I think, had

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some opposition with that so we reduced it to a \$1.10. And I wish we hadn't done that at the time but we thought that a \$1.10 would satisfy the needs of the committee to do some of the modernization work they've, they've been taking on. I don't think anybody anticipated the amount of difficulty that the committee had in terms of the broadband issues that Senator Brandt talked about. And you're training a lot of people-- there are a lot of volunteers-- not volunteers, there are a lot of part-time people that work for the Brand Committee, many of whom are 70-years-old. So this was a whole new learning curve for all these people. This brand-- the brand service is probably the most highly appreciated and valued offering that the state has in western Nebraska. Anybody who's a producer is very supportive of it. You can take-- you can go back in time and look at the surveys that were done, and I'll see to it that you get those. But it's extremely appreciated, extremely valued. There were some questions earlier about-- you know, is it necessary? And I've always-- it's kind of a little joke that I always say about it, but I say what does it keep honest people honest. Because if there's no inspection, cattle can cross fences and do one thing or another and you'll want to get them back to your neighbor. Well, I'll get that done. It doesn't always happen, but brand inspection is a good thing. And it's a policing tool which is very valued. I want to talk a little bit about the registered feedlots because that issue has come up many times and we've got new people on the committee that-- on these committees that don't know about that.

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So the registered feedlot program is an opt-in program. It's not-- anybody who has a feedlot has to go to the Brand Committee and say, I'd like to be a registered feedlot. There are some rules and requirements that they have to meet when they do that. But there are some benefits to them, of one of which is they don't pay the same fees that inspectors do on the ranch. They pay based on their one-time capacity of the feedlot. So a one-time capacity-- if you turn your feedlot one and a half times, your fees are about a third less than everyone else's. If you are a regular feedlot or a ranch, you are required to inspect those cattle during the daylight. They have to be clean. You have to be able to see that brand. So you-- they may have to be washed. They have to be run by the inspector. That's not the case in a registered feedlot. The animals aren't done. More than--more interesting than anything though is a survey that was done, I believe it was 2015, of the registered feedlots and a large percentage of them said they were very happy with the arrangement that they had, they liked what was going on. So there are a few that feel that their fees are too high. But I would remind you that if you end up reducing those fees substantially, you're gonna drive all the other feedlots into the registered feedlot program that aren't in it today, therefore, reducing the fees and so you end up with a cascading movement going down. I think that's something you ought to think about. You heard talk about mileage. I think that makes a lot of sense. There are costs that are associated with brand inspection. If you're 60 miles from

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town, and maybe my members wouldn't support me saying this, but if you're 60 miles from town that inspector is gonna incur a mileage cost plus salary costs getting there. So those ought to be recoupable from the producer in the country. I want to commend the committee, there was a tremendous amount of turmoil that took place some years ago with the prior inspector who was in charge of the enterprise. The turnover on the board, I think, they've gotten a lot of their problems solved. And as I said, this is a highly respected procedure. Also I would say if you look at other states, you'll find that a \$1.25 is probably not out of line. Let's remember this about brand inspection, it's the western states that use it largely because a lot of those cattle are out on the, on the range, that's the way western Nebraska is. And to Senator Lathrop's question about all-state brand, that was a bill I also introduced. And I see I need to wrap up, but-- you know, on, on the western edge of the brand inspection area it was overwhelmingly supported that we go to a statewide brand inspection area. On the eastern end when we went to West Point, the answer was, we don't need that. I always laugh-- one of the gentlemen who was with us said, you know, he says he doesn't need that but I'll bet he locked his car when he came in here. So thank you very much. Independent Cattlemen's very supportive of the current system in what these people are trying to get done.

STINNER: Thank you. Questions? Seeing none, thank you.

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AL DAVIS: Thank you.

STINNER: Sorry, sorry for the mix-up.

AL DAVIS: No, no problem.

STINNER: I was looking for somebody else, so. Good morning.

JACK LAWLESS: Good morning, Chairman Stinner, Chairman Halloran, members of the Appropriations and Agriculture Committees. My name is Jack Lawless, that's J-a-c-k L-a-w-l-e-s-s. I'm actually general manager for Gottsch feeding company. The feed yard manager. I live in Hastings, so Senator Halloran, that's your area. I want to begin by thanking Chairman Stinner for the invitation to chair-- share my perspective which is our company operates both sides of the line. We have a feed yard in the, in the area and out of-- two of them out of the area. Before I begin, I want to touch briefly on the history of our company. This morning's conversations are very important for the work we do and our ability to remain viable and competitive. Like many successful businesses across this state, Gottsch Cattle Company began with one man's determination and grit in 1957. Sixty years later our operations span from Nebraska to Texas and we have positioned ourselves as one of the leading producers in the country. While the spirit of Gottsch Cattle Company remains very true to our founder's vision 60 years ago, the industry has benefited from new innovation and precision agriculture. Many of the producers across Nebraska are

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leaders in the industry in modernizing feed yards, animal health systems, safety, and equipment. Over the last six decades our business has changed a lot. New technologies enable us to, to ensure accuracy with our animal health and delivery of feedstuffs, also a shift from a regional to an international economy. Nebraska consistently ranks among the top five states for beef production and we, we toggle back and forth with Texas of being the number one state with cattle on feed. We import Nebraska beef to dozens of countries across the globe. And producers like us provide jobs, benefits, and competitive salaries to hundreds of employees in Nebraska. We're proud to live and work in rural Nebraska, and many of our sons and daughters work alongside of us. While agriculture remains our state's top economic driver, we're not immune to changing technologies and ways of doing business. We have not only modernized equipment since 1957, but also how we sell and trade cattle. This is why the Brand Act and inspection fees need to be closely evaluated. It seems almost daily there's new news coverage of lower commodity prices for corn and cattle. And when coupled with ongoing international trade discussions, we're looking for ways to stay competitive and drive efficiencies. I want to share some very real examples of the outdated and confusing impact of the Brand Act and inspection fees on our business, particularly since we operate on both sides of that brand line. We keep the same records for health-- health papers for proof of ownership as well as brand papers for proof, proof of ownership. On the brand inspected side of the

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state, we pay a dollar a head one-time capacity. On the noninspected side of the state, we don't pay anything. That's, that's quite a disparity in what you pay. So it's 100 percent more on the brand inspected side. It's true for cow-calf producers also, and we have a, we have a ranch on the brand inspected side. We can raise calves on our ranch at Pawnee Springs in Nebraska. If we want to take them to one of our outfits in the eastern side of the state to grow those heifers to make mama cows, we have to brand inspect them to bring them to our own property in eastern Nebraska. I don't know who that's protecting I guess for sure, but they're probably gonna come back to Pawnee Springs and make mama cows for us. We pay a lot of brand inspection fees. The Brand Act is just another example of outdated business model that fails to meet the needs of producers like us, especially at a time when our industry is facing greater change and uncertainty. Beef producers like Gottsch Cattle Company are treated differently than our colleagues who operate completely outside of the brand area even though their operations look and act exactly like ours. It's never been a more critical time to work together and unify the state whether it's to reduce taxes, lower costs for our ag producers, or perhaps, most importantly, eliminate the barriers inside our own state that places one producer at a significant disadvantage depending on where they live. While the Brand Act may have served a purpose when it was formed in 1941, the simple fact is that the arbitrary and costly inspection fees no longer make sense in today's

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business climate. This conversation is timely and necessary. I want to thank Chairman Stinner and others for raising awareness, awareness of this important issue. Beef producers are an important part and a big driver of our ag-based economy in this state.

STINNER: If you could wrap up [INAUDIBLE].

JACK LAWLESS: Eliminating outdated fees and modernizing our branding statute is important. Am I out of time?

STINNER: Yes, you are.

JACK LAWLESS: Sorry.

STINNER: Thank you. Questions? Senator Moser.

MOSER: Are there livestock states that don't have brand inspection fees?

JACK LAWLESS: Yes.

MOSER: What states for example do you know?

JACK LAWLESS: We have, we have ranches in Nebraska, Texas, Missouri, and Kansas. We don't pay any brand inspection anywhere but Nebraska.

MOSER: Texas is the next biggest cow state or sometimes they're larger than we are and they raise more cattle or have more cattle on feed.

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JACK LAWLESS: On feed.

MOSER: Yeah. And they don't have brand inspections?

JACK LAWLESS: No.

MOSER: Does the brand inspection program benefit the producers and the people in the ag business equally with the banks or are the banks a minor part of who is protected by brand fees?

JACK LAWLESS: I'm probably not the right person to ask that question. I'm not sure who we're protecting. We, we don't have brand inspection in the eastern part of the state. We don't seem to need it.

MOSER: OK.

JACK LAWLESS: It was asked earlier whether, whether it's necessary and it's not necessary where we're operating in the eastern part of the state and we have two large feed yards. We do business with a lot of independent growers. We brand our cattle and, and we do it because we can identify our cattle. If we--

MOSER: You physically brand them?

JACK LAWLESS: Yes. If we had-- and this just happened, we, we shipped 1,200 yearlings from our ranch at Pawnee Springs to Juniata this week. They were 20-head short. Well, they talked to their neighbors, they rode pastures, they found those 20-head and shipped them. We brand

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cattle for that reason and there's no reason to do away with brand. Brands date back a long time and there's good reason to do them. We just think the inspection and the fee structure is outdated.

MOSER: OK. Thank you.

STINNER: Senator Brandt.

BRANDT: Thank you, Chairman Stinner. Thank you for testifying today. I'm a cattleman and I have custom fed cattle. So if I'm a customer of yours in the brand district, do you eat the charge on the brand or does that go on my monthly bill for the brand inspection?

JACK LAWLESS: Well, everybody handles that differently. It could be either way. We don't have customers in our yard inside the brand inspection area, but I used to run a yard that was a custom yard, and the person owning the cattle ate the brand fee.

BRANDT: OK. And then I guess this--

JACK LAWLESS: But it's still taken away from the producer either way. I mean, somebody's got to pay it.

BRANDT: That's right. Somebody's got to pay it. And I don't-- I just wanted to be clear on whether you as the yard owner were paying that or if the customer was paying that. And it sounds like you're telling me the customers pay that, pay that fee.

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JACK LAWLESS: In our case, we are both the yard owner and the customer.

BRANDT: OK.

JACK LAWLESS: The cattle are all ours.

BRANDT: OK, so you are not custom feeding any cattle in the, in the brand--

JACK LAWLESS: Not in the brand inspection area today.

BRANDT: OK. All right. If-- going back to your scenario on these 20 lost cattle, if we did not have a brand commission and these inspectors you have to rely on the goodness of your neighbors to enforce that. So let's say these 20-head that just wandered that you lost, you can't come on to my ranch to look for these.

JACK LAWLESS: I can call the sheriff.

BRANDT: You could call the sheriff. So now the sheriff becomes-- takes over that function that's being formed now by the brand inspection. Somebody is gonna have to perform that enforcement function and that's gonna create more labor.

JACK LAWLESS: I'm not completely certain, but I'm not certain that you wouldn't have to call the sheriff anyway to get on your land.

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BRANDT: OK.

JACK LAWLESS: So.

BRANDT: All right. I'm just looking for some clarity on what would happen if, if we would take it away. So thank you.

JACK LAWLESS: Yes, sir.

STINNER: Senator Blood.

BLOOD: Thank you, Senator Stinner. I, I thought that the Ag Committee actually discussed law enforcement. Did we have whoever was in charge get deputized? Wasn't that one of the things we talked about just for the record?

HALLORAN: It was, and I think Mr. Lawless is right you have to contact the county sheriff to enter the property.

BLOOD: So based on what you told me I have a couple of quick questions. So you are talking about how you're losing revenue. I'd be curious-- so based on your knowledge of your organization, if you were to compare the revenue to the amount of fees that you're paying, what would the amount of your revenue be and what would the amount of fees be as a company not per lot?

JACK LAWLESS: As it relates to brand fees?

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BLOOD: Um-hum.

JACK LAWLESS: Well, it costs \$1 per head of capacity inside the brand area more than it does outside of the brand area.

BLOOD: Right. I'm very clear on that. I'm asking as a whole-- I'm trying to put in perspective what you're telling me you're saying that this is a big burden. And I hear you saying that. And so I need you to, to give me some numbers so if my revenue is \$10 million and I'm spending and I-- I'm not saying that this is what it is-- a \$100,000, so can you put that in perspective for me?

JACK LAWLESS: This may or may not answer your question. According to CattleFax, which is an analyst group out of a Colorado, highly respected in the cattle industry, tons of producers subscribe to their services to keep track of [INAUDIBLE] and trends. So according to CattleFax since 1980 the average profit or loss per head of cattle, feeding cattle cash to cash. So you paid this for them, you sold for this. Cash to cash market was \$5.70 since 1980. A dollar is seventeen and a half percent of that, and 50 cents in a registered yard if you're paying for the one-time capacity and you turn it twice, 50 cents is 8.78 percent of that. Nobody is okay with a tax above and beyond all the taxes we already pay of seventeen and a half percent or 8.78 percent, especially if that tax is only imposed on you because of where you live. In the east you don't have it, in the west you have

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it. For what? The registered yards don't get inspected. They come and look at our files. The file is exactly the same as a yard in the east.

BLOOD: So I don't know if I agree with-- the nobody can agree with that because I've had so many cattlemen especially from out west tell me that this is a, a program they support. So you're--

JACK LAWLESS: Those must be rich people,--

BLOOD: --saying your organization doesn't, though, is what you're saying just for clarification.

JACK LAWLESS: --those must be rich people that don't need their money.

BLOOD: I'm, I'm sure your organization's probably not doing too poorly as well, though. So you say that the fees are outdated. So the question I have is that when did your organization go to the Nebraska Brand Council and speak about these concerns and what resolution did you come up with if any?

JACK LAWLESS: We have--

BLOOD: Or Committee not Council.

JACK LAWLESS: --talked-- I've, I've been to several meetings in the past with the Brand Committee. We've talked about-- and we've invited them to different meetings and they've come and they're-- they understand that we feel it's a burden. They don't-- they have a job to

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do. They have to run their, their Brand Committee, and I, I completely understand that they need revenue. We don't like to pay it. I mean, it's, it's-- it is what it is. But we have been in contact with them through the years as well as Nebraska Cattlemen.

BLOOD: And what resolution has that brought?

JACK LAWLESS: None. So I, I guess the challenge I have for you is the same challenge I have for NBC is, if there's concerns about any, any way that this, this policy affects you positively or negatively. I don't understand how I'm hearing people say we meet, but nothing happens. So who pulls the trigger to make something happen? There's a lot of finger pointing.

JACK LAWLESS: And what, what trigger can I pull?

BLOOD: Find the middle ground. Well, how can, how can you change what you say is arbitrary and that you say is outdated and make it updated and make it so it's not arbitrary. And I, I hear you saying that you think it should just go away, but I'm not sure that all Nebraska Cattlemen feel that way. So the challenge that I would have for you, because I keep hearing finger pointing, is when are you guys gonna meet and find your middle ground?

JACK LAWLESS: Well, cattle producers are many and varied.

BLOOD: There are many, there are more cows than people in Nebraska.

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JACK LAWLESS: We agree on, we agree on very few things. It's a small group but we have lots of disagreements. I don't-- it's not easy to find middle ground in a lot of situations.

BLOOD: And that's my concern. I mean, this with great respect, and I'm from the Hastings area by the way. Sometimes when we sit here I hear people airing their dirty laundry. It's kind of what I'm hearing today. And when I hear the word can't, it still tells me that it means that somebody won't. And so I do challenge you, I challenge NBC make our jobs easier, find that middle ground.

STINNER: OK. Senator Halloran.

JACK LAWLESS: Thank you.

BLOOD: Thank you.

HALLORAN: Thank you, Senator Stinner. I need to make a clarification on a question about whether a law enforcement officer would be required to come to a property. My understanding is, is that the-- there are law enforcement officers within the Brand Committee that have law enforcement authority. Now that being said, my guess is, is that quite frequently or on occasions they would probably seek some assistance from the county sheriff.

JACK LAWLESS: Right.

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STINNER: I, I do want to thank you for being here and we are running out of time. This was an invited guest I think could give you a perspective, not only in and out of the brand, but also in different states and what they're doing there. So I thought it was informative for us. I appreciate you being here. I will ask one question. Have you ever had an incident in your feedlot that you needed to have brand commission inspector help? Have you ever lost cattle or ever had purchased cattle that weren't represented?

JACK LAWLESS: I personally haven't. No. I, I personally haven't. I, I know there have been, and we actually have had from different states or wherever, we have had cattle-- on a load of cattle that we knew didn't belong and with back and forth between us and the source of purchase, we've always got that figured out--

STINNER: Thank you.

JACK LAWLESS: --and nobody told us to. We wouldn't of had to, those cattle would have never been inspected.

STINNER: Well, thank you. Thank you for your testimony. That actually concludes the hearings on-- and thank you very much.

JACK LAWLESS: Thank you.

STINNER: We will take a break. And that way Ag can, can leave the room, and Appropriations can spread out.

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