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Agriculture Committee  
January 29, 2008

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[LB789 LB875 LB1027 LB1053 CONFIRMATION]

The Committee on Agriculture met at 1:30 p.m. on Tuesday, January 29, 2008, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB789, LB875, LB1027, LB1053, and gubernatorial appointments. Senators present: Philip Erdman, Chairperson; Annette Dubas, Vice Chairperson; Merton "Cap" Dierks; Russ Karpisek; Vickie McDonald; Don Preister; and Norman Wallman. Senators absent: Ernie Chambers. [LB875]

SENATOR ERDMAN: Good afternoon, ladies and gentlemen. Welcome to the Ag Committee hearing. Today is January 29, 2008. We have a full agenda this afternoon and some talented individuals that are seeking to be appointed to the Beginning Farmer Board. And before we get to that, I will do some housekeeping brief introductions of the members of the committee and the process that we'll be following today. And if you have any questions such as how to turn up the heat, we can't help you but most other questions we can. My name is Phil Erdman. I'm honored to be elected Chair of the Ag Committee and I will introduce the members of the committee as well as the staff who are here today. To my far right, Melissa Lunsford, our committee clerk. When you fill out your testifier sheet, make sure you have that done prior to testimony and she has an in-box there that you can set that in so that way we have that. Make sure that you do that before your testimony, please. Next to Melissa will be Senator Chambers. He's from Omaha. Next to Senator Chambers will be Senator Preister who is also from Omaha; next to Senator Preister, Senator Cap Dierks. Senator Dierks is from Ewing. Next to Senator Dierks will be Rick Leonard, the research analyst for the committee. To my immediate left is Annette Dubas. Senator Dubas is from Fullerton, she's the Vice Chair. Next to Senator Dubas is Senator Karpisek, technically actually he's not there but he will be. Senator Karpisek is from Wilber. Next to Senator Karpisek is Senator Vickie McDonald and Senator McDonald is from St. Paul. Next to Senator McDonald is Senator Norm Wallman. Senator Wallman is from Cortland. Make sure that if you have a cell phone or other electronic device that you either turn the ringer off or turn the phone off. That way the transcriber doesn't get a nice ring in their ear when we're in the middle of some wonderful testimony that you're going to share with us today. Try to keep your comments to the subject at hand. We have tried to schedule the hearing to make sure that we have grouped similar items together, and we will be taking up each individual bill as a separate hearing to make sure that there's a correct record for each one, even though there are some overlap at least between the first two bills that we will hear. The first item on our agenda is the appointments to the Beginning Farmer Board, and we have a change in our agenda. We're going to ask Barb from Senator Dwite Pedersen's office to come forward. Mr. Melvin Valasek is not here with us today, but Senator Pedersen, his office will be representing Melvin. And I believe Barb has a statement to read on behalf of the senator, and you should have a copy of Melvin's letter as well as his application in your bill books. Go ahead.

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BARB BRUNKOW: Thank you. Senator Erdman and members of the Agriculture Committee, I am Barb Brunkow, that's B-r-u-n-k-o-w, legislative assistant to Senator Dwite Pedersen of the 39th Legislative District. Senator Pedersen has asked me to appear before the committee to read his recommendation letter into the record. It is dated January 24, 2008, and reads as follows: Dear Senator Erdman: It is my understanding that Melvin Valasek has been appointed to the Beginning Farmer Board and that his confirmation hearing will be held next Tuesday, January 29, 2008. Unfortunately, I am scheduled to be at the parole compact meeting that afternoon and so will not be available to come personally to tell the Agriculture Committee of my strong support for Melvin's confirmation. Melvin has been a good friend of mine for many years, and I believe he will be a wonderful addition to the Beginning Farmer Board. Please convey my support to the members of the committee. I hope that he will be confirmed by the committee, and I look forward to casting my vote in favor of his appointment if and when the committee sends its recommendation to the full Legislature. Sincerely, Dwite Pedersen, District 39. [CONFIRMATION]

SENATOR ERDMAN: Thank you, Barb. Thank you for your courtesy today of being here to read that. We appreciate it. [CONFIRMATION]

BARB BRUNKOW: Thank you. [CONFIRMATION]

SENATOR ERDMAN: Is there anyone wishing to testify in support of Melvin's appointment? Is anyone testifying in opposition? Anyone in a neutral position? Seeing none, that will close the hearing on the appointment of Mr. Melvin Valasek. I will point out that Melvin is a reappointment or is a new appointee that has attended some of the meetings already so there is some knowledge of his background. And we will now proceed to the first item that you have on the printed agenda and we'll ask Mark Graff to come forward. When you come forward, again, state and spell your name for us. And also very well the pages will distribute any copies that you may have of your testimony or any other information. And you can either read the statement you've prepared or you can tell us a little bit about the interest you have in the Beginning Farmer Board. And we may have some questions or we may not. [CONFIRMATION]

MARK GRAFF: (Exhibit 1) Thank you, Senator Erdman. First of all, my name is Mark Graff, M-a-r-k G-r-a-f-f. As a way of introduction, I currently serve as chairman of McCook National Bank in McCook, Nebraska. I've been in that capacity or actually been affiliated with the bank for about 25 years now. We're a locally owned financial institution in McCook. We have locations in McCook and Stratton, which is a community just west of McCook. Of our \$150 million loan portfolio, about 60 percent of it is directly related to ag, ag farm ground, operating credit, ag operating credit or intermediate credit. Also I currently serve on the American Bankers Association ag and rural bankers committee. It's a committee comprised of 13 members of the financial institution industry across the...representing 12 states cross-country. And our main mission is to represent

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agricultural interests across the state. Also I forgot to mention McCook National Bank, as of end of January 3, 2007, American Banker newspaper was identified as 101st largest ag lender in the United States. So we are obviously very invested in the agricultural industry. My interest in the appointment lies in a clear understanding of the need to provide incentives to not only motivate young people to enter production agriculture but to promote the advantages and opportunities of such a career path. I see the rising demographics of the average age of our ag operators across the state and it's alarming. And I see the beginning farmer tax credit as a way to stem that tide and actually reverse the trend. I thank you for consideration of my appointment. I'd be glad to answer any questions if there are any. [CONFIRMATION]

SENATOR ERDMAN: Thank you, Mark. Any questions for Mr. Graff? Senator Preister. [CONFIRMATION]

SENATOR PREISTER: Mr. Graff, I appreciate your appearing today and your willingness to serve as well. It's nice to have your written statement as well. On most of the applications, although not all, it has an area that says who is your state senator. That wasn't on yours so you couldn't have filled it out. Do you know who your state senator is? [CONFIRMATION]

MARK GRAFF: Mark Christensen. I'm in the 44th District. [CONFIRMATION]

SENATOR PREISTER: Thank you. [CONFIRMATION]

MARK GRAFF: Um-hum. [CONFIRMATION]

SENATOR PREISTER: It was on there. I missed it. [CONFIRMATION]

SENATOR ERDMAN: The Governor's Office has rearranged their application process. It's right under his wife's name of Linda so. [CONFIRMATION]

SENATOR PREISTER: State senator is held in that high esteem. (Laughter)  
[CONFIRMATION]

SENATOR ERDMAN: Hopefully for those of us who are married and state senators, it's still the same way that we would list that. Other questions for Mr. Graff? Senator Wallman. [CONFIRMATION]

SENATOR WALLMAN: Thank you, Chairman Erdman. Yes, Mr. Graff, do you think incentives like for siblings to buy out sisters it should be more easier for young males to stay on the farm? [CONFIRMATION]

MARK GRAFF: Yeah, I think that's important, Senator. You know, I think you try not to

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give away the, you know, enter a situation where the transition is going to be naturally occurring anyway. But I think there is room and a case for, you know, motivating that type of transition also and I think that's important, yes, very much so. [CONFIRMATION]

SENATOR WALLMAN: Because the price of land now, it's pretty, you know, it's pretty tough for a young man to buy out sometimes if he has a large family so. Thank you. [CONFIRMATION]

MARK GRAFF: Um-hum, and especially in the case where there's siblings involved. Sometimes, you know, the siblings that are involved that aren't involved in agriculture that's really important. [CONFIRMATION]

SENATOR ERDMAN: Thank you, Senator Wallman. Other questions? I don't see any. Thank you, sir, appreciate you coming down. [CONFIRMATION]

MARK GRAFF: Thank you. [CONFIRMATION]

SENATOR ERDMAN: Anyone wishing to testify in support of Mr. Graff's appointment to the Beginning Farmer Board? Anyone in opposition? Anyone neutral? That will close the hearing on Mr. Mark Graff's appointment to the Beginning Farmer Board. Our next appointee is Don Anthony. Don, if you'd come forward, please, and if you have your testifier sheet, hand that to Melissa. [CONFIRMATION]

DON ANTHONY: Thank you, Senator. I am Don Anthony, D-o-n A-n-t-h-o-n-y. I am a farmer east of Lexington, Nebraska, also serve on All Points Co-op Board and CHS National Board. This...I was just sitting here trying to think, maybe it's four years that I've been on this board now. And some people accuse me of a selfish motivation for being on this because none of my children are coming back to the farm and I want a young man or woman to be there to rent someday because I've counted, I live in the Platte Valley, from Overton to Lexington is a 10-mile segment. It's about 8 miles wide from the river to the grazing land to the hills to the north, which kind of a natural barrier. And right now we have three farmers under the age of 40 and I think only two between 40 and 50 in that 80-square-mile area. And if you start trying to do the numbers going, you know, more segments east and west, you kind of get the same thing. We desperately need to attract young people back into farming. And one of the barriers is asset control. You know, we have a piece of land go in excess of \$3,000 in our area, will never cash flow, you know, to a farmer. But some way I see again and again fellows retire and they just go off of the farm to the next big farmer, and they never even consider the young guy that's struggling trying to get started. And that's what I really like about the beginning farmer program is it's set up to create an incentive for those retiring landlords or landlords to become to take the risk and consider this beginning farmer instead of the established farmer that's already huge. So with those comments, I'll take questions. [CONFIRMATION]

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SENATOR ERDMAN: Thank you, Don. Any questions for Mr. Anthony? Senator Preister. [CONFIRMATION]

SENATOR PREISTER: Mr. Anthony, how has your first term experience been and do you see it as successful? [CONFIRMATION]

DON ANTHONY: I would give it mixed results. I'm disappointed we don't have more applicants. The widening out of net worth from \$100,000 to \$200,000 has helped us immensely and so I'm encouraged. But we really don't track, you know, we don't have a lot of history now and I don't know that they're actually tracking what happens after they go out of the program. But you just have to hope that you've given them that little bit of a boost that will get them going. [CONFIRMATION]

SENATOR PREISTER: Thank you. [CONFIRMATION]

SENATOR ERDMAN: Senator Dierks. [CONFIRMATION]

SENATOR DIERKS: Don, if you had to select some one or two stumbling blocks for producers of agriculture products in Nebraska, what would they be? I mean let's don't include financing right now. [CONFIRMATION]

DON ANTHONY: Oh, well, there went the biggest one. Probably it's the network that you need, as far as someone starting, is having the network of knowing what ground is going to be available to rent. You know, where do you go for this and that, those things you develop with experience. And this is one of the things about incenting a landlord to look for the young farmer who may not know how to put it together. [CONFIRMATION]

SENATOR DIERKS: Okay. How about marketing? How about the process of getting paid for what you produce? [CONFIRMATION]

DON ANTHONY: I don't know if that's a stumbling block. It's a business hazard. Depending on what you're trying to go into, if you're trying to go into niche markets, it doesn't matter where you're at. If you're trying to develop a market for homegrown beef, for example, developing that clientele is a difficult thing. And I really don't have answers to that. [CONFIRMATION]

SENATOR DIERKS: If there was some way that you could improve the fat cattle market, how would that be? [CONFIRMATION]

DON ANTHONY: You know, I struggled. I'm a recovering cattleman. I fed cattle for 35 years and got washed out of the business (laugh). [CONFIRMATION]

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SENATOR DIERKS: Well, I think I'm going to become one. (Laughter)  
[CONFIRMATION]

DON ANTHONY: I struggled with that question for a long time and I honestly don't have an answer, Senator. When I started feeding cattle in the early '70s, I had seven, eight, nine packers called on me regularly. At the end, I was using an order, a commission man to sell because my 1,500 head a year, they didn't even want to stop at my place. They could go to my friend Jerry Adams up at Broken Bow and buy a week's supply of cattle in one stop, why would they fool with 30 head at my place? Cost them the same for the stop. [CONFIRMATION]

SENATOR DIERKS: Part of the numbers game. [CONFIRMATION]

DON ANTHONY: Part of the numbers game, there's economies of scale and diseconomies and they're there. [CONFIRMATION]

SENATOR DIERKS: Well, if you come up with some answers, I wish you'd get in touch with me because I'm interested. [CONFIRMATION]

DON ANTHONY: (Laugh) I've struggled, but I don't know what they are.  
[CONFIRMATION]

SENATOR DIERKS: Okay, thank you. [CONFIRMATION]

SENATOR ERDMAN: Thank you, Senator Dierks. And other members, feel free to find solutions to your farming operations in front of the committee because most of the people that show up here have some pretty good ideas. [CONFIRMATION]

SENATOR DIERKS: Yeah, okay, I was hoping. [CONFIRMATION]

SENATOR ERDMAN: Senator Dubas. [CONFIRMATION]

SENATOR DUBAS: Thank you, Senator Erdman. Thank you, Mr. Anthony, for being here. You mentioned you're disappointed in the number of applicants. Is that something that is still ongoing and are there things that your board is doing? [CONFIRMATION]

DON ANTHONY: Yeah, work very hard at it. It's not so hard to reach the beginning farmers because they're somewhat concentrated in the ag schools and you can reach them fairly easily. Where it gets difficult is reaching the landlords, and we're trying very hard to get to anywhere that people that would influence those decisions are: accounting conventions, bankers conventions, Farm Bureau. Of course, we do a lot of trade show stuff, anywhere we think that we can get an audience. It's been harder finding the landlord side than the beginning farmer side. [CONFIRMATION]

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SENATOR DUBAS: Thank you. [CONFIRMATION]

SENATOR ERDMAN: Thank you, Senator Dubas. Senator Wallman. [CONFIRMATION]

SENATOR WALLMAN: Thank you, Senator Erdman, Chairman. I got relatives that did this in Illinois. They didn't have any siblings or any children farm so they went through the FFA. And the FFA in this town, now it's prime ag land, and the FFA promotes starting young farmers there. So they got all the local farmers who were about ready to retire, I'm a lifelong FFA member, so that's how they run it there. And I'm not telling you how to run your business, but that was the way they got it going. And it's worked quite well in Illinois in that region where they're at. [CONFIRMATION]

DON ANTHONY: But that's not a whole state. It's just a locality, right.  
[CONFIRMATION]

SENATOR WALLMAN: No, no, it's just eastern Illinois. Thank you. [CONFIRMATION]

SENATOR ERDMAN: Thank you, Senator Wallman. I have pursued similar ideas and will share them with the board at some point as well. Other questions of Mr. Anthony? I don't see any. Thank you, sir. Anyone wishing to testify in support of Mr. Anthony's appointment? Anyone wishing to testify in opposition? Anyone neutral? That will close the hearing. Our next appointee is Todd Reed. Mr. Reed, if you want to come forward.  
[CONFIRMATION]

TODD REED: (Exhibit 2) Thank you, Senator Erdman, members of the committee. My name is Todd Reed, T-o-d-d R-e-e-d. And I'll just kind of tell you about myself a little bit. I live in Waverly, Nebraska, and farm with relatives around the Waverly area, mostly dryland, some irrigated, just kind of getting started. I kind of represent the voice of the young producer, young farmer on the board. I am still kind of just getting started on my own, don't have any land of my own right now. But land availability is a pretty big issue in Waverly since it's...pretty soon the corridor between Lincoln and Omaha will encompass most of what we farm. I graduated from the university in May of 2004 with a bachelor's degree in mechanized systems management. I am in the process of finishing up my master's degree right now in the same area with an emphasis in precision agriculture. That's kind of my specialty in our farm is dealing with precision ag and yield maps and that kind of technology. This program, when I first heard about it, I've known about it for a while but having the chance to serve on this board and be a voice for my peers across this state is something that is a very big honor for me to be able to serve in this capacity. That's about all I have. Do you have any questions for me?  
[CONFIRMATION]

SENATOR ERDMAN: Todd. Any questions for Mr. Reed? Senator Dierks.

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[CONFIRMATION]

SENATOR DIERKS: Todd, you've read I suppose about the program that the technical school at Curtis is starting with 100 cows. [CONFIRMATION]

TODD REED: I am a little bit familiar with it, yes. [CONFIRMATION]

SENATOR DIERKS: Wouldn't it be nice if a man could go out and make a living with 100 cows? [CONFIRMATION]

TODD REED: It would be nice, 100 cows and a couple sections of...couple quarters of land would be kind of nice. [CONFIRMATION]

SENATOR DIERKS: Yeah. Anyway, I saw that and I thought, gee, that's a good start but it's going to take a little more. [CONFIRMATION]

TODD REED: Yeah and I think that's the biggest thing is getting a start to individuals. Like for myself, the biggest thing right now is capital. I don't stand to inherit any land or any machinery and just go out and start all from scratch is pretty much impossible without some kind of help. And I think this 100-cow program is a good tool to use for that, also this beginning farmer tax act to help get some of that...give me the ability to be competitive with neighbors for renting land. [CONFIRMATION]

SENATOR DIERKS: What does it cost you to rent farm ground? [CONFIRMATION]

TODD REED: Oh, jeez, I think dryland right now is probably around \$130, \$140. [CONFIRMATION]

SENATOR DIERKS: Someone told me the other day that they were giving \$401 per acre for irrigated land. Is that possible? [CONFIRMATION]

TODD REED: I've heard up to...I know someone who farms out by Juniata that's paying \$280 for irrigated for this year. Four hundred is way (inaudible) anything I've heard. He said you could cash flow up to \$325 I believe, which is kind of hard to believe. But with \$4 corn it's kind of hard to believe a lot of things, but... [CONFIRMATION]

SENATOR DIERKS: Well, just for your information, I just got done paying the feed bill and the corn cost me \$5.30 a bushel. Well, I've decided we're not going to feed corn anymore. Those cows are going to have to learn to live on prairie hay because that's what they lived on for years. Thank you. [CONFIRMATION]

SENATOR ERDMAN: Todd, you also sell seed, right? [CONFIRMATION]



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TODD REED: Yeah, I just started selling seed for Golden Harvest about a year ago.  
[CONFIRMATION]

SENATOR ERDMAN: It probably doesn't make you feel very good to have Senator Dierks say that he's not going to feed corn to his cows. [CONFIRMATION]

TODD REED: It doesn't hurt me emotionally, but I think I can...he's not one of my customers but I think I can handle it. (Laughter) [CONFIRMATION]

SENATOR ERDMAN: We're going to have to have a counseling group before this is over. Other questions for Mr. Reed? Senator Preister. [CONFIRMATION]

SENATOR PREISTER: Mr. Reed, you're currently working on your master's degree, is that? [CONFIRMATION]

TODD REED: Yes. All my coursework is completed. My thesis is probably two-thirds done. I'm in the process of editing and getting the appendixes and all that taken care of so. [CONFIRMATION]

SENATOR PREISTER: And what is your thesis, what was your...? [CONFIRMATION]

TODD REED: The title right now is, oh, what is the title? It's changed a couple of times. "Evaluating On-the-Go Soil pH Mapping Prior to Variable Rate Lime Application."  
[CONFIRMATION]

SENATOR PREISTER: I can see why it didn't just roll off your tongue first. (Laughter)  
[CONFIRMATION]

TODD REED: Yeah, it's...that's the problem with science. They kind of tend to take a five-word sentence and make it into a three-paragraph statement so. But it's something...it's basically just measuring soil pH on the go in a more dense...instead of just like a typical grid sample, just one sample every 2.5 acres, we're taking one sample every, roughly every 80 feet or so in the field. So on a typical 80-acre field, the grid sample you might pull 25, 30 samples. We'll sample probably 300 in the same area and then put that...use that information to develop a variable rate lime application map.  
[CONFIRMATION]

SENATOR PREISTER: So you're only basically dealing with lime and the pH of the soil? [CONFIRMATION]

TODD REED: Just pH right now. It's measuring other nutrients on the go is very, without getting into soil chemistry, it's fairly difficult to measure nitrates and phosphorous on the go because the sample techniques involved; pH is relatively simple to do on the go.

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[CONFIRMATION]

SENATOR PREISTER: Thank you. [CONFIRMATION]

SENATOR ERDMAN: Thank you, Senator Preister. Senator Wallman.  
[CONFIRMATION]

SENATOR WALLMAN: Thank you, Chairman Erdman. Thanks for serving, that's all I got. So we need more younger farmers. You know, I'm an old farmer myself. Thanks.  
[CONFIRMATION]

TODD REED: Thank you. [CONFIRMATION]

SENATOR ERDMAN: Thank you, Senator Wallman. "A Tale of Two Soils" might be a better title, but... [CONFIRMATION]

TODD REED: My adviser I don't think would go for that one. [CONFIRMATION]

SENATOR ERDMAN: ...that's just me. Todd, what's your undergrad in?  
[CONFIRMATION]

TODD REED: Mechanized systems management. [CONFIRMATION]

SENATOR ERDMAN: Okay. That was a question up here that we didn't have on your application. Any other questions for Mr. Reed? I don't see any. Thank you, sir.  
[CONFIRMATION]

TODD REED: Thank you. [CONFIRMATION]

SENATOR ERDMAN: Anyone wishing to testify in support of Todd Reed's appointment to the Beginning Farmer Board? Anyone in opposition? Anyone neutral? I see none. That will close the hearing on Todd Reed's appointment. Next is, I'm going to say this wrong if I don't look at this right, Darrell Mark. Dr. Mark, come forward, please.  
[CONFIRMATION]

DARRELL MARK: (Exhibit 3) Senator Erdman and members of the committee, I thank you for your opportunity to visit with me today. My name is Darrell Mark, D-a-r-r-e-l-l, my last name is Mark, M-a-r-k. I'm an assistant professor of agriculture economics at the University of Nebraska here in Lincoln so I'm based on east campus in the Institute of Agriculture and Natural Resources in the department of ag economics. And in that capacity, I teach about three classes in agriculture marketing and price risk management and beef cattle economics at both graduate and undergraduate levels. I also work with and advise a number of our students in our department, approximately a

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third to half of the students in our department in ag economics I provide career and academic planning for and work significantly with students in about four majors across east campus in the University of Nebraska. I have had...the other portion of my appointment at the university is as extension livestock marketing specialist with UNL-Extension so I do work with livestock producers across the state to a fairly significant extent on pricing issues and risk management strategies and particularly in by-product feeds and those kind of issues right now in the economics of those types of feeding activities. So my extension appointment involves some of those things. It also involves some extension programming that we do to help bring I guess the easy transition period between farming generations so helping older generations move out of their farming operation and pass the labor and the management and the ownership and all those components of the transition plan along to younger generations. Of course, a lot of those younger generations are the students that I teach at UNL and so I work with them in that capacity as well. I've been on the Beginning Farmer Tax Credit Board for about three years now and so this is a reappointment for me. I've had an enjoyable time and a very good time learning about the beginning farmer tax credit and seeing some of the impacts that it's had. Mr. Anthony was talking about even three years ago when I was appointed we always wished we had more applications, and we really feel like we are on the cusp of seeing more of those applications. The level of interest on east campus, for example, the University of Nebraska where I work with a lot of students has increased substantially, and we are starting to see an increase in the number of those applications. That's been very good to see and I think pretty rewarding there as well. And so ultimately that's what my goal is. I'm in a position with my appointment in teaching and advising at UNL along with my Extension appointment and some very practical farm background of my own, too, happens to be out of state, but that I have a strong interest in helping people transition their farming operations. And this has been one way that I've been able to do that and look to continue that opportunity here. [CONFIRMATION]

SENATOR ERDMAN: Fantastic. Thank you, Dr. Mark. Any questions? Senator Wallman. [CONFIRMATION]

SENATOR WALLMAN: Thank you, Chairman Erdman. In regards to Cap's 100-cow program, have you ever had anybody that was interested in that? [CONFIRMATION]

DARRELL MARK: Yes. I've talked with Dr. Sleight, of course, about that at NCTA, and I've had a few of my students inquire a little bit about that--still a new enough program that a lot of our students at UNL haven't talked a lot about that one yet. But I anticipate there will be some interest. [CONFIRMATION]

SENATOR WALLMAN: I think one of my friends got on that. He hired a person from out west and he farms irrigated farm in my area. [CONFIRMATION]

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DARRELL MARK: Oh, okay. [CONFIRMATION]

SENATOR WALLMAN: So he has a bunch of cows in now, never had livestock before. So I think it's going to get him going so. [CONFIRMATION]

DARRELL MARK: That's exciting. [CONFIRMATION]

SENATOR WALLMAN: Cap, I think it's a good program. [CONFIRMATION]

SENATOR DIERKS: I think it's a good program too. I think it's a wonderful thing. [LB875]

SENATOR WALLMAN: Thank you. [CONFIRMATION]

SENATOR DIERKS: If it gives somebody a start, that's got to be part of the (inaudible). I notice that you've published quite a few articles. You must be a busy writer. [CONFIRMATION]

DARRELL MARK: I probably published somewhere between 20 and 50 Extension publications a year and two to three journal articles. [CONFIRMATION]

SENATOR DIERKS: I see you graduated, got your Ph.D. at Kansas State University. [CONFIRMATION]

DARRELL MARK: That is correct. I have both graduate degrees from Kansas State University. My bachelor of science is from South Dakota State University, and I'm a native of southeast South Dakota. [CONFIRMATION]

SENATOR DIERKS: A native of Viborg. [CONFIRMATION]

DARRELL MARK: A native of Viborg, yes. [CONFIRMATION]

SENATOR DIERKS: I'm a graduate of Kansas State University, a very nice school, and so I have fond recollections of that until it comes to football. In your travels at Kansas State, do you remember running into a man by the name of Roger McEowen? [CONFIRMATION]

DARRELL MARK: Yes, the attorney down there? [CONFIRMATION]

SENATOR DIERKS: Yeah. [CONFIRMATION]

DARRELL MARK: Yes, he was on faculty in ag econ while I was in grad school. I knew him well at the time, very good attorney. [CONFIRMATION]

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SENATOR DIERKS: I think he's at Iowa State now. [CONFIRMATION]

DARRELL MARK: Yes, that's correct. [CONFIRMATION]

SENATOR DIERKS: He's a good friend of mine. [CONFIRMATION]

DARRELL MARK: He's a very good attorney too. I've had the pleasure of learning some from him while I was a student there, and he helped me out with a few issues at the time. [CONFIRMATION]

SENATOR DIERKS: A talented man. Thanks for your interest in doing this work. [CONFIRMATION]

DARRELL MARK: Sure. [CONFIRMATION]

SENATOR ERDMAN: Thank you, Senator Dierks. Senator Preister. [CONFIRMATION]

SENATOR PREISTER: Dr. Mark, we've talked about wanting more numbers, more applicants. I guess I don't really have a sense of how many people have actually applied and how many actual young people and experienced farmers we've paired up and have been able to take advantage of this. Do you have any idea of numbers that have actually applied and been involved in the program? [CONFIRMATION]

DARRELL MARK: I've got the data on that,, and I don't have it off the top of my head. I could look to Marian Beethe, the program director, and she might know that off the top of her head. [CONFIRMATION]

MARIAN BEETHE: We've had about 89 applications come through. [CONFIRMATION]

SENATOR ERDMAN: Hold on one second, hold on one second. [CONFIRMATION]

DARRELL MARK: I'm not sure if I can do that. I'm sorry, Senator. [CONFIRMATION]

SENATOR ERDMAN: We'll figure out a way to get this, but, Marian, we'll need you to be at the microphone if you're going to speak so we'll wait until Dr. Mark is done here and maybe you can come forward and share that to answer Senator Preister's question. [CONFIRMATION]

SENATOR PREISTER: Thank you. [CONFIRMATION]

DARRELL MARK: I'm sorry I don't have that information. One thing that is very encouraging that I can tell you is nearly every application that we receive once we get a

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completed application matriculates into the tax credit being approved. So the approval percentage is very high, almost 100 percent I think. [LB875]

SENATOR PREISTER: Okay. [CONFIRMATION]

DARRELL MARK: So it's mostly once we get the right folks in there and really the tax credit program isn't so much of a matching program, although there are others out there in Nebraska that do that. And to the extent we can, we certainly will help facilitate that. Most of the time the asset owner and the beginning farmer have to have found each other and found the program and then will apply to the program and that's at the point where we pick it up. [CONFIRMATION]

SENATOR PREISTER: Thank you. [CONFIRMATION]

SENATOR ERDMAN: Thank you, Senator Preister. See no further questions, thank you, sir. [CONFIRMATION]

DARRELL MARK: Thank you, Senator Erdman. [CONFIRMATION]

SENATOR ERDMAN: Appreciate it. Marian, what we'll probably do is wait until after the appointments and then we'll either ask you to come up so it doesn't look like you're favoring one of your board members over the other in the record. Anyone wishing to testify in support of Dr. Mark? For those of you that the Cattlemen didn't testify in favor of your appointment, you can remember this. [CONFIRMATION]

MICHAEL KELSEY: Good afternoon, Senator Erdman, members of the committee. My name is Michael Kelsey, that's M-i-c-h-a-e-l K-e-l-s-e-y. I'm currently the executive vice president of the Nebraska Cattlemen and here in support of Dr. Mark's reappointment to this position. We've had an opportunity to work with Dr. Mark on several occasions in an educational front as his Extension appointment. We've also had the good pleasure of working with a couple of his students and helping them in some issues as well as being a benefactor of some of their work as well. Two particular times that we've worked with Dr. Mark I wanted to share with you. We had a grant proposal through USDA that worked with some risk management type strategies. And he really, I'll just put it bluntly to you, is if it hadn't been for Dr. Mark, we might not have been successful in continuing that grant, even completing it at all. His expertise was fantastic as well as just his organization and diligence in helping us to get that done. If he has that same passion and that same commitment, which I assure you he does, for any of his other responsibilities, then he's a fine appointment for any board as well as this one. Another one we...opportunity that we had was an educational program that we did last year in talking about as corn was elevating in price, a lot of cattlemen were wondering what in the world was going on and what we could expect in the future. And he went basically kind of on a road trip with us and did some educational programs to talk about why corn

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is doing what it's doing, what we can expect in terms of demand, what we can expect in terms of if acres are here or if acres are here or what's planted and so forth. And although at times he didn't tell us really what we wanted to hear, he did tell it in a way where we could understand it and at the same time use that information in our businesses. So I simply end by saying we firmly support the appointment and appreciate your consideration. [CONFIRMATION]

SENATOR ERDMAN: Michael. Any questions for Mr. Kelsey? I think the other members of the board will have a question for you later, but you can take that up with them. I see none. Thank you, sir. Anyone else wishing to testify in support of Dr. Mark's appointment? I see none. Anyone in opposition? I see none. Neutral? I see none. That will close the hearing on Dr. Mark's appointment. Would you care to come forward and share that information now or do you plan to testify on the other bills and we may be able to get that answer from you, Marian? [CONFIRMATION]

MARIAN BEETHE: I'm just available for questions. [CONFIRMATION]

SENATOR ERDMAN: Why don't you come forward and if there's questions about the board we'll address those now outside of the traditional appointment so that way we can handle that if you want to state your name.

MARIAN BEETHE: It's Marian, M-a-r-i-a-n, Beethe, B-e-e-t-h-e.

SENATOR ERDMAN: Senator Preister, would you re-ask your question or ask your question again.

SENATOR PREISTER: I would, Chairman Erdman, thank you. My question deals with the number of people who have actually applied and been accepted and received the tax credits.

MARIAN BEETHE: Okay. We've had about 89 applications come in and of that 89 I think there's 9 of them that have been declared ineligible. Usually the cases of ineligibility include somebody applied as a corporation or they applied as a partnership and not all the partners were eligible so we couldn't go ahead and accept them as an owner or as a beginning farmer. And then as the number of beginning farmers, we're sitting at about, and I apologize for not having that just right off the top of my head, but we're looking at about 50 to...right at 50 because a lot of our beginning farmers have more than one owner that they're renting from. And so, therefore, it will be more cases but not necessarily more beginning farmers.

SENATOR PREISTER: Sure. And that's since the inception, since the (inaudible).

MARIAN BEETHE: Right, um-hum.

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SENATOR PREISTER: Okay. Thank you.

SENATOR ERDMAN: Senator Preister. Any other questions for Marian about the program or applicants? Prior to the threshold of the net worth going from \$100,000 to \$200,000, was there a process or was there a number of people that were denied because of that or do you recall that?

MARIAN BEETHE: Not so many that were denied because of it, but they would call in or they would read the brochure and it was very clear, you know, if you have over \$200,000 net worth there's no need to apply and so they wouldn't send in an application. We had a lot of calls and that was one of the reasons of why they were not eligible.

SENATOR ERDMAN: Okay, very good. I don't see any further questions. Thanks for your assistance this afternoon.

MARIAN BEETHE: Um-hum.

SENATOR ERDMAN: We'll now proceed to the first legislative bill on the agenda this afternoon. Senator Fulton has been patiently waiting. We appreciate all the appointees that came forward today, and hopefully you'll share with us your opinion on the next two bills that are before us relating to the Beginning Farmer Tax Credit Act. But Senator Fulton is here to introduce LB875. Can I see a show of hands of those that wish to testify in support of LB875? I've got five. Can I see a show of hands of opposition? Anyone neutral? Okay. Senator Fulton.

SENATOR FULTON: (Exhibit 4) Thank you, Chairman Erdman. Good afternoon, members of the Agriculture Committee. For the record, my name is Tony Fulton, T-o-n-y F-u-l-t-o-n, and I represent Legislative District 29 located here in Lincoln. This is LB875, the beginning farmer tax credit, which you have already had as matter for discussion this afternoon. The beginning farmer tax credit program is not presently fulfilling its purpose of affording young people greater opportunity to enter into agricultural production. The tax credit is given to the agricultural asset owner who agrees to rent his or her property to a beginning farmer for three years. However, too few beginning farmers receive such an opportunity as nearly half the available farmland is owned by an absentee landowner. Such arrangement is presently disallowed under the current law. LB875 would expand the current statute to facilitate the purpose of the beginning farmer program, encouraging a new generation of Nebraska's farmers to earn a living in farming and livestock production. Specifically, LB875 amends current statute by (1) expanding the number of agricultural asset owners eligible to receive the credit by eliminating the gross income and labor requirements, thereby granting the incentive to absentee landowners to enter into a rental agreement with a beginning farmer; (2)



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expanding the type of agricultural asset owners by allowing corporations, LLCs, and other business entities to become eligible; and (3) enlarging the definition of beginning farmer to include relatives of the agricultural asset owner so long as the beginning farmer and owner submit a legally binding succession plan that specifies the timetable and process by which agricultural assets will be transferred. This succession plan must then be approved by the Beginning Farmer Board. I have an amendment to introduce and I'll ask if I can have that distributed. This is AM1674. AM1674, number one, eliminates the residency requirement for both individual and corporate owners; number two, it changes the term "share-rent" in the green copy, "share-rent agreement" to "rental" with amendatory language so as to encompass cash rent and other agreements; and number three, limits the succession plan between the beginning farmer and the relative owner to 30 years if the relative is not the individual owner of the agricultural assets. So in conclusion, LB875 as amended by AM1674 serves to expand the horizon of more young Nebraskans who may otherwise not have the opportunity to enter into farming. These people deserve a program that is as efficient and effective as possible. By reducing the restrictions on owners and qualified beginning farmers, this program will improve the opportunities available for the next generation of Nebraska's agricultural producers. I'd be glad to answer any questions if I could. [LB875]

SENATOR ERDMAN: Thank you, Senator Fulton. Any questions for Senator Fulton? Senator Dubas. [LB875]

SENATOR DUBAS: Thank you, Senator Erdman. Thank you, Senator Fulton, for bringing this to the Ag Committee. Was this...were these issues brought to you with specific...there were specific concerns that this bill was raised with? [LB875]

SENATOR FULTON: Actually, this first came on my radar screen--it's a good question actually. I appreciate the opportunity to answer because I'm an urban senator. This was first put on my radar screen at a young professionals group event that I was at here in Lincoln. A young man just, you're a senator, right, and he asked me this question about the beginning farmer program and why this didn't include absentee owners. He said this is a big problem. I'm not able to get involved. I'm not able to recognize the tax credit or whatever it was that he was going to work with the owner. That's when it first came onto my radar screen. And since then, I've been able to work with members from the Farm Bureau as well as getting input from back home. I'm originally from a small town and my family still farms back there. So it first was put on my radar screen, believe it or not, in a young professionals group meeting by an individual who, about my age, and he was here in Lincoln so that was the genesis of this bill. [LB875]

SENATOR DUBAS: Okay, thank you. Has anyone raised the issue to you about, it's similar to the question Senator Wallman asked one of the appointees about including family members, to allow family members to receive some of these credits in trying to transition their farms. [LB875]

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SENATOR FULTON: Is it as a potential? [LB875]

SENATOR DUBAS: Yeah. Is that an issue that was raised during your investigation of developing this bill? [LB875]

SENATOR FULTON: Well, it's an issue that's been raised, and hopefully the bill is addressing that to afford that opportunity for family members. Originally it was a question of absentee landowners, I mean this gentleman, well, who cares who owns the land if we want to get young Nebraskans involved in farming? So that was the genesis of it. But after having delved into the statute itself and the accompanying policy, there are a number of items and, yes, that would be one of them. [LB875]

SENATOR DUBAS: Okay, thank you very much. [LB875]

SENATOR ERDMAN: Thank you, Senator Dubas. Other questions? Senator Preister. [LB875]

SENATOR PREISTER: Senator Fulton, on your amendment as I read it I think I know what your intent is. But as I read it, I'm getting a different sense. In the section where you add "The plan shall be for a maximum length of thirty years, except in the case of land owned by individuals," and here's where we get to it, "ownership transfer may be deferred for a period of more than thirty years" and then it says "up to the death of the landowner," I would interpret that to mean that the actual language up until he dies. I think you're intending to mean 30 years after death so the estate could deal with it. But maybe I'm not clear on what you're saying or how I'm interpreting it. [LB875]

SENATOR FULTON: You're asking a clarifying question so I'll just tell you what the plan--if I can read it into the record--"The plan shall be for a maximum length of thirty years, except that in the case of land owned by individuals, ownership transfer may be deferred for a period of more than thirty years up to the death of the landowner." So the 30 years or the death of the landowner, whichever would come first. Does that clarify? [LB875]

SENATOR PREISTER: Okay. As I read "up to the death" I guess that was...maybe it's clear that it's either/or. As I read that, it reads it would have to be before the death. [LB875]

SENATOR FULTON: I'm not sure I follow. [LB875]

SENATOR PREISTER: I'll read it again, but. [LB875]

SENATOR FULTON: Okay. Yeah. I guess if the language...I mean it's clear to me. If it's

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not clear, I certainly would want to make it clear so I'd entertain any way to achieve that. [LB875]

SENATOR PREISTER: That was my question if it could be, if it needed to be changed, and maybe it doesn't. Maybe it's just my reading. [LB875]

SENATOR FULTON: Yeah. I'd be glad to. What I'm positing by way of intention is 30 years or...more than 30 years up to the death of the landowner. So my interpretation or my intention is whichever comes first. So this is putting a period of time, a length of time of 30 years. And that's something that...there's nothing there either, the 30 years. That's open to be...I'm open to talk about that also with you. [LB875]

SENATOR PREISTER: Okay. Thank you. [LB875]

SENATOR ERDMAN: Thank you, Senator Preister. Senator Wallman. [LB875]

SENATOR WALLMAN: Thank you, Senator Erdman. Thank you for being here, Senator Fulton. I should have researched this morning, but I was interested in the dialogue on surrounding states. Do you know how we compare with like South Dakota, Colorado, Kansas, Iowa? [LB875]

SENATOR FULTON: I can't answer that in terms of how our tax credit is structured or how we are performing, I can't answer that. But in terms of how we are providing incentive or inciting beginning farmers, there could be people to follow me that will be better able to answer that. I know other states have similar programs in place. How we compare with them I think we lack in comparison. My understanding is that we're somewhere over...I think it was said we're somewhere over 50 beginning farmers now. And comparatively speaking, I think that's lower than what some other states have. But in terms of the tax credit and its policy, I couldn't offer any comparative analysis there. [LB875]

SENATOR WALLMAN: Well, thank you for coming to the Ag Committee. [LB875]

SENATOR ERDMAN: Thank you, Senator Wallman. Other questions for Senator Fulton? Will you be around for closing? [LB875]

SENATOR FULTON: I will unfortunately not be able to close. Thank you for that question, though. [LB875]

SENATOR ERDMAN: We'll try not to hold that against you, Senator Fulton. Thank you for your introduction. I have five hands of those that wish to testify in support so please feel free to come up in no particular order and share your insight with us about your support for LB875. [LB875]

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WELDON SLEIGHT: Chairman Erdman and committee, my name is Weldon Sleight, W-e-l-d-o-n S-l-e-i-g-h-t. I'm the dean of the Nebraska College of Technical Agriculture. I appreciate the opportunity of testifying in support of LB875. I'm passionate about the future of Nebraska agriculture, and probably even more passionate about the youth who will be the next generation of farmers and ranchers for our state. However, I have some major concerns. Those concerns are that rural Nebraska is dying. We have populations that, as I've done my research, most of those rural communities had their zenith of population in 1950 or before. We've got to do something different than what we've been doing in the past. So this is one step to helping, and there are some other initiatives that are coming along as well. I'd like to just tell you of two farm purchases that have happened the past couple of months, one at Mullen--I'll call these ranches, trophy ranches--one at Mullen that is a \$10 million acquisition by an absentee owner. I think that this individual will look at it rather than use it for beef cattle production. That is a loss to Nebraska. There is a ranch bought in Hayes County recently by some Minnesota hunters, and they, too, will look at the land and use it for hunting rather than for beef cattle production. This indicates that far too many of our farms are being passed on to nonfamily members, absentee owners, wealth being taken from the rural areas to out-of-state areas and perhaps urban areas of Nebraska. Today, 40 percent of our communities in Nebraska, cities and towns, are below 300 residents. They're not sustainable. We need to do something different. I maintain that our comparative advantage has been and will always be production agriculture. That's the reason why we're doing some things at NCTA to help with this problem. You may know that the fastest growing farm population today are those that are over 70, and the slowest growing population are those under 25. That indicates we have some serious problems and why? It's because the transfer of assets is so complex that many times we throw our hands in the air and just sell it and transfer the assets in that way. Another impediment is that farm families tend to be larger, more siblings. Once the siblings have their share, there's nothing left for the heir apparent to make a living on the farm. Been several tax problems. We're working through those, not as bad as it used to be, but there's some things that can happen. And then the incentives that you are trying to give us, our young farmers. Certainly the one that will make relatives eligible for this is a big one because we in Nebraska still have the majority of our farms owned by families. They need to pass those farms on to families, and it may take an incentive like this or I'm certain it will to get them to think about the transfer process. This legislation calls for a plan in which the process, a succession plan. And we think that if they will...if this incentive is given to them, that plan will be made and that the transfer will be made from the fathers and mothers to one or more of their children. If not, we have some visionaries that say we will have four or five farmers that will farm an entire county. They'll come in the spring with their semis full of big equipment, they'll plant, fertilize, and apply pesticides and move on. They will then return in the fall to harvest and prepare the land for spring planting, but they will not be permanent residents. At that time, our small communities will no longer be communities. Can we reverse this trend?

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Yes, we can. NCTA thinks it has some outstanding programs with this 100 cow programs for both beef and dairy and agribusiness programming for rural communities. These are the smallest of the rural communities, but that's where...that is where agriculture resides and we need to do something. Nebraska landowners need this tax credit for two reasons. One, the most important is to incentivize, as I've indicated, to get the plan, the succession plan drawn up. And second, and perhaps this is just as important, we have too many farm families destroyed because they do not know what is in the will or not in the will until the passing of the parents. That's unfair to the next generation. I worked with many farmers 50 and over that have no idea what is in mom and dad's will. Some way we've got to do something different in order to make that change. In encourage you to support this change in the law. Bottom line is please, please help us keep Nebraskans owning Nebraska. Thank you. [LB875]

SENATOR ERDMAN: Thank you, Mr. Sleight. Any questions? Senator Dubas. [LB875]

SENATOR DUBAS: Thank you, Senator Erdman. Thank you, Dr. Sleight, for being here. I have a very soft spot in my heart for Curtis. My son and his wife are both graduates of Curtis and it was the best time of his life and he even got an education too. What type of interest are you getting from this 100 cow program? [LB875]

WELDON SLEIGHT: We just started this fall. I speak at every opportunity I have. We have 16 students who will graduate this spring in the program or for the program and we have 20 who will come out next year and we think we'll have many more in the future. And I'm now out speaking to cattlemen and Farm Bureau delegations because what will make it successful are our current farmers and ranchers taking these young people under their wings and saying somebody gave me a chance once. I need to help them. [LB875]

SENATOR DUBAS: I think that's a very important point because as this land sells and not always sells to the type of purchasers we'd like to see, you know, it takes a willing buyer or a willing seller and so if we can help our older, more established farmers and ranchers understand they're not just selling their land, they're selling the future of our state, and I think the types of programs you're talking about are what we need to do to help them and to help our young producers get in the business and stay in the business. Do you have other ideas besides just this tax credit that you think would serve the purpose we're trying to reach here? [LB875]

WELDON SLEIGHT: Well, I'm certainly in favor of the property tax exemption. That's critical. If these young men and women could have three years where they didn't have this tax burden and didn't...and also had an incentive to have somebody work with them, that three years is really, really critical. So I...those are the two very important. Certainly we in higher education have got to do some important things. When I arrived at NCTA, I found that we were doing an excellent, excellent job of preparing people to be hired

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hands. What I mean by that is we taught them everything there was to know about technology, but we didn't teach them how to own it. Senator Dierks, you indicate 100 cow don't make a living. I agree 100 percent. But some way you got to get ownership in these young people's hands early enough and a significant enough asset that you get them thinking as owners. And then 30 years from now I believe they will be owners. But you got to get them started thinking early on. [LB875]

SENATOR DUBAS: Well, I applaud your efforts. I support your efforts. Thank you for what you do. [LB875]

WELDON SLEIGHT: Thank you. [LB875]

SENATOR ERDMAN: Thank you, Senator Dubas. Other questions? Senator Dierks. [LB875]

SENATOR DIERKS: Let's explore that a little bit, Dr. Sleight. Where does the financing come from to get the cows to purchase for these people? [LB875]

WELDON SLEIGHT: Okay. We don't do anything by ourselves. We have all kinds of partners. We're partnering with the cattlemen, Farm Bureau, FSA, USDA-FSA. They have a beginning farmer/rancher program. Our students can borrow up to \$200,000 at 4.75 percent interest. And so that's... [LB875]

SENATOR DIERKS: And what provides the collateral? Is that just part of the program? [LB875]

WELDON SLEIGHT: It's a direct loan. There's no collateral needed. And that's the reason...we don't start out with land. You know, if we were to start out and say, okay, we want to set up every one of our NCTA graduates with a sustainable farm, we're talking about a million dollars. No one is going to loan our students a million dollars. But this is a way whereby they can take livestock and take them to somebody else's land and operation and even work for them because the 100 cows won't make a living. But if our students can sell their management and labor working with someone else, maybe they put there 100 cows with a 500-cow herd and they become a herdsman, they can then...and it's just amazing what happens when you have your brand on 100 of those cows. I think it makes it much easier to get up in the middle of February during a snowstorm to go check calves. Something happens when you own and have responsibility. I think we're going to grow up our students overnight with this sort of a thing. [LB875]

SENATOR DIERKS: I was complaining the other day about an interest I had to pay and one of the guys I was complaining to said, that's the thing that gets your rear out of bed in the morning, you know. So maybe there's something to that too. But I do, and I

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applaud, too, your efforts because I think we have to do something to encourage these young folks. One of the big problems that I mentioned a little bit ago is if we were to look at parity, for instance, how much should a calf be bringing that you sell weaned off of a cow in the fall compared to what it brought 50 years ago compared with...when you compare the same amount of cost for your equipment and your fuel and your interest and your taxes? Do you get into that situation at all? [LB875]

WELDON SLEIGHT: Yes. [LB875]

SENATOR DIERKS: Do you get into the parity thing? [LB875]

WELDON SLEIGHT: We do and I wish I had Dr. Mark back up here with me. Actually last year we made more money on cattle than we do this year by all means. But I'm sorry I don't have that data in front of me, but it fluctuates with the cost of feed. [LB875]

SENATOR DIERKS: Suppose that my son wanted to come out to your school. Well, I guess it would be grandson now, but if he was interested in getting 100 cows, where would he go to get those 100 cows? Are they available from...do you have some ranchers that are going to provide those? [LB875]

WELDON SLEIGHT: There's two ways. There's been a criticism that there isn't enough feed in the state to take care of those 100 cows. There...we're 287,000 cows shorter than what we were in 1974. But a lot of that rangeland has been taken out of range use. But there's still range. There's still a lot of rental range and pasture. We still have 22 million acres of range and pasture. But there's two ways. The student can buy new cattle and take them to a ranch or they can...the very best way is generally this transfer thing doesn't happen between two generations. It happens between three. If a young person can go in and buy grandpa's 100 head and then maybe 200 head five years from now, if they're really...if they really live on the skinny, and perhaps 10 to 15 years from now they'll own 300 head. What I would hope then is that that 300 head becomes collateral for the ranch, either the ranch they're on or a different one. They'll take their cows to the bank so to speak, come out with the loan, and they will then have ownership of the ranch. You have to start. But if you start with too small of a herd, it doesn't grow fast enough. But we think that in 15 years that student will certainly understand production, they'll understand the business side of production, and they will have the collateral. They will be the next generation of farmers and ranchers for Nebraska. [LB875]

SENATOR DIERKS: Okay. There's another thing that you mentioned I want to get into a little bit is the fact that some of this land is sold for unbelievable prices and the people that bought them are not even going to use them for grazing. [LB875]

WELDON SLEIGHT: That's right. [LB875]

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SENATOR DIERKS: We had the same thing happen in Holt County a couple of months ago--10,000 acres brought \$8 million, 700 and what, 40, 50 dollars an acre. This was native Sandhills pasture and the creek goes through the bottom of it. But it's not irrigable. It's just either salty or no pasture. One of the things that's an unintended consequence with that is the assessor comes along and he sees this price on this land. All of a sudden the neighboring property becomes more highly valued. The assessed value goes up. So all of a sudden it's possible to get a few more dollars from that land for the tax purposes. This is a problem that I see every time I come home is property tax difficulties with the farmers and ranchers. We don't help them with those kind of situations. And the other thing that happens is there is, in that particular case, 10,000 acres, another 10,000 right beside it. There's 20,000 acres running out of production. The other thing I wonder about is like some of the land that one of these national investors is buying--Ted Turner. What happens to that land when he leaves? I mean he's paying property taxes on it today. What happens to that land when he leaves? Is that going to become part of The Nature Conservancy and not in the tax rolls? We have lots of concerns about these sorts of issues out there and they're not going away. They're real, and I just...I run into that all the time and so I just hope that people will understand some of the things when they talk to us about property taxes and the problems we face that these are real. And this is having a big effect on production agriculture in our state. [LB875]

WELDON SLEIGHT: I say over and over that Nebraskans need to own Nebraska. I think that should be a slogan for agriculture in Nebraska. Senator, you're exactly right if we don't turn that. But the way to turn it is to get fathers and grandfathers to say this place is something that we worked hard to build and develop. It needs to stay in the family. That's the reason why this legislation is so important is we need to keep it in the family. When it's in the family, we're not going to have all the absentee owners. It's not too late. But the...and the other thing is family is willing, because of love, cut some deals that don't happen across that are not in families. [LB875]

SENATOR DIERKS: Thanks for coming today, Dr. Sleight. [LB875]

WELDON SLEIGHT: Thank you. [LB875]

SENATOR ERDMAN: Thank you, Senator Dierks. Senator Preister. [LB875]

SENATOR PREISTER: Yes. I appreciate your comments. I wanted to respond because Senator Dierks may have misled people because The Nature Conservancy does pay property tax. The land that they have set aside is paid on. And I don't know of any land other than some that they may donate to Game and Parks or for certain purposes. But the vast majority of all of their land property taxes are still paid on, which brings up your comments earlier were that the two trophy ranches were sold in Nebraska. And there



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was a sadness in your voice and a lament that we're losing this land and it's not ranchers or farmers or people from Nebraska who are moving into it, but people who are looking at it as though from your view that didn't have much value. Certainly appreciating the land and having an attitude of respect for it is also important, and I don't think you were disparaging that. You were lamenting one, but I think it's also important to note that we all appreciate the land in different ways. And we can be from out of the state and come in and appreciate it. And those people are paying property tax but using very few resources, probably not using the schools. That the program that you're commenting on, if we gave three years of no property tax to beginning farmers and ranchers, somebody else is going to have to pay that. So that burden may well be shifted to the urban senators or the urban areas to offset that through state revenue. So all of this is a big give and take, and it isn't all quite so clear-cut in my view. [LB875]

WELDON SLEIGHT: Senator, I lament not that others are using the land. I lament what's happening to those rural communities. Those rural communities the past six years 68 of our counties have lost residents. And if I had the data to go back further, they would have been losing them for many, many years prior to that time. When absentee owners come in and buy, they're not staying. They're not...for instance, I did a study for Hayes County. I'm going to go over and speak to the Hayes County, probably their whole population, next week. They have 4 percent of their population under the age of 5. That means they're going to have nine students per class between two schools. That's not sustainable. There's some serious, serious things that I just wish I could take all of the urban folks to go on a ride with me through rural Nebraska. It's not a pretty sight, that we have storefronts all over the place that are open. What will happen, though, is every time we add five new farmers or ranchers, a new business will come back. It's critical that we get those there. You know, we talk about the cottage industries that we're putting out there. They're bringing in such a small amount. But these 100 cows, they're going to gross about \$60,000. That's a pretty significant amount of money to come in and circulate through a community. That's what I lament about is that these communities are dying. And then what will happen is we will, yes, we will have a whole bunch of out-of-state absentee owners and they will use the land, but there will be no one there to...I guess they'll have the appreciation, but I want those rural schools to continue. I want that rural life to continue because many of our great, great leaders in this country are Nebraskans from rural areas. [LB875]

SENATOR ERDMAN: Thank you, Senator Preister. Senator Dierks. [LB875]

SENATOR DIERKS: I stand corrected. [LB875]

SENATOR ERDMAN: That's very gracious of you. I thought you were going to have a rebuttal, but you're a gracious man. Dr. Sleight, thank you for being here, appreciate your vision. [LB875]

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WELDON SLEIGHT: Thank you. [LB875]

SENATOR ERDMAN: And thank you for your testimony. Next testifier in support, please. [LB875]

HILARY MARICLE: Good afternoon. Thank you, Chairman. My name is Hilary Maricle, H-i-l-a-r-y M-a-r-i-c-l-e. And before I begin my comments in support of LB875, I just want to congratulate the new and reappointed members of the Beginning Farmer Board. Farm Bureau knows many of them well and we know they'll do a great job. So moving on, my husband and I farm near Albion and I serve on the Nebraska Farm Bureau Federation board of directors and chair the Young Farmer and Rancher Committee. I'm here today on behalf of Nebraska Farm Bureau in support of LB875. I first want to thank Senators Fulton and Erdman for their work on LB875. Nebraska Farm Bureau has been and will continue to be supportive of measures that help and encourage individuals to pursue careers in farming and agriculture. The difficulties that we beginning farmers face are problematic at best. Entry into farming or ranching requires tremendous startup costs and relies heavily on capital expenditures for land, livestock, and machinery; these costs on top of the burden of supplying health insurance and other expenses that are oftentimes covered in group plans for other professions. We recognize the need for programs, incentives, and technical assistance for younger generations, and we support LB875 for this reason. Under present law, absentee landowners cannot participate in the program. Absentee landowners make up a significant portion of the ownership base in this state. Not allowing them to participate closes off a significant number of potential participants for the young farmers to find to work with. LB875 removes this prohibition and doing so will allow any landowner, no matter where they live or their occupation, to work with a young farmer and to avail themselves to the tax credits of this program. We have no doubt there are landowners who would be very interested in working with the younger farmer and assisting them in getting into the business. We believe that this change would be a giant step in helping assist younger producers. The current program also prohibits asset owners and beginning producers who are related from participating in the program. LB875 removes this restriction but only if the owners and beginning farmer have a legal succession plan approved by the Beginning Farmer Board. This change can achieve two goals. First, it serves as another incentive for related asset owners and beginning farmers to work together to pass the operation to the next generation. Second, it would encourage the development of the succession plans. Succession plans can play a vital role in assuring that all family members understand the transition plans and help to assure a smooth transition of a farming or ranching operation from one generation to the next. As a beginning farmer myself, I personally see how these changes in the Beginning Farmer Tax Credit Act can make a difference. In hosting the Nebraska Farm Bureau Young Farmers and Ranchers Conference last weekend, we heard a very, very strong message about the need for succession planning. This tax credit act would provide many families with the catalyst needed to start creating a succession plan so that they can take advantage of the opportunities

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these changes would create. On my own operation, my husband and I farm with both of our fathers, neither of whom currently qualifies for the Beginning Farmer Tax Credit Act. If the proposed revisions would occur, it would certainly make a difference and be of help to my family. First of all, my husband and I haven't had any luck using the Beginning Farmer Tax Credit Act yet we fit all the qualifications that are listed on that web site. The problem is there is no one who has felt that those tax credits are high enough, great enough, whatever you want to call them, to take over the strong competition that we see in our area every day. It's our families that are doing everything they can to help us get started, and they should have the opportunity to use this tax credit. My father owns a grocery store, but he also owns my grandparents' farm along with two of his brothers, and he hopes to keep this farm in production agriculture. By allowing any Nebraska asset owner and relatives to participate in the program, my dad could participate and it would open the door to succession planning for my grandparents' farm. My parents have also in this last year offered up their business and their portion of that farm as collateral towards purchase of land for us to purchase in the future. This land sale had to be completed by the first of the year. Unfortunately, using the FSA beginning farmer program and their loan programs is not a speedy process. And my parents were willing to take that risk and put that risk on their business to purchase the land so that we can in turn purchase it from them. While we're waiting for this loan paperwork that will be well worth it in the end I'm sure, we'll likely have to rent this farm from them for this growing season. The Beginning Farmer Tax Credit Act would allow them to take some of the financial burden and risk away. In addition, my husband and his father, they've farmed together since the day that my husband Brian graduated from college. Unfortunately, we still don't own any of that land. Were there to be a what if situation, we don't have any equity to purchase any or all of that farm. As a sixth generation on Maricle family farms, it's our goal to pass the farm on to our children. The Beginning Farmer Tax Credit Act would allow us to begin building a partnership on paper beyond the day-to-day operation of the farm. It would encourage Brian's dad to possibly rent some of the farm to us as part of the succession plan that we would have to create to receive the beginning farmer tax credit. Finally, the changes proposed in LB875 dovetail nicely with the new program that we recently heard about from NCTA in Curtis, the 100 beef cow ownership advantage program. We fully support NCTA in that effort and think these two things go together wonderfully. It is my hope that my examples can help you put a face and a story on the impact that the proposed changes would have on beginning farmers. Again, Nebraska Farm Bureau Federation strongly supports the bill. And I'd be happy to answer any questions you have. [LB875]

SENATOR ERDMAN: Thank you Hilary. Any questions for Ms. Maricle? Senator Wallman. [LB875]

SENATOR WALLMAN: Thanks for testifying. And many, many years ago I, too, was a young farmer. So it's tough to get started, but hang in there. [LB875]

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HILARY MARICLE: Thanks. [LB875]

SENATOR ERDMAN: Thank you, Senator Wallman. Hilary, thanks for your testimony. Say hi to Brian for me. [LB875]

HILARY MARICLE: Thank you, will do. [LB875]

SENATOR ERDMAN: Thank you. Next testifier in support, please. [LB875]

MATT DOLCH: Thank you, Senator Erdman and the committee. My name is Matt Dolch, that's M-a-t-t D-o-l-c-h. I'm pleased to be with everyone today representing my fellow beginning farmers and ranchers. I'm currently a 22-year-old student at the University of Nebraska-Lincoln. And I don't really like missing class, but my professor said today that my ethics in agriculture class would be excused because this is a real-life situation and get the experience that they try to teach in class. But until you go out there and actually do that, it's not really possible so thank you for that. My background is I'm from southwest Iowa originally, a town of Villisca, which is about 60 miles east of Omaha, and live on a family farm there; have 250-head cow/calf operation and we feed out about 200 head of cattle ourselves and 800 acres of row crop corn and soybeans both. And I'm here today, along with the Nebraska Cattlemen, as a proponent for LB875. My experiences in the past: Iowa FFA president from 2006-07 and really got my first taste of Nebraska here this last summer when I was working out in Lexington at KRVN Radio as an intern out there, so really got an opportunity to see what Nebraska was all about as I traveled around to the different commodity meetings and really learned what the basis of Nebraska agriculture really is. And that really opened my eyes for what we're here to talk about today, the beginning farmer tax credit that we're talking about. The importance of education is why I'm here. And beginning my own operation, I found some difficulties in doing so due to the high startup costs that many of us are incurring. I took out a beginning farmer loan with the USDA FSA here recently in December to buy 40 head of bred cattle, and I purchased those in Atkinson, Nebraska, in the Sandhills up there, and brought that money to the Nebraska economy and really...the quality of cattle are really good in Nebraska. And that's something that you folks should be proud of, the fact that you produce an excellent quality product here through your agricultural production. And bringing in out-of-state people like that certainly is a plus to your economy and speaks highly of yourselves. In doing that, one of the problems that I recently incurred was the fact that I lost one of those heifers here just a couple of weeks ago. And as a beginning farmer, I'm already behind--haven't got a first calf crop out of any of those yet. But I'm already behind, like I said, because I've lost that. And I think this beginning farmer tax credit would help provide more opportunities, which I'm certainly in favor of providing any opportunities possible for the beginning farmers and ranchers. I support this piece of legislation because I think that we can use these types of incentives to be successful. I'm not in favor of getting everything handed to you on a silver platter by any means at all, and I don't want it to

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come across as that. But I think that this is saying that there's a chance for young people like myself to get started and have an opportunity. I'm not saying subsidize farming completely. I'm just saying, like I said, that we need a chance. Many people have talked about the land prices already, and that land is physically limited and unavailable at best in a lot of different situations. And without that land into production, it really becomes difficult to make a living, make a family and really supplement those rural Nebraska communities that have brought so much to the state and the nation, for that matter. A lot of people today have to work two jobs to support or work a job and then support the farming industry that they've grown to love. And they have to spread their resources thin and don't have all the resources to make everything possible, and I think that's another reason why this opportunity would help the beginning farmer and rancher. Farmers get older. That's why we're here today is to protect the future. And if we don't start addressing some of these issues now, I think down the road even further they will become even more serious. Incentives for young farmers to help--excellent opportunities there. I've had conversations with other young people and where do we start? There's a lot of things that should...that will help out, and I think that this is certainly one of them. Any help provides a starting point. And when I took out my loan, I really felt that I had somebody behind me, somebody that was in support of something that I was doing. And I think this is just another carry on with that. But this beginning tax credit would just provide an additional support and a pillar, a foundation that will help beginning farmers and ranchers. In conclusion, I want to thank the committee for their time and an opportunity to present on behalf of beginning farmers across the state of Nebraska. These bills provide a fair opportunity for someone like myself to become involved. And I know that working together, because it does take all of us, we can get these things done. I'd like to entertain any questions you have at this time. [LB875]

SENATOR ERDMAN: Thank you, Matt. Any questions for Mr. Dolch? Senator Dierks. [LB875]

SENATOR DIERKS: Matt, I just want to leave you with a message. I don't...I think I come across being kind of negative about stuff. But we have some very (inaudible) positive things that are happening in our state. Renewable energy is part of it; ethanol production is part of it; wind energy is part of it. The ethanol production in these small communities has been phenomenal as far as returning dollars. The community of Plainview put their plant up in 2003 I think. The first three years they had it paid off. The first year there was a study done from NPPD, they had an economist that did a study, and the returns to that community for one year was \$65 million. You multiply that times all the ethanol plants that are being built around the state and, of course, there's economic changes in there, too, do some positives there. So we have some good things going on out there. And I think there is some dollars available in some of those communities to help with the efforts that you're interested in. [LB875]

MATT DOLCH: Thank you. [LB875]

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SENATOR DIERKS: Thanks for coming. I appreciate your coming here. [LB875]

MATT DOLCH: Thank you, Senator. [LB875]

SENATOR ERDMAN: Thank you, Senator Dierks. Other questions for Matt? Matt, you mentioned you were in the FFA in Iowa and you were the state president or you were the... [LB875]

MATT DOLCH: This past year, yes, sir. [LB875]

SENATOR ERDMAN: And you're now in Nebraska studying ag. [LB875]

MATT DOLCH: Agriculture. [LB875]

SENATOR ERDMAN: And I bet the folks in Iowa State are thrilled about that. [LB875]

MATT DOLCH: Absolutely. [LB875]

SENATOR ERDMAN: Am I to conclude then that your intentions would be to stay in Nebraska or have you decided where you'd like to be at the end of your career as far as education goes? [LB875]

MATT DOLCH: Senator, my experiences with the rural radio network and KRVN were certainly excellent. And I do like this part of the state, the eastern side, and so hopefully maybe in the future...I'm looking at the West Point area and starting a cattle operation there with working maybe at KTIC Radio for awhile and hopefully that an opportunity like this would help secure some land. [LB875]

SENATOR ERDMAN: Well, Matt, ten years ago, well, ten years before you were Iowa State President, I was Nebraska State President. And it's good to see that the standards have raised a little bit because I wonder some days and I think others do, how I got there. But fantastic organization, prepared you very well, but we appreciate your interest. We appreciate greatly that you're a student at University of Nebraska and learning well there, and we'll look forward to seeing you again soon. [LB875]

MATT DOLCH: Thank you very much, Senator. [LB875]

SENATOR ERDMAN: Thank you, sir. Other questions? I don't see any. Thanks for coming. [LB875]

MATT DOLCH: Thank you. [LB875]

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SENATOR ERDMAN: Next testifier in support, please. Can I see a show of hands quickly how many remain that wish to testify in support of LB875? I've got two. Okay. [LB875]

ROBERT ESCH: Senator Erdman and members of the Ag Committee, my name is Robert Esch, R-o-b-e-r-t E-s-c-h, from Spalding, Nebraska. And you just heard from my daughter Hilary. She talked about why she and Nebraska Farm Bureau support LB875. I'm here today to share with you what these improvements in the Beginning Farmer Tax Credit Act would mean for me as an asset owner and a father. First, thank you, Senator Fulton and Erdman, for their work on LB875. It's essential that we work toward creating more opportunities for these young people to become involved in agriculture. The proposed changes in the Beginning Farmer Tax Credit Act will open doors by allowing nonfarming asset owners and relatives to rent to beginning farmers. As Hilary stated, my wife and I own and manage a grocery store, but the love of agriculture has never left our hearts. And we raised our children to know agriculture through their involvement in their grandparents' farms. We currently rent our ground to our daughter and her husband at a rental rate that has not followed the recent trend of increasing rent. With the involvement of extended family in the operation, it has been a challenge to create a succession plan. With the incentive of beginning farmer tax credit, we can begin to approach the idea of a succession plan on my parents' farm with my two brothers who own it with me. In addition to the land that we temporarily purchased to help Hilary and Brian build equity this summer, sorry, let me start that one over. In addition, the land that we temporarily purchased to help Hilary and Brian build equity this December, it is a financial challenge and has put our business at risk. Hilary spoke about that briefly. Yet this is just one instance of a family taking risk to help beginning farmers. It is often relatives that have the desire to help the beginning farmer, and this proposal would allow us to rent to and develop plans with our beginning farmers to keep young people in Nebraska. We have a decreasing population at home and the ability to keep the young educated people in the community is often seen most clearly by the family. It is also important to asset owners who may not provide the daily labor on the farm to keep the community strong with young faces. Economic development and preventing out-migration of our young people is a necessity in rural Nebraska. Having served as chairman of the economic development committee of Loup Basin RC&D, I've seen firsthand the impact the young people in agriculture can have on a rural community. I strongly support LB875 and believe that many parents want to see their children succeed would agree with me. Thank you for allowing me to share these comments with you. [LB875]

SENATOR ERDMAN: Thank you, Robert. Any questions for Mr. Esch? Well, having attended college with your son-in-law and daughter, I think they're probably already a success. But we appreciate you being here and your involvement in their future. I know that will continue. [LB875]

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ROBERT ESCH: Thank you. [LB875]

SENATOR ERDMAN: Thank you. Others in support? Mr. Hansen, if you want to make your way forward here so that way you're on deck when we're done with Mr. Lombardi. [LB875]

RICHARD LOMBARDI: (Exhibit 5) Members of the committee, Chairman Erdman, my name is Richard Lombardi, L-o-m-b-a-r-d-i. I'm speaking on behalf of the Center for Rural Affairs who had hoped to be in attendance today. Weather has prohibited that. I have some comments that they have drafted in full support of this; thankful to the chairman; thankful to Senator Fulton and all the other agricultural organizations that have worked on modifying a 1999 piece of legislation. I think that in the Center's testimony they point out some of the great work that's been done with regard to really capturing the incredible amount of asset transfer that goes on...is going to be going on in rural Nebraska. And the adjustments that LB875 brings I think really tries to capitalize on what is surely becoming a major tool in rural economic development. So thank the committee for its time. [LB875]

SENATOR ERDMAN: Thank you, Rich. Any questions for Mr. Lombardi? Thank you, sir. [LB875]

RICHARD LOMBARDI: Thank you. [LB875]

JOHN HANSEN: Chairman Erdman and members of the committee, for the record my name is John K. Hansen, Hansen, H-a-n-s-e-n. I'm the president of Nebraska Farmers Union, appear before you today as our president, also our lobbyist. We are in support of this bill. We have not had the opportunity to read the amendments yet. I would like to do so and make sure that a couple of questions that we had about the bill are cleared up, as we hope they are, in the amendment. But we are in support of as many different kinds of additional efforts as we can make to try to aid and abet the transfer of assets from the land owning generation to the next. And I've been working in this area, I think, along with Chuck Hassebrook of the Center for Rural Affairs, for I believe our work goes back a little over 25 years together, trying to identify those kinds of things that we can do. And I compliment the Farm Bureau and Senator Fulton and Mr. Chairman and everyone who has had a hand in this. And I think this looks like a reasonable effort. There is a bill that I helped write a letter of support for at the national level which is being sponsored by Congressman Terry of Nebraska, Congressman Pomeroy of North Dakota, and Chairman of the House Ag Committee, Collin Peterson which would be a three-tiered reduction in capital gains for folks who would sell beginning farmers, qualified beginning farmers would be at the highest level, up to \$500,000 in capital gains relief for that. So as I look at all of this and I look at the efforts of the Beginning Farmer Board and all those things, given the high and increasing costs of land, the increase in operating costs, it behooves all of us who want to try to hand off to the next



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generation to kind of redouble our efforts, look at what we're doing, take a fresh look at old things we've tried, update them, look for as many different things. In our view, one of the things that works best is when you have things that you can dovetail off of from the national level to the state level. Then a lot of times we're able to actually move the ball forward on some things. So we're very encouraged by what we're seeing out of the national level. This is the kind of substantial tax benefit that really helps do it. As we look at the bill, you look at absentee landownership, there has to be...I think that's a common sense. That's a no-brainer as we say because we have a lot of folks that are absentee landowners who are very connected yet back to those rural communities. And what I would suggest is that we need to make it as easy as possible for folks who have an inherited land, who are no longer involved actively in agriculture to help make that land available to new owners who are. And every generation that they get removed from the farm, the attachment tends to decrease I would suspect. So while we still have an awful lot of folks who are next generation or one generation at most away, it's a good idea to do that. And there's lots of things going on. And I just think that it would be helpful sometimes if we looked at all of the different tools that are available where we have them in one place. The Center for Rural Affairs Land Link Program, for example, I think is an excellent program. We've referred a lot of folks and some of our members have used the Land Link Program through Center for Rural Affairs where you try to link up folks who are retiring with folks who want to get involved in agriculture. And there's just lots of different kinds of things that are going on. And we're certainly in support of the efforts of Weldon Sleight and the folks at Curtis. And we are in the next couple of weeks (RECORDER MALFUNCTION--SOME TESTIMONY LOST)...Hopefully there will be enough of them at one place at one time that we'll actually have what we need to make things work. And with that, I'd be glad to answer any questions if you have any, but encourage the committee to look favorably upon LB875. [LB875]

SENATOR ERDMAN: Thank you, John. Any questions for Mr. Hansen? Senator Dierks. [LB875]

SENATOR DIERKS: John, you heard me ask the question about parity. Do you have some literature you could give to us that tells us where we stand today with the different farm commodities compared with what the price was, what, four years ago? [LB875]

JOHN HANSEN: I can dig out the four-year...Senator, I can dig out the four-year-ago stuff. I think that the legislative update I just sent out earlier this week had the current numbers on it, and of course I don't remember what they were. [LB875]

SENATOR DIERKS: Is that compared to (inaudible)? [LB875]

JOHN HANSEN: But it has cattle. It has dairy. It has all the various commodities, has the parity ratio in it. [LB875]

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SENATOR DIERKS: Parity being established in what year? [LB875]

JOHN HANSEN: The base period going back to 1909 to 1914, and then adjusted accordingly for productivity as it goes forward. But I can dig out those...I know right where they're out in USDA. I can dig those numbers out. [LB875]

SENATOR DIERKS: Okay. [LB875]

SENATOR ERDMAN: Thank you, Senator Dierks. Other questions? Thanks, John. We'll get you a copy of that amendment. I think the page has a copy of the amendment Senator Fulton offered so you can review that. [LB875]

JOHN HANSEN: Thank you very much. [LB875]

SENATOR ERDMAN: Thank you. I believe that's the last of the proponents, but is there anyone else that would wish to testify in support of LB875? I see none. Is there anyone wishing to testify in opposition to LB875? I see none. Mr. Anthony, I believe your testifying neutral. Is there anyone else in a neutral position? Okay. [LB875]

DON ANTHONY: Thank you, Senator Erdman. I'm still Don Anthony, D-o-n A-n-t-h-o-n-y, and I'm testifying on behalf of the board. We've gone through this legislation this morning. We have three points I'd like to make on it. And again I'm neutral. I'm not saying yes or no on it. This is your decision. One of the things that we did notice in, is it a change in the philosophy of the act, because it becomes...the original philosophy was that they wanted a retiring farmer in the act as a mentor. The mentor part became problematic, and it got dropped out, and we also...last year, you expanded it to allow us to qualify landowners who were direct heirs and still had a tie from that, but not people that had gone in and bought the land from...you know, just a sheer pure investment. And my understanding is this act would open it up into that area. The other reason that, my understanding was that families were not included in the incentive was that it was felt the family had its own incentive to bring a young farmer in. So that's just a point of history. More to the point of, the second point, we really had a question with defining what a legally binding document is. If that could be clarified in the language, defined in some way, that would help us, because we looked at potentially administering this. And also are we expected to track/enforce this in any way down the road so it's not a sham? Just something we saw in reading it that we'd like clarification on. The third point, we believe especially with the opening to family members we will see a larger increase in applications, which would be great. But right now we have 5 percent of the staff of the time of one staff person. The fiscal note said no increase in admin costs. The board thinks that's maybe wishful thinking. So that's what I have to say about this bill. Questions? [LB875]

SENATOR ERDMAN: Thank you, Don. Any questions for Mr. Anthony? Thank you, sir.

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Appreciate your observations. Anyone else in a neutral position? I see none. Senator Fulton has waived closing. That will close the hearing on LB875. And we will now proceed to LB1027, and Senator Dubas, as Vice Chair, you have the gavel. [LB875]

SENATOR DUBAS: Fire when ready. [LB1027]

SENATOR ERDMAN: (Exhibit 6) Senator Dubas, esteemed and talented members of the Ag Committee, it's an honor to be before you to introduce LB1027. I'm Philip Erdman, representing the 47th Legislative District. LB1027 proposes an exemption of the personal property of taxable, tangible personal property of qualified beginning farmers and livestock producers from personal property tax. The exemption could be claimed for a three-year period, beginning for the first year in which the exemption was applied for. One of the recurring themes that we heard throughout this interim in discussing LR93, which was our committee's effort this summer to engage Nebraskans in a meaningful dialogue about the future for ag policy in the state of Nebraska, was the need for more programs or the flexibility of programming to allow beginning farmers to become established. There are some limitations that we may experience in Nebraska that other states may not, and that is part of the basis for the way we're pursuing LB1027. Some states, for example like South Dakota and Iowa, allow lower rural property assessment for beginning farmers. Nebraska's constitutional restrictions for rural property assessment, for example, uniform and proportionate, do not allow this. However, personal property is not subject to that same uniform restriction. The USDA Economic Research Service article, which I believe is either in your bill book or will be available for you upon request, titled "Is more credit the best way to assist beginning low-equity farmers?," suggests that traditional lending programs, which is the primary focus of USDA beginning farmer, is limited to the ability to assist beginning farmers. Programs that encourage equity sharing with or equity transfer to beginning farmers may be one of the best ways to assist low-equity beginning farmers. Exemption of personal property when in the hands of a beginning farmer is an incentive to equipment and other transfers. This article finds that commercially viable farms require substantially more capital than low-equity beginning farms typically acquire. Lack of capital results in less productivity, higher costs, and lack of ability to act on income opportunities. Mechanisms are needed to ease the ability to acquire capital. LB1027 would ease the cost of capital acquisition during the first three years or during a three-year period generally when would be the beginning when personal property values are the highest as acquisition expands, for example, or to say it another way, that's when it's least depreciated for the purposes of determining taxable value. I've handed out a recent USDA research document that shows that new entrants in the farming business, between the years of 0-4, in other words their first four years, are far more likely to fail than established farms. The pattern holds true regardless of the size or age of the business when a beginning farmer takes over. So it doesn't matter how big the farm is and it doesn't matter the age of the operation, if it had been in the family for years or not; it's that critical time that we recognize is important to the success of that

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operation. The three-year exemption corresponds to a period of when that assistance would be needed the most to get that beginning farmer over the hump. If you look at the handout, it shows the years and the exit rate of operators under the age of 45, and goes through that, as well as those operators age 45 and older as a percentage. And it's some pretty interesting information, but it's something I think we can all relate to. Candidly, I'm probably one of those individuals that fits into that 0-4 year range as far as success. I graduated from the University of Nebraska-Lincoln, with a degree in ag education, a minor in ag business; went back to the farm, and four years later I was and still am working at a bank as a real property appraiser. There were obviously other issues that contributed to that decision, but there is a reality and something that I can relate to directly, that the success of a lot of these operations and the success that we need to be able to provide...or the opportunities we need to be able to provide for young farmers to be successful causes us to challenge how we're doing business, how we set our tax structure. As you recall from our discussions this interim for LR93, it was a broad-based approach which we have had many discussions as a committee about what are some of the things we may be able to pursue. I offer LB1027 as part of that consideration and would try to answer any questions you may have, and would look forward to the testimony, as well. [LB1027]

SENATOR DUBAS: Thank you, Senator Erdman. Questions from the committee? Could I see a show of hands of those wishing to testify in support? One, two, three. In opposition? Neutral? Okay. I know this is a very similar bill to the one that we just talked, and it looks like we have some new testifiers, but I would just respectfully request not to try to repeat or be redundant with your testimony, but don't want to discourage your testimony either, so. First person brave enough to come forward, please do so. [LB1027]

MATT DOLCH: Thank you, Senator Dubas and the committee. Once again, my name is Matt Dolch, M-a-t-t D-o-l-c-h. I won't repeat anything that I said in my earlier testimony. I just would like to speak for this bill, LB1027, for the fact of I think it really gives beginning farmers a chance to get started and not be under pressure during those first three years. So I think it really provides an opportunity to begin to build revenue and get ready for paying taxes for years after that. So any questions from the committee? [LB1027]

SENATOR DUBAS: Thank you, Mr. Dolch. Are there any questions? Thank you for taking the time to be with us today. [LB1027]

MATT DOLCH: Thank you. [LB1027]

HILARY MARICLE: Hello again. My name is Hilary Maricle, H-i-l-a-r-y M-a-r-i-c-l-e. And I won't repeat myself but I am here today on behalf of Nebraska Farm Bureau Federation in support of LB1027. Thanks to Senator Erdman for introducing this

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measure and to Senators Dubas, Karpisek, McDonald, and others for signing on. Farm Bureau members have been very supportive of the beginning farmer program, but once issue that has troubled us about this program is there haven't been more incentives targeted directly to the beginning farmers. Most of the tax credits awarded in the program go to the asset owners and not to the beginning farmer. Over the years, when amendments to the program have been discussed, we have suggested that perhaps a tax exemption from personal property taxes for qualified beginning farmers might be of assistance. Oftentimes, beginning farmers do purchase used equipment because they cannot afford new equipment. This equipment is fully depreciated but goes back on the personal property tax rolls when purchased. A three-year exemption from personal property taxes would mitigate the impact of the taxes for a period allowing the beginning farmer or rancher time to get more firmly established. As a beginning farmer, it's not that easy to purchase equipment when you're getting started. The equipment that my husband and I have purchased has all been very used, but it runs with a little work and a little bit of care, and it gets us started. The ability to receive a tax exemption would allow us to put that money back into the operation for things such as operating expenses, improvements, and continued purchases. We might even be able to use the money saved to purchase a slightly less used piece of equipment that would help us to become more efficient and use our time and money more wisely. We think the approach taken in LB1027 could be very helpful in assisting beginning farmers and ranchers in participating in this program. We support the bill and certainly encourage the Ag Committee to advance it. Thank you, and I would be happy to answer any questions. [LB1027]

SENATOR DUBAS: Thank you, Hilary. Any questions? Senator Wallman. [LB1027]

SENATOR WALLMAN: Thank you, Madam Chairman. Personal property tax, that's bothers all farmers. And so thank you for testifying. [LB1027]

HILARY MARICLE: Thank you. [LB1027]

SENATOR DUBAS: Any other questions? Thank you. [LB1027]

MICHAEL KELSEY: My apologies. Thank you, Senator Dubas, and good afternoon, committee. Again my name is Michael Kelsey, M-i-c-h-a-e-l K-e-l-s-e-y. I am currently the executive vice president of the Nebraska Cattlemen, and am here to testify in support of LB1027. Again, would like to thank Senator Erdman, as well as the host of cosponsors, for realizing and taking on this issue. Quite frankly, two very quick issues. Our policy, as developed by our members, is in direct support of this type of legislation exempting personal property from personal property tax roll. I would agree with Senator Wallman, this does give us quite a bit of a stomach ache when it comes time to belly up, if you will. And the other is that we view this bill as a direct benefit to the actual beginning farmer and rancher. We've talked a lot about, today, about how can we help

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both, if you will, especially those, the absentee landowner and so forth. This one is aimed directly at the young person, and so it's a direct benefit. It is limited, which we like, as well, in terms of the three-year period. With that I'll conclude and respectfully that the committee forward it on for full floor debate, and would answer any questions. [LB1027]

SENATOR DUBAS: Thank you, Mr. Kelsey. Any questions? Senator Preister. [LB1027]

SENATOR PREISTER: Mr. Kelsey, I appreciate your testimony. Could you refresh my memory? I believe tangible personal property is all assessed and is paid into the local county assessor? And then that goes in, like with all property taxes, it goes for the schools and county roads, all of those various things that property tax goes to. [LB1027]

MICHAEL KELSEY: Correct. [LB1027]

SENATOR PREISTER: Okay. [LB1027]

MICHAEL KELSEY: I believe so; yes. [LB1027]

SENATOR PREISTER: I'm thinking that's where it goes, and they set those fees, but I wanted to be sure. [LB1027]

MICHAEL KELSEY: Yes, sir. [LB1027]

SENATOR DUBAS: Other questions? Seeing none, thank you. Anyone else in support of LB1027? Opposition? Neutral? [LB1027]

DON ANTHONY: Thank you, Senator Dubas. I am Don Anthony, D-o-n A-n-t-h-o-n-y. I am testifying on behalf of the Beginning Farmer Board. Again, we had three comments on this bill, as well, when we read through it this morning. One would be a repeat of the other one. This is a change in the philosophy to direct subsidization. Not good or bad; that's your choice. Just noting it. Where we really started getting into some problems discussing how we would administer this if it was passed as written, was in how we coordinate with the counties in their tax assessment and billing with when we approve an application. Many landlords and tenants are still in negotiations right now. March 1 is the traditional start date. So we will get applications in, in April and May, from negotiations that occurred in February and into March, while the assessment for this year on the property tax was as of December 31, 2007, payable in May and June...and August. So how we work this timing as to what years does this apply to in relation to the years that we actually are proving for is problematic to us, and I don't have a solution. I'm simply pointing out the problem here. The other question we have is, are the assets that are to be exempt, is that just the assets the beginning farmer has at the time they fill out the application, in which case that creates a problem tracking them through the

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three years for the county because there may be more assets added and that, as we go along; or does it apply to all...you know, if in the second year or the third year the beginning farmer buys additional machinery, it goes on the tax roll, they're in the exempt status, is that new machinery exempt for the remainder of the three years? So that's questions we didn't have the answers to as we read the legislation. The other thing that worries us, you like to think the best of everyone, but experience teaches you sometime to be a little cautious. What would prevent...? I'm going to pick on Senator Erdman since he's not chairing now. [LB1027]

SENATOR ERDMAN: I will be later. [LB1027]

DON ANTHONY: Okay. (Laugh) You can get even then. I know his father quite well, and I'm just...I know they farm together. There's obviously, in most of these agreements, there is sharing of machinery. So you basically kind of got a common body of machinery. Some is owned by dad, some is owned by family corporations, some is owned by the beginning farmer. What is to prevent Steve Erdman from saying, I've got a million dollars' worth of (inaudible) stock here on the property list. I'm a big farmer. And Phil is qualifying for the young farmer program. I'll sell the whole thing to him with a zero down note. So it doesn't change his net worth as far as qualifying for the program, but all of a sudden we've got all of our machinery exempted from property tax for three years. Do you follow my question? I don't see a mechanism in here to prevent something like that from happening, and we certainly wouldn't want sham things to get into this program, because that would destroy it very quickly. I think that's our points that we had in reading it. Do you have questions of me? [LB1027]

SENATOR DUBAS: Thank you, Mr. Anthony. Any questions? Senator Wallman. [LB1027]

SENATOR WALLMAN: Thank you, Senator Dubas. Would you propose a cap on that money then or something like that? [LB1027]

DON ANTHONY: That would be one option, yeah. But we would need some clarification if we were to try to administer this, as to how this applies. [LB1027]

SENATOR WALLMAN: Okay. Thank you. [LB1027]

DON ANTHONY: Thank you. [LB1027]

SENATOR DUBAS: Other questions? Thank you, Mr. Anthony. Anyone else? If not, Senator Erdman. [LB1027]

SENATOR ERDMAN: Senator Dubas, thank you. I think the observations are obvious and well-stated. Rick Leonard and I have looked into a couple of the issues, and we will

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continue to work to clarify this. And obviously, by making this a part of the Beginning Farmer Tax Credit Act, that responsibility falls upon the Beginning Farmer Board for administration, and we'll work with them to address this issue. I think it has to be clear, as has been said by a number of the proponents today, that at this point in our program's history we're simply targeting how to get the young farmer to the door. We're trying to figure out how to match them with a willing partner, and the incentive, at times, that's currently in place, is to get that individual to consider that as an option for them. However, as we've heard again this interim, there really isn't an effort, at this point, made to get that door open for those young people or those beginning farmers, whether they're young or old. So I believe and I would hope that the committee would agree that this is an option that we should consider. If done appropriately and with the proper safeguards in place that would address some of the concerns that have been pointed out, may be a valuable tool that would help to complement, whether it's national policy being done in Congress or whether it's other policy that may come before the Legislature now or into the future to help provide those opportunities that we desperately need, to have individuals willing to carry on the best traditions and the best opportunities that agricultural production has to offer. [LB1027]

SENATOR DUBAS: Senator Preister. [LB1027]

SENATOR PREISTER: Thank you, Senator Dubas. Senator Erdman, would...I don't see anything in here that would hold the counties harmless, so the counties would just lose the revenue? [LB1027]

SENATOR ERDMAN: The way that I understand it, Senator Preister, is that it would be a reflection of their ability to levy whatever the total dollar amount is. And so if there are eight programs currently in place, they would logically have that replaced that way, which may not be dollar for dollar. But I think the fiscal note, at least as drafted and by the analysis of the Department of Revenue, is that it's a \$50,000 or less impact statewide. So you're talking about a total impact that may not be much, but when you're talking about some of those producers that are in that category of trying to determine where that breaking point is, it could be a huge help. But it's again my understanding that it would be a reflection of their ability to levy that for purposes of their total assessment. And again, whether or not there's existing programs in place to make that up will be determined based on which programs are in place and how big of an impact that would have on their counties. But it is not an impact to the state directly. It's a direct impact on the counties and may be an impact on the state indirectly, should we be responsible for making up the difference. [LB1027]

SENATOR PREISTER: Thank you. [LB1027]

SENATOR DUBAS: Other questions? Thank you, Senator Erdman. [LB1027]



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SENATOR ERDMAN: Thank you. [LB1027]

SENATOR DUBAS: That will close the hearing on LB1027. [LB1027]

SENATOR ERDMAN: Thank you, Senator Dubas. We're going to proceed to LB789, and as has been the tradition of the committee, bills brought to the committee at the request of a agency or department will be introduced by the committee staff. Any bill that is introduced at the request of an agency is the responsibility of the agency until we get done with it, and we decide the approach we prefer as a committee. If it's the way it's introduced, then we take ownership after the committee hearing. If it's after an amendment, then we will there, and therefore Rick Leonard, the research analyst for the committee, will introduce LB789. [LB789]

RICK LEONARD: Thank you, Chairman Erdman and members of the Agriculture Committee. Senator Erdman mentioned my name is Rick Leonard. That's L-e-o-n-a-r-d, research analyst for the Agriculture Committee. As Senator Erdman mentioned, LB789 was brought to us at the request of the Department of Economic Development and the Rural Development Commission. LB789 makes a change in Section 2-5420 of the Agricultural Opportunities and Value-Added Partnerships Act. This act provides a grant program for...to stimulate and support entrepreneurial activities, particularly those that provide new employment opportunities and new income opportunities outside of probably our traditional commodity sales areas. The bill was enacted as LB1348 in 2000, and reauthorized in 2005 with the enactment of LB90. A provision of that act deals with the eligibility of applicants to be awarded a grant in a program. Section 2-5420 includes in one of those provisions elements of eligibility is that the grant provide a match. The program, from its inception, has allowed that that match to be provided in-kind, in cash or in-kind, or in a combination of both. The bill before you would require that that match be...would essentially eliminate the option of in-kind and require the match to be in cash, and then also require...increases the match requirement to 50 percent of the awarded amount when the amount...when the grant is being used to purchase equipment or buildings used in a farming or ranching operation. That is the nuts and bolts of it. The bill, both times in my recollection, as the bill has come to the floor, the issue of whether to allow in-kind match or whether we should require cash match has been discussed, but never in the context of an amendment to take it out. So at this point, the issue has come up, surfaced from time to time. We've not...been presented to this in this form where that specific issue requires an action of the Legislature. So that would conclude my introduction. [LB789]

SENATOR ERDMAN: Thank you, Rick. Any questions for Mr. Leonard? Don't see any. Thank you, sir. Can I see a show of hands of those that wish to testify in support of LB789? I see two. Anyone in opposition? I see none. Anyone neutral? [LB789]

\_\_\_\_\_: One opposed. [LB789]

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SENATOR ERDMAN: Opposed? Okay. Neutral? Okay. We'll have a page distribute that for you. Before you begin there, Mr. Director, this is a good opportunity for me to correct an error. We have two pages that are assisting us today. Tim Freburg, from Holdrege, is a political science major attending the University of Nebraska-Lincoln. Kristen Erthum is from Ainsworth; she is also a political science major, as well as international studies, and she attends Doane College. So there are the talented individuals helping us this afternoon. Go ahead. [LB789]

RICHARD BAIER: (Exhibit 7) Great. Just remind them, Senator, the DED is always looking for good, quality interns, too, so I'll get my plug in while I have a chance. Good afternoon, Chairman Erdman and members of the committee. My name is Richard Baier. For the record my last name is spelled B-a-i-e-r. I have the pleasure of serving as the director for the Nebraska Department of Economic Development. I am here today to testify in support of LB789. I would like to thank Senator Erdman for introducing this bill on our behalf. As outlined by Mr. Leonard, this bill would enact two minor changes to the value-added grant program. It's administered by the Rural Development Commission. That commission is one that I have administrative oversight for, through DED. First and foremost, LB789 removes the provision that allows grantees to make in-kind matching contributions. Currently, those in-kind matching contributions are allowed for products and services. We value them at \$25 per professional services and all other time is valued at \$10 per hour. This program has been successful and we are proud of the diverse projects that have resulted from the state's financial support. We've had a great track record. This was originally put in as part of the Nebraska Advantage in 2005. Unfortunately, the administration of the grant has been difficult, as in-kind matching is extremely difficult to audit. And I don't know if you'll recall or not, but this program did not come with staffing funds when it was adopted. We inherited it as part of the Rural Development Commission efforts. And what we're finding is it's becoming a bit cumbersome in our daily activities. The commission's executive director and her staff essentially have to take the words of our grantees that their in-kind work or service has been provided, and that the cost of such work is appropriate for the level of activity. This grant would be more manageable for the limited staff of the Rural Development Commission, and the quality of the applicants would be enhanced by removing the current in-kind provision. The second proposed change, again outlined by Mr. Leonard, is a requirement that any grantee wishing to purchase a building or a piece of equipment with grant proceeds must supply a 50 percent cash match. This proposal would address a couple of current concerns. First, there is a concern that this program would allow somebody to apply and receive a grant for the purchase of equipment that could then be moved to another state upon completion of the grant. Clearly, this is not what the grant was intended to do by the Legislature. In a similar fashion, we also don't want to subsidize the purchasing of a building that could then be sold for a profit after the grant has been awarded and executed. A 50 percent cash match, we believe, will ensure that the person or people applying for such a grant will have ownership in the

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building and equipment, and may discourage any misuse or other devious activities related to the program. In 2007, the RDC awarded grants to 47 projects, totalling \$1.7 million. The commission has funded activities such as developing new food products, marketing Nebraska value-added ag products, developing new nonfood-related products, enhancing our processing of agricultural products, investigating new farming techniques, and a variety of other activities. We believe it's successful and that we have many great stories to tell because of this effort. In closing, these changes make the program more accountable to the Nebraska taxpayer, while at the same time making the administration more manageable and hopefully raising the quality of the projects being funded through the grants. Thank you for allowing me to testify today. Again, thank you to Senator Erdman for introducing this on our behalf, and I would be happy to take any questions that you might have. [LB789]

SENATOR ERDMAN: Thank you, Mr. Baier. Any questions for Richard? Don't see any. [LB789]

RICHARD BAIER: Geez, that was easy. [LB789]

SENATOR ERDMAN: Thank you, sir. Next testifier in support, please? [LB789]

ROSS GARWOOD: (Exhibit 8) Senator Erdman, members of the Ag Committee, my name is Ross Garwood. I am a member of the Rural Economic Development Commission, and am presently a legislative chair of the commission. I'm here today on behalf of the commission to testify in support, LB789. The value-added ag grant program that the Legislature has created has been used by many Nebraskans to either start a business or grow the one that they have. The Rural Development Commission has been reviewing the grants, then forwarding them on to the Governor to look at and make his final decisions. In the previous rounds of the grant process, we have had more than enough good requests to invest the state's funds and to meet the goals of the law. At present, the program allows for a match of in-kind support to be used in offsetting the contribution requirements from the grant. Richard mentioned this is hard to keep track of, it's hard to put our arms around, and the amount claimed and the hourly rates are hard to keep track of. A lot of staff time is also dedicated to this process. The Rural Development Commission is concerned that there could be abuse in the system and that there is no effective way to audit this in-kind match. Linda Fettig and her staff are spending more time trying to track these matches than is reasonable in our view. We understand that a hard cash match will make it difficult for some, and may exclude some from participating, but we still maintain that we have sufficient applications, based on history, to utilize the funds. The change in the hard cash match to 50 percent for building and equipment is also desired by the commission for several reasons. Number one, we are already making a judgment call on the success of the request and are going to make an investment in its future, but the consideration of who owns the hard assets in the event that it would prematurely fail would cost the state more to determine

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than it may be worth. Number two, we feel that if the project is viable, that the participants will also want to invest in it, and if they have more of their own funds invested along with the state's, the incentive to make it work will also be greater. Number three, in the event that the applicants can't come up with the cash match, if they are a chosen recipient of the grant, a Nebraska bank, if they think that that person is a good risk, would already have the state's word on half of the project. And this would also give a second opinion on the project, as well. And then the 50 percent cash match would be designated for all buildings and equipment. This ensures that people are taking ownership in their tangible property and not turning profit, as Richard mentioned, possibly leaving the state with it. Those are our positions, and I'd be willing to answer any questions from the committee. [LB789]

SENATOR ERDMAN: Thank you, Ross. Any questions for Mr. Garwood? Senator Preister. [LB789]

SENATOR PREISTER: Have you had problems with people leaving the state? Have you had abuses? Have any of the things that you're seeming to anticipate occurred? [LB789]

ROSS GARWOOD: We, as far as I know, have not had that. It has come up in discussion, and we may be more overly concerned about some of those things than we need to be. But sometimes it's better to be proactive than reactive, if they would happen. We have not had a failure in any of the funding requests that we have put out. We have...there has been quite a bit of the state's funds invested in buildings and equipment, but we scrutinize them very hard, those businesses are running and providing jobs and working. So in answer to your question, no, but it could be a future problem. I don't foresee it now as far as the people that we have been working with. They're good Nebraskans and they're coming with good faith to use this incentive program. But we have a large pool of people that are requesting to use this program, and even with these changes, I know we're narrowing the boundaries, we still feel that there will be a good group of good projects to invest this money in. [LB789]

SENATOR PREISTER: Thank you. [LB789]

SENATOR ERDMAN: Thank you, Senator Preister. Senator Karpisek. [LB789]

SENATOR KARPISEK: Thank you, Senator Erdman. Thank you for being here. We talked a little this morning. My question is, if...is it just money that can be the 50 percent? Can it be equipment that you might have already owned that you're going to use in the new facility? [LB789]

ROSS GARWOOD: You know, I'm not sure. I believe that the way we are wanting to change the bill is a hard cash match. I would be not being fair in answering your

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question, to say if equipment and part of the existing building can be used. I'm going to guess that, yes. [LB789]

SENATOR KARPISEK: Okay. Well, and I think it's a great idea. I'm just thinking that if you're expanding a business rather than creating one, you have a lot already wrapped up. And if it could count, that would be only a benefit. [LB789]

ROSS GARWOOD: It kind of goes what our conversation was about this morning. [LB789]

SENATOR KARPISEK: Exactly. [LB789]

ROSS GARWOOD: And you are right, because...you know, I'm thinking of the intent of what the state desires to do. If that equipment is already there, there's already an investment in time, effort, energy, and that person is going to do everything they can to make that project work. And so that's, I think, the intent of the commission, that we keep guaranteeing that with the state's funds. [LB789]

SENATOR KARPISEK: Thank you. Thank you, Senator Erdman. [LB789]

SENATOR ERDMAN: Thank you, Senator Karpisek. Senator McDonald. [LB789]

SENATOR McDONALD: When you talk about the in-kind contribution, is the problem with that is it's difficult to value? How do you determine that you have to need to determine a value on that in-kind, is that why it's so difficult to figure out? [LB789]

ROSS GARWOOD: Somewhat. Richard and his camp, you know, put boundaries around the values because there were...they were starting to get out of bounds. You know, it's just human nature to want to get the biggest bang for your time, because some of these projects, they're startup, they are needing all they can do, and they are short on hard cash and/or assets. So that's not an issue as far as how we value them, because we have done that. But we do not have somebody standing there over the project all the time, keeping track of hours. You know, and once again, we trust people. You have to trust people with everything from filling out their income tax to saying how many hours they're spending on a project. And I think for the most part people are honest and we trust them and believe them, but it takes a lot of staff time keeping track of all these projects and all their in-kind supports and the time that they're turning in, and basing it against their invoices then of what we allow back for them in the process. [LB789]

SENATOR McDONALD: Thank you. [LB789]

SENATOR ERDMAN: Thank you, Senator McDonald. Ross, the process in place now

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that RFPs go out when for the next round of grants that will be available? [LB789]

ROSS GARWOOD: I don't know. [LB789]

SENATOR ERDMAN: I didn't mean to put you on the spot. I just thought of it after... [LB789]

ROSS GARWOOD: You have to look at our...go to our Web site. (Laughter) You'll have to find out the way everybody else does. [LB789]

SENATOR ERDMAN: There is another great opportunity to advertise for the Department of Economic Development. Would it be a benefit...and again we'll have to figure out when that is, but I'm assuming, if this bill would pass or with any change in it, it would become effective the middle part of July. I think this year your deadline was October 19 for this grant cycle, and I'm not sure when the RFPs would have gone out, but obviously if we're going to enact a change, it would be beneficial for that change to be effective before the next round of grants would be announced. So I just was curious. All right. Any other questions? I don't see any. Thank you, Ross. [LB789]

ROSS GARWOOD: Thank you. [LB789]

SENATOR ERDMAN: Appreciate you coming. I didn't see any other proponents. Is there anyone else that would like to testify in support? Okay. Opponents. Mr. Byrnes. [LB789]

ROBERT BYRNES: Good afternoon, Senator Erdman and members of the Ag Committee. My name is Robert Byrnes, spelled R-o-b-e-r-t B-y-r-n-e-s. I'm from Oakland, Nebraska. I did want to make a comment regarding the value-added grant package that you're discussing. I was a grant awardee in the first round, and received full funding for a renewable energy internship project. I'm the first; was awarded by the Governor on the radio. Had quite a bit of fanfare involved, and was (inaudible). We have closed out the grant. Was completed. The Ag Committee did some of the tangible results of that work in that biodiesel report that was issued during the interim study, the biofuels interim study. I think the idea on the 50 percent match for capital equipment is a good idea. I would support that. However, I did use the in-kind aspect of the grant as a match. The grant, it was a \$75,000 grant; \$48,000 went to paying students to do this work, with the ultimate goal of the process; trained them to get them ready for these jobs in renewable energy that are coming, and we had a great deal of success achieving those goals. I used the in-kind portion. I had about \$2,000 of in-kind match which was my time to mentor and develop the curriculum and monitor the students throughout the...primarily, during the summer program. I valued my time at 25 percent of my commercial rate as a consultant, and logged my time accordingly as I do with all my customers. My in-kind match, because of how the grant developed, we ended up

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doing, instead of a more cookie-cutter kind of curriculum, we did a more customized development for each student that put the renewable energy focus within their own educational goals--political science majors doing political science stuff, and so on. My in-kind match exceeded my requirement by a factor of 10, so I put way more time into it, and, you know, I don't expect any compensation from the state for that. But I really think that if you would maybe consider, in the grant application, forecasting the in-kind portion of the grant and more clearly outlining what it is so that at the end of the grant, when it is assessed and closed out, these things can be more readily verified: This is what you said you were going to do; this is what you were going to do; here are your receipts and time logs, or whatever, however they want to do that. And that's also an opportunity for the RDC to say, well, we like this, but this, we need more information here as far as forecastings, in-kind opportunities. I think simplification and maybe some more up-front questions would assist in that. I can understand how assessing that at the end without that forecasting might be difficult. The value-added ag grant is a tremendous program and it is doing wonderful things. I'm familiar with some of the awardees on this last round. A tremendous, tremendous program. What I don't want...what I would not like to see is trying to create so many different rules that we end up with a federal-type program that is a 25 percent match to a 75 percent cash from the applicant, with an application about this thick. So I understand there is a great deal of value in keeping the process as simple as we can, as well. That's all I had. [LB789]

SENATOR ERDMAN: Thank you, Mr. Byrnes. Any questions for Robert? I don't see any. Thank you, sir. Appreciate it. Anyone else in opposition? Anyone neutral? I see none. That will close the hearing on LB789. And we will now draw straws to see who would like to preside over LB1053. Senator Dierks, would you care to take that responsibility? [LB789]

SENATOR DIERKS: I'd be glad to. [LB1053]

SENATOR ERDMAN: Fantastic. [LB789]

SENATOR DIERKS: Whenever you're ready, Senator Erdman. [LB1053]

SENATOR ERDMAN: Esteemed and talented members of the Agriculture Committee, I am Philip Erdman, representing the 47th Legislative District, here to introduce LB1053. LB1053 essentially extracts and introduces, in a more polished form, a concept that was first contained in AM492 to LB626 which was presented to the bill as introducer during the hearing in the bills last session. LB626, as introduced, provides a general biodiesel production incentive of 30 cents per gallon, which somewhat mirrors the ethanol incentive program that we currently have in statute. Substitute AM492 offered by the introducer last session, introduced advanced research initiative concept which was not contained in the original bill, qualifying production eligible for additional 30 cents a gallon. LB1053 is essentially a more developed version of that advanced research

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initiative concept. Since the bill differs substantially in the purpose and mechanisms of the original bill, LB626, we felt it was inappropriate to introduce LB1053 which would have been an amendment to that bill as a separate bill. The biodiesel production incentive created in LB1053 is not intended as a general incentive for investment in biodiesel facilities, but rather it is designed to serve a more limited role of stimulating research, demonstrating technology transfer by providing...excuse me, demonstrating and technology transfer in providing a risk premium for early efforts to commercialize innovations in producing biodiesel. A particular focus of the bill is to stimulate private-sector deployment of those methods and technologies, especially those that hold promise for more efficient conversion methods. And I will briefly walk through the bill. First, we're going to state the legislative findings that we believe it's in the public interest to encourage innovative means of biodiesel production, and state legislative intent to provide incentives to the biodiesel industry that advanced this public interest. It also provides a biodiesel technology transfer and commercialization production incentive of 30 cents a gallon with the following limitations, and this is Section 3(1). They will be available to biodiesel produced utilizing innovative technologies and systems not commonly utilized commercially that meet one or more of the criteria that results from the production...excuse me, that the production results from technology or feedstock conversion; that achieve greater efficiency and net energy balance in conversion of conventional feedstock, such as vegetable oils or animal fats. It enables conversion of feedstocks derived from sources that avoid or mitigate biofuel competition for utilization of agricultural land or are complementary to food and feed production on agricultural land. It limits that incentive which may be claimed to eligible production. This is found in Section 3(2). It caps that annual production, for its incentive may be paid to a single plant at 1 million gallons, and limits the incentive to production occurring within a consecutive 24-month period. It caps the annual production, the cumulative production for which the incentive may be claimed by all plants at 2 million gallons, and prorates payments in the event that the annual claims exceed 2 million gallon cumulative cap. The payment of claims is limited to this availability of fund as appropriated by the Legislature. An eligibility to claim the production incentive is also subject to a prequalification. An entity that would be interested in pursuing this would submit an application to the director of agriculture, with the materials that they would provide to support an objective evaluation of their method, and that it would include a fee not to exceed \$1,000. The director would then assess that application with the assistance by the industrial ag product center at the University of Nebraska-Lincoln. Upon completion of that evaluation, the director would make a determination on the eligibility. If the applicant was determined to be eligible, the producer would submit claims quarterly on the forms provided by the director of agriculture, and the producer may submit an initial claim within one year of the determination. It provides for a procedure in the event that an application was denied under the Administrative Procedures Act. This is a lot of information. The simple fact is, is that what we're trying to do is figure out how do we take the best technology that we believe is coming, and to take advantage of that in the production, commercially, of fuel production from biomass, and specifically for the



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purposes of biodiesel. Recently, I had the opportunity to attend a conference of state ag chairs in St. Louis, and we spent a great deal of time talking about not only the existing opportunities that are before both agriculture in the needs of energy, whether it benefits agriculture specifically or how it complements our need as a nation for energy, but also what's coming down the road. What are some of those ideas that are out there being considered. Senator Dubas has legislation dealing with cellulosic forms of energy production. Those are pursued on a national level, very adamantly. There is funding available. In fact, we heard at that same conference about some of those opportunities. But as we look to the future, not only the needs of energy within our country, but worldwide, we're going to see an explosion of demand. We need to figure out ways that we can provide the necessary means to achieve those energy needs. My humble opinion is, is that we need all the energy we have now, plus more. There also has to be an opportunity for us in that discussion to evaluate what's the most effective way to accomplish that. And one of the things that you can do under LB1053 is figure out to apply for a grant or a credit that provides you with that risk capital to ensure that you can demonstrate the ability that that may be an opportunity that we should be implementing, or which would be the basis for commercial production, whether it's within the state of Nebraska or within the region. The bill is written to be fairly restrictive, and obviously there's an intent there, and it's something that we can discuss as a committee and we can discuss as a Legislature as to how much flexibility we want to have. But if a plant or if an applicant was able to produce 1 million gallons, it would only leave 1 million gallons for another applicant, and again it's limited to the availability of funds. This is again is not designed to create 50-million-gallon biodiesel plants. It's designed to truly focus on how do we take the technology that we know is available and create the mechanisms and the delivery systems to make it viable in the production of fuel in the field. We have a great deal of interest in western Nebraska. The committee heard some testimony from the Panhandle Research and Extension Center through the University of Nebraska about some of the new crops that they're pursuing, the oil content that those crops potentially bring to the opportunity for biodiesel production. We recognize that within our current climate there is somewhat of a discussion about the impact of the fuel industry or the renewable fuel industry on the price of food products. I think we have to be sensitive to that. And hopefully through our discussion and the continued discussion that we've had with Mr. Byrnes and others, and as the catalyst that was brought to us by Senator Dierks with his bill on LB626, we can begin to pursue state policies that may be able to provide us some opportunities to continue to be the leader in cutting edge technology, but also in the production of these renewable fuels. And with that I would try to answer any questions. I know that there are others here that will testify, but if you have questions about the process or the intent, I'd be happy to try to answer those. [LB1053]

SENATOR DIERKS: Senator Dubas (inaudible). [LB1053]

SENATOR DUBAS: Thank you, Senator Erdman. Questions from the committee?

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Senator Dierks. [LB1053]

SENATOR DIERKS: Well, I really don't have a question, Senator Erdman, but I wonder if there's...I think that I've seen some things happen with the ethanol legislation that I would like to see changed, and it's that I think we lost some of the controls on the pricing of ethanol. And I wonder if there's some way when we do this legislation that we keep those controls in Nebraska. And when I say controls, I mean I think corporate America came along and took a lot of those profits away from Nebraska. I'd like to see them stay here. [LB1053]

SENATOR ERDMAN: And I think your observation is well-founded, Senator Dierks, when you look at the ownership makeup of some of the ethanol facilities, some that were originally started were locally owned. Some have had ownership changes. And my guess is, is that as we continue to see some of the issues in specifically ethanol production regarding the margins continue to become tighter, we'll probably see some additional consolidation there just from the market. Whether or not it's essential for us to pursue that under, say, LB1023, or in a broader sense. I know you have legislation that's been introduced and it's before the committee on contracting of ethanol. We're probably putting this, being the horse, in front of your cart. And again we're focusing on how do we provide the right delivery, how do we do it most efficiently and effectively. And obviously since the state of Nebraska is going to be providing incentive, it has to benefit Nebraskans. It has to have some value to the state of Nebraska, whether it's the state as an entity or whether it's the state as a whole. And so I think that's a healthy discussion and something that we can consider. Whether or not it's appropriate under LB1053 or not, again we as a committee will have to pursue, but there are other bills that you have introduced and are going to be before the committee that may be a mechanism for that. But I think just as the production of renewable fuels or the energy needs of America can't be seen in a vacuum or negotiated in a vacuum, you have to look at the global picture and decide how do we position ourselves, how do we make ourselves most effective, and what do we as policymakers needs to be doing to ensuring both the availability of food, the opportunity for fuel, and most importantly, that in both areas that we're being as effective and as successful as we possibly can be, and there may be a regulation being a part of that on both sides. But I think your point is well-reflected in the trends that we're seeing in the ethanol industry from the production of corn, and likely would probably be something that we should consider as we pursue other legislation, if it's specific to biodiesel or other types of fuels. [LB1053]

SENATOR DIERKS: Well, that's my only thought, that we keep this in the back of our minds as we proceed, because I think that somehow or nother we lost some of it before, and I'd like for us not to do that again. Thanks, Phil. [LB1053]

SENATOR ERDMAN: You bet. [LB1053]

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SENATOR DUBAS: Thank you, Senator Dierks. Other questions? May I see a show of hands of those who are planning on testifying in support of LB1053? One, two, three, four, five. Opposition? Neutral? Two. Okay, thank you very much. [LB1053]

ROBERT BYRNES: (Exhibit 9) Good afternoon, Senator Dubas, members of the Ag Committee. My name is Robert Byrnes, R-o-b-e-r-t B-y-r-n-e-s, and I am from Oakland, Nebraska. I would like to thank Senator Erdman, Dierks, and Dubas for their signatures on this legislation. I think this is an excellent piece of legislation. I have provided kind of a highlight sheet that complements the senator's comments. I will be brief here in my comments, not only because of the time, but we did kind of discuss this during the interim study period, and its former...in its AM form, AM836, and other forms that it was in, it was discussed at that time, because this bill has not changed dramatically since we had completed, Rick and I had completed that work at the end of last session. I would like to take a moment of the committee's time just to update them on the state of biodiesel industry in Nebraska. It has changed rapidly here since we last met over the summer. Soybean oil is 50 cents a pound. The historic levels, the historic ten-year average when we started the Scribner biodiesel plant was 23 cents a pound. It is now 50 cents a pound, and the futures are higher over a year out. What this means for biodiesel in Nebraska is the biodiesel facility in Gering is for sale. Scribner will be mothballing their plant as soon as it starts up. Beatrice is uncertain. Several other projects that I'm aware of have been canceled. The only ones that are proceeding at this point is a smaller project in Grant, and in Arapahoe, in which I'm involved. And the only reason they are still proceeding is because they are buying seed and not oil. If you are buying oil seeds, the process of removing that oil is still very much an economically viable process. If you're having to buy any kind of oil on the open market, 50-cent-a-pound soybean oil means your finished costs of biodiesel is \$4.40, pre tax. Okay, that does not work, in black ink. The other thing here is we have a crude oil price of \$100 a barrel. Soybean oil has historically tracked a crude oil. That relationship is growing and will continue likely to stay strong. So with high crude we have high soybean oil. The prices at the pump do not reflect \$100 crude oil. These prices that we're seeing at the pump right now, as ugly as they are, are more reflective of \$60-a-gallon crude. So this spring is going to uncoil at some point, and then these things will become viable again, but right now probably 75 percent of the biodiesel industry in this country is shut down. Okay? So that's the...that's not the good news, but it is an update here on the state. Most of the Scribner facility, in which we had started here a couple years ago, is fully paid for. There is no debt. There is not debt to service, so that facility will stay ready for marketing conditions to change, and hopefully others will be able to do that. Senator Erdman talked about the need of expanding feedstock pool, and this is the absolute essence of biodiesel and how we will proceed with this in an economically reasonable fashion. Soybean oil, although the soybean itself is 18-20 percent oil, it barely even meets the qualification of an oil seed, which is 20 percent and above. Because of the acres that are planted, it is the largest oil traded in the U.S. by volume, and therefore the cheapest oil. Twenty-three cents a pound was the board price that small producers

and stuff never saw. It was always a by-product of gaining the meal. That low-hanging fruit is gone. The rapid expansion of the biodiesel process, production processes, and the most 90 percent of these plants proceeded on this ten-year soybean oil basis, will just buy oil, make fuel, and sell fuel; life is good. That's not what happened. Those days may come back. We don't know. But in order for this...and even if we took...there's 950 million acres committed to agriculture right now in this nation that are dedicated to either row crops or livestock. If all the fats and the oils from that 950 million acres in this country were converted to biodiesel, it would replace 10-15 percent of the petroleum diesel produced...or consumed annually in the U.S. So even if we used every drop, it's not enough. The good news is there are other oil seeds. There are alternative feedstocks that could meet...one that we're going to be hearing more about in the future is algae. Algae has the opportunity to take, and (inaudible) did this study years ago, if you took 10 percent of the Sonora Desert, which is approximately 85, 80 million acres, or less than that, but one-tenth of a desert in Arizona, and built algae ponds, you could replace 100 percent of the petroleum diesel consumption in this country. So I think that shows the power of these higher productivity feedstocks. LB1053 goes directly to the root. LB1053, you cannot get money from LB1053, making biodiesel from soybean oil. You cannot get it from sunflower oil unless it's planted in a certain place in some area that was not productive previously. The same old, same old is not what LB1053 is all about. This is a bill that's really focused on bringing this technology here to Nebraska. Let's do this here. Let's do these pilot plants here with novel feedstocks, including algae, including gasification of new carbon biomass. That is a process. It's a hundred-year-old chemical process, the same process which the Germans used in World War II to make liquid fuels from coal. It's a process of burning in the absence of oxygen. Those gases have been rectified back to a liquid state. Recycling, oil seed crops. There is energy all around us. Okay, so that's the one thing that really absolutely is critical to this industry, and LB1053 really goes to the heart of that. And then improved technology. I visited with technology suppliers here different from what we've used in the past, and there are tremendous advances being fielded with solid catalysts that reduce waste streams. Recycling of wastewater. We can recycle wastewater at Scribner. We can make one gallon of bio...30 gallons of biodiesel with one gallon of water, and that's dropping. So there's a tremendous opportunity, as well, with process technology, to keep us lean and mean. Methanol is one of the...is the single-chain alcohol that we use to convert oil to biodiesel. Okay, methanol went to \$3.40 a gallon this summer. Okay, that's a tremendous impact on the cost of production. You can use ethanol a lot cheaper, but that's not the focus of our discussion. There's a lot of better ways to do this, and that's what we want to incent, and we want them to build it here in Nebraska. LB1053, as seen in my highlights there and the senator's comments, is a small and focused program that will address these needs to foster this second stage of biofuels growth here in Nebraska. And I think this is a future forward-looking program that I strongly support. I do have one suggestion for the bill. In the previous version, it had included definitions of new carbon biomass and old carbon biomass. These definitions were included again to restrict the feedstocks that may be applied for this process. Old

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carbon bio...and these are definitions that we might as well get used to hearing because new carbon, old carbon, carbon trading, this is going to be part of the energy future. For example, reforming of natural gas. You can take natural gas as a gas, reform it into a liquid fuel, and that's called clean diesel, and they're doing that. But that is not a renewable fuel. So I would suggest that the definitions of new carbon and old carbon be included in the bill to ensure that we are truly using renewable feedstocks. And this is...these definitions have no intent to support climate change or anything regarding climate change, but these are just definitions of new carbon and old carbon and how they interact with renewable energy. And with that I'll take any questions. [LB1053]

SENATOR DUBAS: Thank you, Mr. Byrnes. Questions? Senator Dierks. [LB1053]

SENATOR DIERKS: Bob, if...you talked about methanol being the only catalyst for manufacturing all the biofuels? Or just diesel? [LB1053]

ROBERT BYRNES: There's actually two. The crude oil molecule, in various lengths, but it's basically three chains on a backbone. Methanol is mixed with...the alcohol is mixed with a catalyst; sometimes bought premixed, commercially. And that methoxide attacks the roots of the chains, and then your chemically base reducing viscosity when you generate...when you make biodiesel. Ethanol can be substituted for methanol in that process, and you can... [LB1053]

SENATOR DIERKS: Isn't that a little cheaper then, or...? [LB1053]

ROBERT BYRNES: Right now it sure is. [LB1053]

SENATOR DIERKS: [LB1053]

SENATOR DIERKS: Yeah. [LB1053]

ROBERT BYRNES : You know, hopefully if the plants were getting more than \$1.60 a gallon. Now, you do have slight...because ethanol is a larger molecule, it reacts somewhat slower and you have to use a little bit more. But at \$3.40 methanol, you can sure use...you can afford to really flog it with ethanol. The other benefits that ethanol use provides is the reduction of toxicity. Methanol is a liver target and can be soaked...it has a dermal absorption route so it can through your skin. It can be inhaled. It is not a nice material to work with. On the...we've...I've used both extensively for years, and we kind of had a rule of thumb, if you spilled...if you got methanol on your hands, you're running for the hydrant to wash it off. If you spilled ethanol on your hands, you were licking your fingers. So...and I think that kind of demonstrates a difference in the toxicity. So ethanol is much friendlier to use, and with this kind of variability, you know, in the methanol pricing, ethanol is great. The one drawback on the technology there, half of the alcohol that you add to the oil you can recycle. You add excess to drive the reaction

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to completion. Ethanol is a little bit harder to recover than methanol, and that's...so it's a little bit more expensive to recover the ethanol in a completely anhydrous state, to recycle it, but that's...I mean, that's...emulsive technology is pretty well-developed. [LB1053]

SENATOR DIERKS: Okay. Run the new carbon, old carbon thing by me again. [LB1053]

ROBERT BYRNES: Okay. New carbon is generally seen...and I don't want to get into any global warming discussion. You know, the jury is very much out on that whole thing. But new carbon, as a material, is what is seen as being carbon neutral in that it is the product of recent biological activity, okay? So the photosynthetic growth of this animal, this...well, the plant, sequestered CO<sub>2</sub> from the environment puts it in its chains or whatever the plant is doing with it, and then through the combustion process or degradation process in the field, that CO<sub>2</sub> is released again. And that...because it's being sequestered from the environment and then turned back to the environment, it's considered a carbon neutral process. Old carbon, by comparison, and when I say recent biological activity, that 20-year-old corn in the bottom of the bin is still recent. Old carbon is something that came about also from biological activity, but in geologic time frames. Items like coal, natural gas, obviously crude oil, these are all old carbon fuels. So when they are removed from the earth and then combusted, and any organic molecules combusted with oxygen gives off CO<sub>2</sub> and H<sub>2</sub>O, that CO<sub>2</sub> is considered old carbon and results in a net CO<sub>2</sub> gain in the environment. [LB1053]

SENATOR DIERKS: Okay. Now explain to me the effect of algae in producing fuel. [LB1053]

ROBERT BYRNES: Algae would be considered a new carbon biomass feedstock for biodiesel, so it would take oxygen...or it would take CO<sub>2</sub> out of the air or out of the water with sunlight in the normal photosynthetic process, sequester it in the these long chain oils, and then you would extract that oil through a process of concentration, and then extraction, and then conversion to fuel. [LB1053]

SENATOR DIERKS: And how expensive is that? [LB1053]

ROBERT BYRNES: To algae? [LB1053]

SENATOR DIERKS: Yeah. [LB1053]

ROBERT BYRNES: To grow, is...it's a different crop. It's an aqueous base so it's a different type of critter. If you're putting in...it depends on how you do it. If you're building concrete tanks, obviously that can get pretty expensive. If you're using municipal wastewater lagoons, if you're using existing bodies of water, if you're using

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things...using the synergies that are around you, algae production is...can be done on a shoestring. [LB1053]

SENATOR DIERKS: Lagoons from swine confinement units, for instance. [LB1053]

ROBERT BYRNES: Sure. Well, probably not the primary tanks, but certainly the final tanks. Algae can be used in a number of ways. It's one of those things, it's growing anyway, kind of like sunflowers. It's like, you can't keep them out of the fields so why try...you know, why not grow them? [LB1053]

SENATOR DIERKS: Well, we have some history of some algae causing problems just out in the people's pastures already, so. [LB1053]

ROBERT BYRNES: You want it to be...well, you would be harvesting it. It's generally the...if algae overgrows it will start competing with fish and unbalance the environment and stuff like that, and some go after it with copper sulfate or whatever. But you would be harvesting this algae almost on a continuous basis. [LB1053]

SENATOR DIERKS: Yeah. [LB1053]

ROBERT BYRNES: And then concentrating it and removing the oils. Algae is nature's most efficient means of storing photosynthetic energy in these long chains. [LB1053]

SENATOR DIERKS: Thank you, Robert. [LB1053]

SENATOR DUBAS: Other questions? If not, thank you, Mr. Byrnes. [LB1053]

ROBERT BYRNES: Thank you for your time. [LB1053]

KEN WINSTON: (Exhibit 10) Good afternoon, Senator Dubas and members of the Agriculture Committee. My name is Ken Winston; last name is spelled W-i-n-s-t-o-n, and I'm here representing the Nebraska Chapter of the Sierra Club in support of LB1053. My letter is brief and my comments will be fairly brief. I don't have nearly the breadth of technology knowledge Mr. Byrnes does, so basically I'm here to say that we're supporting LB1053 because of the fact that there are needs for a new direction in energy development for environmental reasons, for economic development reasons, and for energy security reasons, and we believe that LB1053 would create opportunities for development of these kinds of fuels. We're particularly in support of LB1053 because of the idea that it will focus on methods that are not currently being used, and in particular we're supporting the idea of reducing the competition between fuel and food, because obviously we're concerned about the idea of food...of fuel becoming competition for the needs of people to eat. We believe that the incentives make sense, and we would ask that this bill be advanced. Thank you. [LB1053]

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SENATOR DUBAS: Thank you, Mr. Winston. Questions? I see none. Thank you.  
[LB1053]

KEN WINSTON: Thank you. [LB1053]

HILARY MARICLE: Good afternoon again. Senator Erdman, members of the Ag Committee, my name is Hilary Maricle, H-i-l-a-r-y M-a-r-i-c-l-e. I'm here today on behalf of the Nebraska Farm Bureau Federation in support of LB1053. Nebraska Farm Bureau policy strongly supports renewable fuels production and the development of programs to maintain and grow a viable, renewable fuels industry in Nebraska. Farm Bureau policy also speaks to keeping our industry competitive with other states. As you know, LB1053 would provide per-gallon biodiesel production incentives to encourage research and commercial utilization of innovative technologies of biodiesel production, including the utilization of alternative biomass feedstocks. As such, passage of LB1053 would help achieve many of the policy objectives supported by our members. We especially like the protections in the bill to ensure the incentives are targeted in the exposure of the state budget is limited. Applications for incentives must be reviewed by the industrial agricultural products center at the University of Nebraska for an evaluation of the proposed production system to be sure the proposal is indeed meeting the purposes of the act. Moreover, total incentives provided by the state are limited to \$600,000 annually, and the most an individual producer could receive would be limited to \$300,000 annually. Biodiesel represents an opportunity to expand a domestic market for homegrown Nebraska commodities, much like the ethanol industry has done for Nebraska corn and grain sorghum producers. Further developing Nebraska's biodiesel also represents another way to stimulate rural economic development opportunities, creating jobs in Nebraska's rural areas. In closing, we appreciate your consideration of these comments and encourage the committee to support LB1053 and advance the bill to General File. Thank you for the opportunity to provide comments. [LB1053]

SENATOR DUBAS: Thank you, Ms. Maricle. Questions? I see none. Thank you.  
[LB1053]

ED WOEPPEL: Senator and members of the Agriculture Committee, I'm Ed Woepfel with the Nebraska Cooperative Council, and that's W-o-e-p-p-e-l. The Nebraska Cooperative Council represents the farmer-owned cooperatives across the state. We have about 92 percent of those cooperatives as our members. I think the issue has been laid out very well today, and I would just say that the Nebraska Cooperative Council is in support of LB1053, and would respond to any questions, although I would warn you I don't have anywhere the technical expertise that you've already heard.  
[LB1053]

SENATOR DUBAS: Questions for Mr. Woepfel? Senator Dierks. [LB1053]



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SENATOR DIERKS: Welcome to the party. It's good to see you again. [LB1053]

ED WOEPPEL: Very good. Thank you. [LB1053]

SENATOR DIERKS: I don't have any questions. I just wanted to say thank you. [LB1053]

ED WOEPPEL: All right. Great. [LB1053]

SENATOR DUBAS: Anyone else? Thank you. [LB1053]

ED WOEPPEL: Very good. [LB1053]

JOHN HANSEN: Thanks, Chairman Dubas, members of the committee. For the record, my name is John K. Hansen, H-a-n-s-e-n. I'm the president of Nebraska Farmers Union, and I appear before you today as the president and also lobbyist for our organization. We supported LB626. We have supported the efforts that Senator Dierks and Dubas and Erdman have made to try to figure out what it is that we do to try to capture the economic opportunities that are there in this new kind of renewable energy area. And as we contrast this to ethanol, it is more dynamic, it is more complicated, it is more intricate, it is more detailed and confusing for folks to understand than ethanol was. And yet by virtue of all that, there's also probably, if we think about that, that also provides us some additional opportunities that we haven't thought of or utilized. So how do we capitalize that? How do we do that? I think this is a good start. Anything that causes the spending of dollars is a brave effort. I want to congratulate the folks for bringing this forward, and would suggest that we're probably not going to actually be able to develop the kind of biodiesel industry in Nebraska that we are capable of doing without spending some money somewhere. And so while this does have a fiscal note, I look at these kinds of projects as an investment in our future. And when we look at the dollars that we have spent in the state of Nebraska on ethanol in years gone by, what was the yield on that investment? And on a lot of the economic activity, a lot of the tax revenues that we have in this state, is the direct result of us investing in our future. And I think that the benefits are there, and I think that it is unrealistic to think that we're going to be able to capture all of the upside potential in this arena if we are unwilling to spend some money. The question is, is this a good use of money? And rather than argue with Robert Byrnes in any depth over the technical part of this procedure, we have consented to agree that this seems reasonable, and we have also ran it by some of the other folks we've talked to and we work with, and we think this is a reasonable and targeted attempt. It's a good start. We hope you give it serious consideration. Thank you. [LB1053]

SENATOR DUBAS: Thank you, Mr. Hansen. Any questions? Seeing none, thank you. [LB1053]

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JOHN HANSEN: Thank you. [LB1053]

SENATOR DUBAS: Any other in support of LB1053? Opposition? Neutral? [LB1053]

DEBBIE BORG: (Exhibits 11 and 12) Good afternoon, members of the Ag Committee. I am Debbie Borg, president of the Nebraska Soybean Association, and I am here today to testify neutral on LB1053. Our industry expresses support of the general concept of a biodiesel incentive to help develop the growing need for energy independence with advanced technologies. The biodiesel industry has had some great successes in the growth of the industry in the last few years, and we want to build on these successes. The industry continues to grow in total biodiesel usage. According to the National Biodiesel Board, our current U.S. infrastructure capacity can produce roughly 2 billion gallons of biodiesel, and total demand of biodiesel in 2007 was around 500 million gallons. Should we focus incentive efforts on the production side or perhaps build incentives to drive demand of biodiesel? The bill references alternative diesel fuels as biodiesel, but there are three definitions for alternative diesel fuels: biodiesel, renewable diesel, and coprocessed diesel. For clarification, true biodiesel is fuel meeting the ASTM D6751 specification. It should not also include, or any other recognized fuel specification, as currently written in the bill. For clarity and consistency with other states and federal law, we encourage the definition to match that recognized by industry, auto makers, and distributors. Alternative diesel fuels and definitions are outlined in the handout, which is blue, provided by the National Biodiesel Board. One question we also raise is it appears the feedstock eligibility of the bill is designed to limit or exclude soybeans. With feedstock supplies as tight as they are for biodiesel production, do we want to exclude soybeans? New technology is a great thing, and we support it, but limiting feedstock qualifiers is a concern of ours. As a final comment, we would like clarification that if soybeans are processed with advanced new technologies, will that qualify under the LB1053 incentive? If not, the bill doesn't appear to offer any opportunity for the 20,000 Nebraska soybean producers which have been the backbone of the biodiesel industry. The Soybean Association is willing to provide any needed information or consultation with experts at the National Biodiesel Board for clarification on information presented here today to LB1053. And I would like to say, very much, thank you for your past support of the biodiesel production tax incentives passed last year. And I also want to point out that in order to have a viable renewable energy production industry, that will also require a very vibrant livestock industry, and as the Soybean Association, we are working very hard at partnering with the livestock industry to keep them vibrant here in the state in order to support biodiesel. In closing, we are in support of incentives for all biodiesel feedstocks and advanced biodiesel processing technologies to grow the industry and assure Nebraska plays a role in achieving America's energy and environmental goals. [LB1053]

SENATOR DUBAS: Thank you very much. Any questions for Ms. Borg? Senator Dierks.

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[LB1053]

SENATOR DIERKS: Thanks for coming, Debbie. I just missed the opportunity to question Robert Byrnes about this, but you mentioned something about the number of crushing plants that have closed. I think you didn't say crushing plants, but I think you meant that there was the crushed product was not available. Do you have any comments about that? [LB1053]

DEBBIE BORG: I guess I'm not quite sure what you're...? [LB1053]

SENATOR DIERKS: Well, if we're going to have biodiesel production, we've got to have the oil to do it, so we've got to have crushing plants doing the crushing... [LB1053]

DEBBIE BORG: That's correct... [LB1053]

SENATOR DIERKS: ...and evidently the crushing plants are not functioning, is that right? Oh, is that all crushed (inaudible)? [LB1053]

DEBBIE BORG: I would have to refer that question to Loren. [LB1053]

SENATOR DIERKS: Okay. [LB1053]

DEBBIE BORG: But I guess pointing out that we have current capacity today with all the technology and all the buildings are...infrastructure that's built to produce 2 billion gallons of biodiesel today. But our demand is only 25 percent of that, which is the 500 million gallons. So we've got huge production capacity in the United States today. Our demand is only a quarter of what our capacity is. [LB1053]

SENATOR DIERKS: Okay, thank you. [LB1053]

SENATOR DUBAS: Senator Wallman. [LB1053]

SENATOR WALLMAN: Thank you, Chairman Dubas. You guys realize I'm District 30, so Beatrice has a new plant, and that advanced technology, they tell me, gets rid of about...it's a lot better than they get out of, like, Lincoln here, ADM. Is that true? The finished product? [LB1053]

DEBBIE BORG: I will have to refer that question to either Robert or Loren. [LB1053]

SENATOR WALLMAN: Then they're going to...I think they're going to put a crushing plant up, too. It sounds like it. [LB1053]

DEBBIE BORG: Of all of the things that I've heard through the various...I mean, the last

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several years, is that they've been talking with anybody interested in renewing biodiesel, is that you've got to have the crushing facility next door, because there's never...in the last five years, we haven't have a surplus oil supply problem. [LB1053]

SENATOR WALLMAN: Thank you. [LB1053]

SENATOR DUBAS: Further questions? Thank you. [LB1053]

DEBBIE BORG: Thank you. [LB1053]

LOREN ISOM: (Exhibit 13) Thank you, Senator Dubas and the committee. I'm Loren Isom with the...that's L-o-r-e-n I-s-o-m, and I'm with the University of Nebraska Industrial Agricultural Products Center. And I guess before I start on my testimony I just wanted to follow up on Senator Dierks' question if that's okay? [LB1053]

SENATOR DUBAS: Yes. [LB1053]

LOREN ISOM: As far as the crush industry, the way (a) I think Robert was explaining, is that the crush side of the business is actually a profitable at this point in time. And so in the example of the plant at Scribner, their crush facility is operation. The part that would be mothballed would just be the part that would...they referenced would be mothballed, would probably just be the biodiesel production components of that. And similarly, on other plants, I think the plants that he referenced that would go forward are probably going forward based on the profitability of the crush, the oils (inaudible) crushing business, but that not so much on the biodiesel production side. [LB1053]

SENATOR DIERKS: Thank you. [LB1053]

LOREN ISOM: As an employer of the University of Nebraska Industrial Ag Product Center, I've spent significant time over the past five years working in the area of biodiesel. And Dr. Hanna, the center's director, has worked in the biodiesel processing technology over the past 27 years, and he is also available to assist with any technical questions you might have today. So it's just a little background on the center. The center's goal is to provide accurate information and for constituents that may invest in potential biodiesel production facilities. And our interest is not for or against any specific incentives, but more to support the need for value-added processing in Nebraska and provide information regarding ag potential...the potential Nebraska has to develop a biodiesel industry. The University of Nebraska Industrial Ag Products Center is interested in assisting the Nebraska Department of Agriculture in developing specific criteria to evaluate biodiesel processing technology and feedstock resources as outlined in the bill. Advancing biodiesel processing technology can be a key to economic viability for the specific plant, biodiesel processing plant, however the feedstock costs typically make up about 75 percent of the cost of producing biodiesel. So the expansion of the

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feedstock base is for processed vegetable oil, so it would be not just the oil seeds, but the crushed...the actual vegetable oil or animal fats is key to the sustainability of the biodiesel industry as a whole. It's this overall feedstock availability issue that's holding the industry back or the cost of the limited...because of the feedstock availability is limited, prices have skyrocketed, which Robert has alluded to. In the handout here I do have...I have my testimony, but I have some points, as well, but I'll just make reference to. I won't review them entirely. But Nebraska is a national leader in the production of soybeans and livestock, which are the two key commodities that can be processed to supply a large pool of biodiesel feedstock. Nebraska produces about 200 million bushels of soybeans and they slaughter about 7 million cattle each year, and this ranks us first or second in the cattle slaughter, and fourth or fifth typically in the soybean production area. From this...from existing soybean processing within the state, so existing crushing facilities, that's equivalent...that oil would be equivalent to 80 million gallons a year. From cattle slaughter, would be equivalent to 120 million gallons a year. And from pork slaughter, it could be another 26 million gallons a year if all of that feedstock was converted through the biodiesel production process. So a lot of potential for Nebraska, yet we aren't capitalizing on that potential at this time. Other crops are or could be processed to supply additional feedstock. I outlined other potentials there, from corn oil from the existing corn processors, or some advancing technology which would be corn oil that could be extracted from the existing dry grind plants, or the developing dry grind ethanol plants, as well as producing other oil seed crops that could be...that are much higher in oil content than soybeans are or that corn is, so. Based on the recent growth in the biodiesel industry, I believe there is a very large percentage of Nebraska's agricultural commodities that are going to result in biodiesel feedstock, that they will be processed in to biodiesel by someone. So the question I think that we have to ask on value-added in Nebraska is, is will that value-added processing take place within the state? And that's our interest is to see that value-added taking place her in Nebraska. So I believe Nebraska has a great potential to add value to the raw commodities we produce, and that value-added processing will have a positive economic impact. If you were interested in further information, and I've provided a list of additional resources that may be used, or if you would prefer a further presentation could be coordinated from the University of Nebraska research staff. And with that I thank you for the opportunity to testify today and I would be glad to clarify any questions or points you might have. [LB1053]

SENATOR DUBAS: Thank you, Mr. Isom. Any questions? Seeing none, thank you. Any others in the neutral capacity? You're welcome to close. [LB1053]

SENATOR ERDMAN: Senator Dubas, members of the committee, I think the discussion has been valuable and I obviously have to analyze the proponents and look at the diversity of thought. And I was going to joke with Mr. Winston as I did yesterday, but I won't because he doesn't have a chance to defend himself here, so we'll do that privately. We wouldn't be here in somewhat of an agreement discussing this bill if it

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wouldn't be for a lot of hard work that's been done. And Rick Leonard, our research analyst, and other members of the committee and their staff have worked tirelessly to try to find commonsense solutions that position Nebraska to be successful. And one of the things that I'll reiterate is, is that my research, and again the folks that we got to hear about the new technology, and I'll go back to the conference in St. Louis, you know, about building algae ponds next to some of the manufacturing facilities and how that ties in, and how algae simply producing the oils, it's just a matter of harvesting them. I mean, those are amazing technologies. There's obviously an opportunity there. But with any great opportunity, there's a great amount of cost. One of the benefits that we have experienced in Nebraska, and I think this point needs to be reiterated, is that the existing technology that we're utilizing is not a sum zero gain. We take the existing products that we raise in Nebraska, whether they're commodities in the future, or whether they're other feedstocks, and produce something out of them called fuel. We still have by-products. Just as in the production of soybeans, you may process them for the meal, but you still get the oil. There are still by-products there. I think as we go forward, we've heard some very valuable testimony today about some of the innovative programs going on at Curtis to encourage livestock production in the state. Value-added agriculture has always been in the state. It will always continue to be in the state as long as we're raising livestock. And I think as we go forward, there's a lot of things, as I shared with Senator Dierks earlier, that globally we have to take into consideration for this to work. Part of it is the way that we set it up. Part of it is the focus that we have to accomplish it. But also there's a lot of complementary options that benefit a number of entities and groups if we do it right. And so there's a great deal of discussion. We'll work with folks on this bill and the other bills that we've got, and Senator Dubas has other bills in other committees. We'll do our best to have a coordinated effort. But again, I'll reiterate, as we look forward, we're simply, at least my perspective is we simply cannot say we're going to be replacing something with what we're hoping to provide. We need to complement. We need to provide additional options for energy production, and with the impact, both within our nation and within our world, on developing countries, their demand for energy, we need all that we can get and more. And so the opportunity that has presented itself with ethanol can be maximized by the opportunity that biodiesel presents and how do we utilize those, but again it is part of a bigger picture. I'm excited that production agriculture can be a part of that discussion, and possibly part of the solution, as well. [LB1053]

SENATOR DUBAS: Thank you. Any other questions for Senator Erdman? Seeing none, that will close the hearing on LB1053. [LB1053]

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Disposition of Bills:

LB789 - Advanced to General File, as amended.  
LB875 - Held in committee.  
LB1027 - Advanced to General File, as amended.  
LB1053 - Held in committee.

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Chairperson

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Committee Clerk