

**HOUSE COMMITTEE ON AGRICULTURE AND LIVESTOCK  
TEXAS HOUSE OF REPRESENTATIVES  
INTERIM REPORT 2008**

**A REPORT TO THE  
HOUSE OF REPRESENTATIVES  
81ST TEXAS LEGISLATURE**

**SID MILLER  
CHAIRMAN**

**COMMITTEE CLERK  
STEVEN SCHAR**



Committee On  
Agriculture and Livestock

January 12, 2009

Sid Miller  
Chairman

P.O. Box 2910  
Austin, Texas 78768-2910

The Honorable Tom Craddick  
Speaker, Texas House of Representatives  
Members of the Texas House of Representatives  
Texas State Capitol, Rm. 2W.13  
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

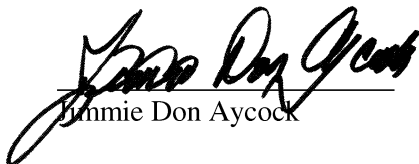
The Committee on Agriculture and Livestock of the Eightieth Legislature hereby submits its interim report including recommendations and drafted legislation for consideration by the Eighty-first Legislature.

Respectfully submitted,

  
Sid Miller

  
Charles "Doc" Anderson

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Betty Brown

  
Jimmie Don Aycock

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Pete Gallego

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Juan Garcia

  
Joe Heflin

Charles "Doc" Anderson  
Vice-Chairman

Members: Betty Brown, Jimmie Don Aycock, Pete Gallego, Juan Garcia, Joe Heflin

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## INTRODUCTION

At the beginning of the 80th Legislature, The Honorable Tom Craddick, Speaker of the House of Representatives, appointed seven members to the House Committee on Agriculture and Livestock. The Committee membership includes the following: Sid Miller, Chairman; Charles "Doc" Anderson, Vice Chairman; Betty Brown; Pete Gallego; Juan Garcia; Jimmie Don Aycok; and Joe Heflin.

The House Rules adopted by the 80th Legislature as House Resolution 3 on January 12, 2007, give the House Committee on Agriculture and Livestock its jurisdiction. Rule 4, Section 8 reads as followed:

**Agriculture and Livestock** - The committee shall have seven members, with jurisdiction over all matters pertaining to:

- (1) agriculture, horticulture, and farm husbandry;
- (2) livestock and stock raising, and the livestock industry;
- (3) the development and preservation of forests, and the regulation, control, and promotion of the lumber industry;
- (4) problems and issues particularly affecting rural areas of the state and
- (5) the following state agencies: the Department of Agriculture, the Texas Animal Health Commission, the State Soil and Water Conservation Board, the Texas Forest Service, the Office of South Central Interstate Forest Fire Protection Compact, the Office of Chief Apiary Inspector, the Texas Agricultural Experiment Station, the Texas Agricultural Extension Service, the Food and Fibers Research Council the State Seed and Plant Board, the State Board of Veterinary Medical Examiners, the Texas Veterinary Medical Diagnostic Laboratory, the Produce Recovery Fund Board, the Texas Structural Pest Control Board, the board of directors of the Texas Boll Weevil Eradication Foundation, Inc., the Office of Rural Community Affairs and the Texas Wildlife Damage Management Service.

During the interim, the Speaker assigned charges to the committee. The House Committee on Agriculture and Livestock has completed its hearings and investigations, and has adopted the following report.

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**HOUSE COMMITTEE ON AGRICULTURE AND LIVESTOCK**

**INTERIM STUDY CHARGES**

- CHARGE 1 Monitor the development and implementation of the 2007 Farm Bill and determine the impact of the legislation on Texas agricultural producers.
- CHARGE 2 Evaluate preparedness of relevant agriculture-related agencies to respond effectively to animal and plant disease threats.
- CHARGE 3 Study and evaluate the feasibility and potential economic impact of biofuel production from alternative feedstocks such as biomass, waste oils, and processed animal fats.
- CHARGE 4 Study the impact on the equine industry due to increased competition from other states as it relates to larger purses in equine competitions.
- CHARGE 5 Examine the opportunities for increased economic development funding in rural Texas.
- CHARGE 6 Monitor the agencies and programs under the Committee's jurisdiction.

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**CHARGE 1**

**The Impact of the Farm Bill**

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## **The Federal Food, Conservation and Energy Act (Farm Bill) 2007 - 2008**

The Food, Conservation, and Energy Act of 2008, was enacted May 22, 2008. It is a \$288 billion, five-year agricultural policy passed by the United States Congress as a continuation of the 2002 Farm Bill. The bill continues the United States' long history of agricultural subsidy as well as pursuing areas such as energy, conservation, nutrition, and rural development.

The committee was unable to hold a hearing on the following charge due to how late the Act passed and the length of the implementation of the programs. The following is a report issued in January 2009 by United State's Department Agriculture (USDA) on the progress of the Farm Bill.

### **United States Department of Agriculture (USDA) Farm Bill Progress, January 2009**

USDA's goal over the past seven months has been to implement the 2008 Farm Bill as quickly and efficiently as possible. Immediately after enactment, a farm bill implementation team composed of key sub-cabinet and career officials from every mission area of the Department was established to ensure that the law was implemented promptly and efficiently. Although it has been a difficult task, we have achieved our goal to cut the red tape and get the job done.

Thanks to the hard work and dedication of USDA employees across the country, USDA has implemented major provisions of the bill over the past seven months. The 2008 Farm Bill is approximately 50 percent larger than its predecessor, the 2002 Farm Bill, with 15 titles and more than 600 provisions. In total, 170 regulatory actions and over 100 reports and studies have been identified that the Department is required to complete to fully implement this important legislation.

Within weeks of its enactment, the USDA began delivering program benefits for 2008 and efforts continue today to ensure the delivery of additional program benefits in 2009. We have held hundreds of meetings with stakeholders on almost all titles of the Farm Bill. Areas of discussion have included: Country of Origin Labeling, Supplemental Nutrition Assistance Program, Specialty Crops, School Nutrition Assistance, Forestry, the Chesapeake Bay Watershed, Conservation, the BioPreferred Labeling Program, Bio-Energy, Beginning Farmer and Rancher Development, and Biotechnology.

USDA representatives have also made themselves available to participate in stakeholder conferences to discuss farm bill implementation, including: Forestry Partners Meeting, the National Cooperative Agricultural Pest Survey Meeting, National Sorghum Producers Meeting, the National Association of Counties, Southwest Learning and Listening Tour, National Association of Development Associations, Chesapeake Bay Listening Session, Fifth Annual USDA/Community-Based Organization Partners Meeting, the Hispanic-Serving Agricultural Colleges and Universities.

USDA employees continue to work hard to implement all the provisions of the Farm Bill in an efficient and expeditious manner. Producers and consumers should be confident that USDA has laid the foundation for the next Administration to continue this success.

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## **Farm Programs/Commodities:**

### Fiscal Year 2008 Accomplishments:

- Issued multiple *Federal Register* Notices announcing program parameters for marketing assistance loans, loan deficiency payments, and direct and counter-cyclical payment (DCP) programs for the 2008 crop.
- Began crop year 2008 DCP signup on June 25, 2008 (one week after enactment) and ended September 30, 2008. The sign up for farms with 10 base acres or less ended November 26, 2008, following the legislative change enacted in October. USDA enrolled 1.8 million DCP contracts for 2008 and issued \$5.1 billion in direct payments.
- Issued a *Federal Register* Notice on July 14, 2008, providing 2008 payment limitation, payment eligibility and average adjusted gross income limitation provisions for Farm Service Agency (FSA) and Natural Resources Conservation Service (NRCS) programs.
- Published regulations on August 20, 2008 implementing federal milk marketing agreements and orders provisions.
- Published regulations on August 21, 2008, implementing the fruit, vegetable, and nut marketing agreements and orders provisions.

### Fiscal Year 2009 Accomplishments:

- Implemented the 2008-2012 Cotton Marketing Assistance Loans and Economic Adjustment Assistance for Domestic Users of Upland Cotton on November 5, 2008.
- Implemented the Milk Income Loss Contract Program (MILC) provisions on December 4, 2008.
- Implemented Payment Limitation and Payment Eligibility provisions for FSA and NRCS programs for the 2009-2012 crop or fiscal years on December 29, 2008.
- Implemented the 2009-2012 DCP and Average Crop Revenue Election (ACRE) Program on December 29, 2008. Signup for 2009 DCP is underway and will continue through June 1, 2009, advance payments are currently being issued.
- Announced initial parameters for the Fiscal Year 2009 sugar program. Established the Fiscal Year 2009 overall allotment quantity at 8,925,000 short tons, raw value, which is 85 percent of the estimated FY 2009 domestic human sugar consumption.
- Implemented the Dairy Forward Pricing Program on October 31, 2008.



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- Conducted National Training in October 2008, for over 400 FSA field staff covering major program changes in 2008 Farm Bill.

### **Conservation Programs:**

- Made available additional Farm Bill funding for conservations programs in FY 2008, including an additional \$200 million for the Environmental Quality Incentives Program (EQIP), to help farmers and ranchers nationwide to solve natural resource problems; \$150 million for the Wetlands Reserve Program (WRP); and \$7.5 million for Agricultural Management Assistance (AMA).
- Made available more than \$4 billion for conservation program funding in FY 2009, including \$1.8 billion for the Conservation Reserve Program (CRP), \$1 billion for the EQIP, \$570 million for the WRP, \$100 million for the Farm and Ranchland Protection Program (FRPP), and \$74 million for the Wildlife Habitat Incentives Program (WHIP).
- Published eight program regulations between November 2008 and January 2009 for the implementation of CRP, EQIP, WRP, FRPP, WHIP, AMA, the Healthy Forest Reserve Program (HFRP), and the Grassland Reserve Program (GRP). These regulations were necessary before financial awards and payments could be made through the various conservation programs.
- Published three other regulations for State Technical Committees, Technical Service Providers, and the Regional Equity provisions of the 2008 Farm Bill. These regulations directly affect the operation, management, and support of the major conservation programs.
- Announced the availability of funding for the Chesapeake Bay Watershed Initiative, which will be operated under the EQIP program. The Notice of Funding Availability, published in the Federal Register during January 2009, announces approximately \$23 million has been set aside to help agricultural producers improve the environment in the targeted Chesapeake Bay Watershed.
- Published requests for proposals during January 2009 for the Agricultural Water Enhancement Program (AWEP) and the Conservation Cooperative Partnership Initiative (CCPI). Approximately \$58 million will be available for AWEP contracts in 2009. Also part of the EQIP program, the goal of AWEP is to promote ground and surface water conservation and water quality improvement. CCPI will operate through EQIP, WHIP and the Conservation Stewardship Program and can be funded by up to six percent of the funds or acres for these three programs.

### **Rural Development:**

- Made available \$547 million for 232 projects to provide clean, safe drinking water in rural America — the majority of that came funding from the Farm Bill. In addition, Rural

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Development implemented a Farm Bill provision that reduced the interest rate on loans for such projects.

### **Nutrition Programs:**

- The Farm Bill renamed the Food Stamp Program, as the Supplemental Nutrition Assistance Program, or SNAP, effective October 1, 2008. The Food and Nutrition Service (FNS) worked hard to implement the name change and raise awareness among states, partners, retailers, current and potential clients, as well as USDA employees.
- A number of important improvements to SNAP took effect that same day, including an increase in the minimum benefit and standard deduction, elimination of retirement and education savings accounts counting as offsetting income resources, combat pay as income when determining eligibility and application of full cost associated with child care costs. To ensure that program clients received the full benefit of these changes, USDA held conference calls with state SNAP agencies, shared information on the new law, and posted questions and answers. All states implemented the mandatory provisions on October 1.
- FNS published a final rule on December 30, 2008 that implemented changes to SNAP retailer policies to require stores that have been disqualified or penalized for more than six months to furnish a collateral bond or an irrevocable letter of credit to cover the value of benefits that the store may redeem in violation of the Act. The provisions will become effective March 2, 2009.
- Information about and support for changes in other nutrition programs, including the Emergency Food Assistance Program (TEFAP), the Commodity Supplemental Food Program, the Food Distribution Program on Indian Reservations, the Fresh Fruit and Vegetable Program, and the Senior Farmer's Market Nutrition Program were provided in advance to program partners and stakeholders to ensure prompt and complete implementation.
- Substantial funding increases for nutrition programs were made available soon after the new law was enacted, including:
  - A total of \$390 million in fruits and vegetables were purchased in 2008 for distribution through domestic feeding programs; \$393 million is planned for 2009.
  - \$40 million for the Fresh Fruit and Vegetable Program for School Year (SY) 2008/2009 was provided to increase the consumption of fresh fruits and vegetables by elementary school children.
  - A total of \$21 million was provided in grants to 49 state agencies and tribal organizations for the Senior Farmers' Market Nutrition Program for 2008.

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- An additional \$50 million was provided for TEFAP for 2008, bringing total distributions to \$190 million.

### **Research and Marketing:**

- A final rule for country of origin labeling has been cleared for publication, under which retailers are required to notify their customers of the country of origin for covered commodities, including muscle cuts of beef (including veal), lamb, chicken, goat, and pork; specified ground meat; wild and farm-raised fish and shellfish; perishable agricultural commodities; macadamia nuts; pecans; ginseng; and peanuts.
- Laid the groundwork for development of the National Clean Plant Network to establish a network of clean plant centers for diagnostic and pathogen elimination services to produce clean propagative plant material and maintain blocks of pathogen-tested plant material in sites located throughout the United States.
- Published proposed regulations intended to help prevent unauthorized release of genetically engineered material while providing greater flexibility to biotechnology companies and universities. Extensive outreach, including three public meetings across the country, was conducted to solicit public input on the proposal.
- USDA has moved very quickly to implement the Specialty Crop Research Initiative for 2008. The Cooperative State Research, Education, and Extension Service (CSREES) completed the review of applications and awarded nearly \$28 million for FY 2008. Applicants who failed to receive funding during this initial solicitation will have another opportunity early in FY 2009 when additional applications will be sought. The request for applications for 2009 will be announced shortly.
- The following funding was made available in support of specialty crops in 2008:
  - \$10 million for the Specialty Crop Block Grant Program;
  - \$22 million for the Organic Cost-Share Program (no year);
  - \$3.4 million for Farmers Market Promotion Program;
  - \$3.5 million to enhance market news reporting for organic products; and
  - \$1.5 million for Agricultural Management Assistance to aid in the transition to organic agriculture.
- Laid the groundwork for the establishment of the National Institute of Food and Agriculture (Institute), which will help ensure transparency and accountability and enhance the status of food and agricultural science. USDA published a *Federal Register* notice on January 2, 2009, requesting written stakeholder input on the establishment of the Institute. This stakeholder input will be valuable in assisting the next Administration in strengthening the research capacity of the Department.

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**Energy:**

- USDA published a Notice of Funding Availability for the Biorefinery Assistance Program on November 19, 2008. This action invited applications for \$75 million in mandatory budget authority that has been provided in 2009. At the same time, USDA published an Advanced Notice of Proposed Rulemaking to solicit public input for establishing regulations for the program.

**Credit Programs:**

- Changes to loan limits for direct loans were implemented within days of enactment of the Farm Bill through a notice to the FSA field staff. The first loan to use the higher loan limits was written within just a few days.

**Crop Insurance:**

- Implemented all mandatory 2009 Standard Reinsurance Agreement amendments prior to July 1, 2008, less than two weeks after enactment.
- Published regulations on June 27, 2008 (nine days after enactment), increasing the Catastrophic (CAT) coverage administrative fee from \$100 to \$300.
- Implemented changes to Enterprise and Whole Farm Units. Spring planted crops have been updated through the Actuarial documents for the 2009 crop year. Fall planted crops will be changed with the 2010 actuarial documents.
- Implemented the reduction of premium subsidy for area plans of insurance through the 2009 crop year actuarial documents.
- Implemented provisions pertaining to Malting Barley quality provisions through the 2009 crop year actuarial documents.
- Announced new procedures to provide advance payments for the development of private sector crop insurance proposals.

**Other Farm Bill Activities:**

- CSREES issued Requests for Applications (RFA) for the Hispanic Serving Agricultural Colleges and Universities, (RFA closes on January 30, 2009) and for the Socially Disadvantaged Farmers and Ranchers Program (RFA closed on December 12, 2008.)
- The Forest Service issued directions to their regions on how to implement the economic relief to timber sale purchases required under the Qualified Timber Contract Options provisions of the Farm Bill. Currently, purchasers for over 450 timber sales on National Forest System lands have requested a rate re-determination or cancellation and nearly 400 sales are requesting Market Related Contract Term Adjustment provisions pursuant to the

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Qualified Timber Contract Options provisions of the Farm Bill.

- USDA announced its plan to create an Office of Ecosystems Services and Markets and the establishment of a Federal Conservation and Land Management Environmental Services Board to fulfill the Environmental Services Markets of the Farm Bill. This office and the Federal board will assist the Secretary in the development of new technical guidelines and science-based methods to assess environmental service benefits which will in turn promote markets for ecosystem services including carbon trading to mitigate climate change.

### **Recommendation**

The Committee on Agriculture and Livestock will continue to monitor the implementation of the Farm Bill and update the committee membership on the status of certain programs.

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## References

United States Department of Agriculture, Farm Bill Progress, January 2009.

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**CHARGE 2**

**Evaluate preparedness of relevant agriculture-related agencies to respond effectively to animal and plant disease threats.**

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## **Background**

Animal and plant diseases have been a threat to Texas as far back as the frontier days. They can affect our economy, be used for bioterrorism and can affect our everyday living. It is important that our state is ready to handle any situation that could affect our everyday lives. The Texas Department of Agriculture (TDA) in coordination with Texas Department of Public Safety (DPS) controls the spread of plant disease with the use of variety of inspections of plants on our homeland and plants coming into our state. Texas has many different groups that are ready to respond to animal disease threats. The Texas Animal Health Commission (TAHC) and The Texas Veterinary Medical Diagnostic Laboratory take the lead in the defense of any outbreak of animal diseases. Also, in order to pursue a coordinated and integrated approach to safeguard the citizens and the infrastructure of the state, the governor in January 2004 set up the Governor's Emergency Management Council, which consists of heads of state agencies, boards, commissions, and some volunteer groups.

### **Texas Animal Health Commission**

TAHC originally called the Livestock Sanitary Commission, was created in 1893 in order to eradicate fever ticks. The Legislature decided to broaden the scope of the Commission later to include livestock and poultry diseases recognized to be infectious and contagious. TAHC mission and role is the assurance and marketability and mobility of Texas livestock. The policymaking body of the agency is a 13 member commission appointed by the governor who represents the general public and various livestock industries and professions. The Commissioners serve staggered six-year term and meet as needed to study the regulatory needs of the agency, review public comments on proposed regulation changes, and adopt new rules when necessary.

### **Texas Veterinary Medical Diagnostic Laboratory**

The Texas Veterinary Medical Diagnostic Laboratory (TVMDL) performs diagnostic testing to identify animal diseases so that the appropriate state or federal regulatory agency may act to avert potential epidemics. The 60th Legislature (1967) created the TVMDL, which opened its offices in College Station in 1969. TVMDL was created to provide laboratory services that aid in the identification of diseases, perform tests required for shipments of animals, and identify potential epidemics through disease surveillance. TVMDL's current mission is to provide veterinary medical diagnostic services to the citizens of Texas in efforts to reduce the incidence of animal diseases, provide rapid, accurate diagnostic testing capabilities for endemic, foreign animal and emerging/zoonotic diseases, and provide surge testing capacity in the event of a high consequence animal and zoonotic disease outbreak.

Through its diagnostic testing, TVMDL helps provide tests for the national and international shipments of animals and their products, and helps protect public health by identifying those diseases transmissible from animals to humans. In addition, the agency's mission is to facilitate the economic growth of the state by providing the necessary drug and residue tests for the pari-mutuel racing industry. TVMDL is one of the twelve laboratories in the National Animal Health Network and has the capacity to test 3,000 samples daily. In the last five years, TVMDL



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averages close to 200,000 samples submitted yearly.

### **Animal diseases that have an impact on Texas**

Since the late 1800s the *cattle fever tick* might have caused more havoc on the cattle industry than all other diseases and droughts combined. Fever ticks are capable of carrying a protozoa, or tiny animal parasite and when an infected fever tick feeds on cattle, it injects the protozoa in the bloodstream leading to a fast death. It was fever ticks that prompted the Legislature to create the predecessor to the Texas Animal Health Commission in 1893. In 1906, "tick riders" appeared along the Texas/Mexico border on horseback as part of the Cattle Fever Tick Eradication Program (CFTEP), one of the first cooperative State-Federal eradication efforts.

Today, the cattle fever tick is present along a narrow zone 200 yards to six miles wide along the Rio Grande. This area is designated as a permanent fever tick quarantine zone and covers eight counties in South Texas from Del Rio to Brownsville. Currently through CFTEP, Texas has 57 inspectors, 7 supervisors, and a director of field operators. These riders detect and apprehend any illegally entered Mexican livestock or native livestock that have crossed into Mexico and returned. Animal and Plant Health Inspection Service officials inspect and dip all native livestock being moved within or out of the quarantine zone. They are dipped in pesticides that kill the fever tick without harming the animal. Right now the cost of controlling fever ticks is over \$15 million every biennium and this January, USDA sent Texas an additional \$4.9 million in emergency funds to help eradicate the problem.

*Cattle brucellosis* is a disease also known as "Bangs disease" that causes abortion or premature calving of recently infected animals, most often between the fifth and eighth month of pregnancy. Infected cows frequently suffer from retained afterbirth, are difficult to rebreed and sometimes become sterile. Currently, there is no treatment for Brucellosis. Prevention of Brucellosis is accomplished by official calf-hood vaccination of heifer calves. Quarantines are imposed on infected herds by state and federal authorities until the herd has been proven free of the disease. In 1959, Texas joined the national cattle Brucellosis eradication program having the most infected herds in the U.S. After 50 years, the U.S. Department of Agriculture officially declared Texas free of cattle Brucellosis. Texas is the last state in the U.S. to achieve Brucellosis "free" status. Testing is still required at livestock markets, special sales and private treaty sales, for at least two years. Texas will lose its status if two infected herds are detected within a 24-month period.

*Cattle Tuberculosis* is a disease caused by the bacteria *Mycobacterium bovis* and is of major concern to the U.S. cattle industry. Cattle TB is a contagious, infectious and communicable disease that can affect a vast amount of animals and in rare instances, humans. Cattle TB is detected most often at a slaughter plant. Internal lesions that are detected are collected and forwarded for laboratory confirmation. Live animal testing of herd mates follows, and animal that test positive are destroyed and their carcasses are examined. Texas has been a state that has fluctuated its TB free status, recently being TB free in 2006. It took nearly 2,800 herds to be tested before it could regain this status. Texas has put strict measures in place to protect the state from TB after two states, New Mexico and California, lost their TB-free status this past year.

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Beef heifers from states with less than TB-free status must be individually identified before they enter Texas in feeding channels either through sale at a livestock or directly entering for pasturing on grass or wheat pastures. Beef heifers consigned to Texas for 'breeding' purposes must have a negative TB test within 60 days prior to entry, and these heifers should already be identified. Since 2007, the TAHC has had in place TB entry requirements for dairy cattle. Dairy breeding cattle must have an official ID and a certificate of veterinary inspection prior to entering Texas. In April 2008, TAHC required dairy cattle to be equipped with an approved identification device to be moved within a state.

### **Plant Diseases That are a Threat to Texas**

*Citrus Greening, also known as Huanglongbing, is one of the most serious diseases of citrus. This disease is spread by the Asian citrus psyllid and has been present in Florida since 1998. Texas has had the psyllid since 2001 and it has spread to over 33 counties in South Texas and the Gulf Coast. Psyllids directly damage citrus and closely related ornamentals by extracting large quantities of sap from the plant as they feed and produce abundant amounts of honeydew. The honeydew coats the leaves of the tree, causing sooty mold to grow. While direct damage is serious, there is even greater concern for the development of citrus greening, an economically devastating disease caused by a bacterium that is readily transported by the psyllid.*

Citrus greening is a threat to the U.S. citrus industry though trees might not show symptoms for years and right now there is no effective method of treatment besides full tree removal. The disease is moving closer to Texas with a recent finding in New Orleans. The growers in Florida have just invested \$20 million on research on citrus greening. The focus on the research is on psyllid control and the development of citrus trees using biotechnology. The Texas Citrus industry has initiated its own pilot psyllid control project and has expanded efforts with cooperation from TDA, Texas A&M University-Kingsville Citrus Center and USDA in the effort to keep citrus greening out of Texas. Even though 33 Texas counties have the presence of the psyllid, Citrus Greening has not been found in this state.

*Citrus canker is a disease affecting citrus species that is caused by the bacterium *Xanthomonas axonopodis*. Infection causes lesions on the leaves, stems, and fruit of citrus trees, including limes, oranges, and grapefruits. While not harmful to humans, canker significantly affects the vitality of citrus trees, causing leaves and fruit to drop prematurely; a fruit infected with canker is safe to eat but too unsightly to be sold. The disease was discovered in Florida in 1995. Despite eradication attempts, by late 2005 the disease had been discovered in many places distant from the original discovery, for example, in Orange Park, FL 315 miles (500 km) away. To date, Citrus Canker has not been found in Texas.*

*Red Palm Mite (*Raoiella indica*), a leaf damaging mite, is a pest of coconut trees, areca palms, and date palms. The red palm mite is a high risk invasive species with the potential to cause serious economic damage to the southern regions of the conterminous United States, Hawaii and its island territories. The first confirmed detection of this pest in the continental United States occurred in December 2007, in Palm Beach County, Florida. Since then, the mite spread to three other counties in Florida and was detected in two nurseries. On July 9, 2008, the TDA issued a quarantine of these four Florida counties (Palm Beach, Broward, Dade, and Monroe) where the*

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red palm mite was detected. In order for shipments to be made to Texas, the Florida Department of Agriculture and Consumer Services must inspect the mite host plants before shipment. To date, the mite has not been found in Texas.

### **TDA Inspections**

Prior to 2002, plant inspections occurred every two to four hours at a time at DPS inspection stations. After 2002, TDA initiated a 72 hour inspection strategy with the goal of making it more difficult for trucks to avoid inspections. In 2007, the Legislature appropriated \$1.3 million for the biennium in funds in order to increase routine monthly inspections, increase the 72 hour inspections and expand the scope of road station inspections to include destination market blitzes.

In 2008, TDA detected seven percent of plant product shipments violated quarantine regulations. TDA also found a wide range of quarantine violations during market blitz quarantine inspections. Market blitz inspections are risk-based inspections instigated by information/intelligence gained during road station and phytosanitary inspections and through coordination with the Smuggling Inspection and Trade Compliance (SITC) branch of the US Department of Agriculture. These inspections are often conducted jointly with SITC. Fifteen percent of market blitz inspections failed in FY 2008. During the same time frame, TDA conducted 6,500 routine nursery/floral business inspections. TDA inspects all nursery/floral businesses on a three-year schedule. In FY 2008, 2.5 percent failed inspection.

### **Recommendations**

The Committee feels that with the increase in violations during market blitz quarantine inspections and with new pests and diseases being found in Florida, Louisiana, and Texas that we need enhanced detection efforts in our state. It is our recommendation to the Legislature that we adopt the Texas Department of Agriculture 2010-2011 Legislative Appropriation Request exceptional item #5 - Biosecurity Inspection Initiative. This request calls for an increase in the number of road station inspections; expand the number of market blitz inspections and to conduct pathway analysis and risk assessments to enhance quarantine enforcements activities.

The Committee feels that in order to better prepare the state for an emergency outbreak of an animal disease, it is vital that the Texas Veterinary Medical Diagnostic Laboratory have a seat on the Governor's Emergency Management Council. This would help with a better coordination effort between agencies if an outbreak were to occur.

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## References

Texas Department of Agriculture 2010 -2011 Legislative Appropriations Request, Agriculture Biosecurity.

House Committee on Agriculture and Livestock Committee Hearing, July 9, 2008, Witness Testimony and handouts.

Texas Department of Agriculture, press release "Quarantine of Red Palm Mite" 07-09-2008

Texas Department of Agriculture, press release "Texas is Focus of \$4.9 million to Help Eradicate Harmful Fever Tick in South Texas" 1-12-09

APHIS Veterinary Services Factsheet, *Controlling Fever Ticks*

Texas Animal Health Commission, *Fighting the Fever Tick*

The Cattleman, *Texas Achieves Cattle Brucellosis-Free Status*, April 2008

Texas Animal Health Commission, press release, *Cattle Brucellosis Tests Still Required for Change of Ownership in Texas*

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### **CHARGE 3**

**Study and evaluate the feasibility and potential economic impact of biofuel production from alternative feedstocks such as biomass, waste oils, and processed animal fats.**

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## **Texas Department of Agriculture**

The Committee heard testimony from Drew DeBerry, Deputy Commissioner with the Texas Department of Agriculture (TDA). Mr. DeBerry stressed the importance of TDA's interest in the creation renewable energy and the importance of making Texas at the for front welcoming the industry to come up with creative and innovative ideas that can benefit all Texans.

Mr. DeBerry testified on the Fuel Ethanol and Biodiesel incentive program that was created and funded by the 79th Legislature. This program was only operational a little over a year and made a total of \$14 million in payments to the biodiesel industry in its five quarters of operation. Production projections increased drastically and the program was estimated to cost over \$100 million for the current biennium. The program failed to receive funding during the 80th session, and therefore has not made any payments past those initial five quarters.

Mr. DeBerry stated that TDA understands the legislature decided to not fund the program and they have spent the interim coming up with a new proposal for renewable energy in hope that it can be discussed this session. One idea that TDA is proposing would be a Competitive Grant Program that would base scoring on a number of different factors; number of jobs created, impact to the local economy, number of gallons of renewable energy produced, number of non-food feedstocks produced, use of feedstocks produced in Texas, and the sale of these fuels to a Texas blender. TDA believes we should focus the state's resources on developing production and use of feedstocks that are less competitive with food or animal feed.

### **Texas A&M University System, Agrilife Research**

Bob Avant is the Bioenergy Program Director for AgriLife Research within the Texas A&M System (System). Mr. Avant testified before the committee on the progress they are making in research. The Bioenergy department has worked to identify feedstocks that provide high tonnage materials and are centrally located, such as: sorghum, energy cane, forest products (mesquite and cedar in piney woods), sweet sorghum, switch grasses and other grasses, crop residues, oilseed crops, algae for biodiesel, municipal solid waste, animal waste, grain, and food waste.

The System believes that these are all important Texas resources that can be part of the energy mix. They also believe that there is no one silver bullet, and that depending on what part of the state you are in, you will see a different mix of feedstocks. Sustainability of the biofuels industry will be the key to the success.

Logistic challenges are one of the main areas we should focus on. Hauling distances will be a limiting factor and we will need to locate the fuel production plants near the feedstocks, so what we may see are many smaller scale plants located throughout state. Dedicated crops will need to be high tonnage crops capable of yielding 15 or more dry tons/acre of feedstocks. Currently, biomass costs can range from \$100/dry ton delivered to a facility to \$50/dry ton. To show perspective, \$60/dry ton of delivered material relates to about \$5/million BTUs. Delivered coal is about \$2.50/million BTUs.

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Funds have been spent on conversion rates, but nothing has been spent on the logistics of how to make this work. In response, the Bioenergy Department has started to look into this. The logistic of producing hundreds of millions of tons per year of lignocellulosic feedstocks is the problem. DOE projections show that that would equate to about 110,000 truck loads per day delivering these feedstocks. Therefore, we need highly efficient harvest and transport systems. Modeling is important to determine where it is economically viable to locate the fuel plants in sustainable areas. There will need to be a tight footprint meaning high tonnage material in a compact location, and that may call for the use of diverse feedstock, including municipal solid waste, grown crops, etc. Another issue identified by the Bioenergy department is the year-round availability of feedstocks. The fuel plants will not be able to afford to go idle, so there will have to be a diverse mix of feedstocks in order to sustain the plants year-round. In the realm of financing, long-term biomass delivery contracts will be important to obtain financing, and capital availability is critical to get first generation facilities up and running. Mr. Avant stated that we should focus on viable feedstocks that do not compete with food or animal feed. Also, we should be looking down the road to generation two and three fuels that they believe will look much more like gasoline and diesel and will be fungible in the system.

The System believes that ethanol is a bridging fuel that may get the infrastructure in place, but will not be sustainable long-term. Technologies are being developed at Texas A&M University and other universities as well as in the private sector that will take biomass and turn it into biofuels. He said that ethanol will be in the mix, but there are real opportunities beyond that and that we need to be conscious to avoid unintended consequences. We will need to focus on the economics of different systems so that investors do not put money in a system that might not be viable. The Bioenergy program received \$2 million per year in exceptional items from the 80th Legislature that funded 14 projects. Those \$2 million in exceptional items also allowed them to leverage \$25 million for 23 other projects.

### **Biodiesel Industry**

The Committee heard testimony on the biodiesel industry in the state of Texas from a panel comprised of: Martin Bernie III with Green Earth Fuels, Mike Studer with Greenhunter Energy, and Mike Nasi and Jess Hewitt with the Biodiesel Coalition of Texas (BCOT).

Martin Bernie III of Green Earth Fuels, which is a biodiesel production company in Texas provided testimony to the Committee. Green Earth Fuels is a biodiesel production company with a 90 million gallon/year biodiesel production facility on the Houston ship channel. This facility is one of the largest biodiesel production facilities in the country. Green Earth has invested about \$100 million in Texas to date. They believe one of the advantages Texas has is distribution, which is a key challenge to biodiesel and biofuels. The whole country is fueled from the Gulf Coast.

Texas has the pipeline system and truck rack system already in place to distribute traditional diesel and biodiesel has the potential to run in the diesel pipelines currently in place. This provides a great opportunity for Texas. Green Earth believes that Texas should work in partnership with biodiesel companies to facilitate the growth of feedstocks in Texas. Montana

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has already been working in partnership with the state, universities, and the agricultural producers to ensure the growth of energy feedstocks. The company believes that the future of alternative fuels and biodiesel can be in Texas. While Texas is not currently a large producer of feedstocks, Texas has the potential to produce those feedstocks and should continue to find every way to enhance production.

Mike Studer is President of Greenhunter Energy located in Grapevine, Texas. Greenhunter is the largest publicly traded portfolio-based renewable energy company in the United States. They have assets in the power side, through wind and biomass, and assets in the fuel side in biodiesel. Greenhunter has invested 70 million in a facility in Houston referred to as a renewable fuels campus. They acquired a small waste oil recycling refinery converting it into a renewable fuel campus to include the largest biodiesel refinery at 105 million gallons/year, a 700,000 barrel terminal, a 200 million pound glycerin refinery, and a 45,000 barrel/month methanol tower to reprocess contaminated methanol. The campus model is on 20 acres, and the model can be taken too many areas. The refinery capacity allows the use of all feedstocks whether vegetable or animal fats. They believe that this would be easily duplicated, and that it provides a good logistical model. They are committed to getting into the business of producing non-food based feedstocks, and they are working world wide on different feedstocks. Mr. Studer went into great detail on the Jatropha weed and the promise it has as a feedstock. Jatropha produces a berry that contains three to six seeds that can produce up to 36 percent oil. These plants have been in Texas for centuries; they last 40 to 50 years and can be harvested multiple times a year. His company will secure up to 25 percent of its biodiesel feedstock requirements by owning Jatropha plantations. They are currently exploring locations in Mexico, Central and South America, India and South Texas.

Mike Nasi and Jess Hewitt testified on behalf of the Biodiesel Coalition of Texas (BCOT). BCOT believes that if we have a robust feedstock development program in Texas, and produce significant quantities of biodiesel, we can help reduce some of the cost impacts we see when the price per barrel of crude oil and diesel sky rocket. BCOT thinks the biodiesel industry can help the United States become more energy independent and less dependent on foreign oil. They do not want to replace petroleum diesel, but to try to cut back on the need to use crude petroleum sources for diesel. BCOT believes that feedstocks are the most important item to focus on because the lack of adequate feedstocks is what is keeping the industry from producing at capacity.

Every state in the country has programs for biodiesel, and there are a lot of ideas happening in other states that are drawing competition away from Texas. Some of these may not work in Texas, but we do need to do something. The government will have a mandate of 500 million gallons of biodiesel be produced and Texas has the capacity to match that mandate if it can get the petroleum infrastructure and incentives in place. The biodiesel industry is not looking for a handout but is seeking only a fraction of the value of incentives provided to the oil and gas industries. In 2006, oil and gas subsidies topped \$3.5 billion from the federal government with an additional \$1.4 billion from Texas. The biodiesel industry is just seeking help to bridge the gap to bring in more feedstocks. They believe we are positioned to be a leader, but we must get past the feedstock hurdle to realize that potential.



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## **Renewable Natural Gas**

Norm Sender is Vice President of business development of Microgy, Inc. Microgy, develops, builds, owns, and operates anaerobic digester projects for energy production as a principal line of business. Mr. Sender testified that the mission of Microgy is to generate and sell renewable energy in partnership with the dairy and cattle industries in the state. He said that his company is currently focused on deploying a proprietary and proven co-digestion technology that uses not only animal waste but also other agricultural and food product wastes normally associated with the production of biofuels. This co-digestion process produces a methane-rich biogas that can be used to replace propane or natural gas in residential, commercial and industrial applications. He called this "Renewable Natural Gas," (RNG), and explained that it is biogas conditioned up to pipeline quality standards and delivered to end-users via existing natural gas transportation networks. He stated that RNG can also be used to fuel natural gas vehicles through the production of renewable compressed natural gas (RCNG) or renewable liquefied natural gas (RLNG).

Mr. Sender gave the Committee background on their facilities and capabilities. He explained that the Huckabay Ridge facility, near Stephenville, Texas, is the largest animal-waste based co-digestion project in North America. On an annual basis, they expect to produce 635,000 MMBtu of pipeline quality renewable natural gas, enough RNG to generate over 9 MW of electricity, or meet the residential demands of 138,000 Texas homes. He stated that they just recently broke ground on a second facility of equal size in Dublin, Texas and have announced nine other projects that are either in construction, permitting or late-stage development. Although this is good news for Texas, he did stress to the committee how far behind the US is compared to the rest of the world, for example, there are over 3,700 anaerobic digester projects that have been deployed in Germany alone.

Mr. Sender stated that the opportunity for Microgy to produce biogas in Texas is significant. They believe that there could be as many as 20 large scale, multi-million dollar projects going on at the same time bringing numerous construction, engineering and jobs to this state. He stated that several of the State's largest dairies and animal operations could also benefit with improved waste management practices to address manure run-off and odor complaints. Mr. Sender said that these projects provide outstanding management of organic waste products like fats, oil and greases that might otherwise result in creating additional environmental burdens. In conclusion, Mr. Sender said that which ever path the legislature chooses to explore further, that Microgy Inc. strongly urges the legislators to avoid picking technologies versus clean energy outcomes. This will allow all innovative ideas and technologies an opportunity to participate in the market on an equal basis.

## **Renewable Energy**

Kurt Lyell with the Texas Renewable Energy Industries Association (TREIA) began his testimony with an emphasis that his association is in support of both biodiesel and ethanol and the importance we all have in the creation of renewable energy in Texas. He provided findings in a study conducted by Robert Hirsch called "Peaking of World Oil Production: Impacts, Mitigation, and Risk Management that was prepared for the Department of Energy. Mr. Hirsch's

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report said that the peaking of world oil production presents the U.S. and the world with an unprecedented risk management problem. As peaking is approached, liquid fuel prices and price volatility will increase dramatically, and, without timely mitigation, the economic, social, and political costs will be unprecedented. Viable mitigation options exist on both the supply and demand sides, but to have substantial impact, they must be initiated more than a decade in advance of peaking. In conclusion, the report said that world oil peaking is going to happen and mitigation efforts will take time. A 10 year rush transition with moderate impacts will be possible with coordinated efforts between governments, industries and consumers. TREIA believes that is essential that we start the groundwork for these long-term changes that need to occur before "peak oil" is reached in the near future. It is important that we take the study by Mr. Hirsch very serious and start the process now.

### **Ethanol**

Jon Howe is the Vice President of Verenium Corporation and he testified before the Committee on ethanol production. Verenium Corporation is a publicly-held, leading process developer of cellulosic ethanol, a next generation form of biofuel derived from abundant sugars locked up in all forms of biomass. This fuel offers major energy and environmental advantages such as lower input costs and much higher yields per acre than first-generation technology. Verenium has recently completed and started up a 1.4 million gallon per year facility in Jennings, Louisiana, and is currently developing sites for commercial-scale facilities across the Gulf Coast region, including South and Southeast Texas. Advanced biofuels can drive significant economic development in Texas while improving the nation's energy security.

Congress set an ambitious framework for developing advanced biofuels in the Energy Independence and Security Act of 2007 (EISA). State governments will play a critical role in ensuring that these targets are met. Under EISA, most new biofuel production capacity must be low-carbon, "advanced biofuels," which offer greater energy gains and lower carbon emissions compared to first-generation, food-based ethanol. Verenium believes that these targets can best be met by focusing on the use of high-biomass crops ideally suited to the warm, humid Gulf Coast region. Such crops (e.g., canes, sorghums) can be grown on already-cultivated but underused land (i.e., land that is fallow, in pasture, or low-margin crops), and yield 4-5x more ethanol per acre than corn. Texas can be a leader in helping the nation to meet the ambitious biofuel production targets in EISA, while sidestepping a potential conflict between food and fuel production, or the need to put new lands into agriculture.

Increased production of advanced biofuels in the Gulf Coast region can generate huge economic opportunities for Texas growers and landowners, while helping the nation to achieve greater energy independence. As a nation, we do not have the luxury to do nothing and remain dependent on depleting, carbon-emitting fossil energy reserves. Through a well-considered approach to biofuels development, Texas can lead the nation to a future that offers more food, more fuel and lower carbon emissions.

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## Other Testimony

Rachel McClure of Public Citizen testified before the Committee giving their perspective on biofuels and where they feel the Committee should move forward. Ms. McClure said that Public Citizen supports efforts to develop tools that comprehensively and objectively assess the direct and indirect climate impacts associated with a given biofuel policy. We should continue research efforts into the next generation of fuels that sequesters more carbon when burned and research into biofuels made from algae, municipal waste and other feedstocks that will not compete with food crops. She stressed that Public Citizen does not support land conversion to grow fuel feedstock crops that were previously used to grow food for human and livestock consumption. In closing she stated that Public Citizen believes we still need analytic tools to guide us toward policies that define and promote truly beneficial biofuel use.

Jon Means, President of the Texas Southwestern Cattle Raisers Association (TSCRA) testified before the Committee on the affects ethanol is having to their industry and what alternatives they support in renewable fuels. Mr. Means explained to the Committee that TSCRA is not an opponent of ethanol as a biofuel, but rather is opposed to our country reliance on corn based ethanol as the primary source of renewable energy. He stated that they are in support of non-grain sources like cellulose, biomass, waste oil and processed animal fat as means of renewable fuel because it does not disrupt our grain market. He hit on the increase in corn prices due to the federal mandate of production of fuel based ethanol and how it is affecting the cattle industry and our state economy. Mr. Means emphasized to the committee the importance of Texas being the largest cattle producer in the U.S. and how much money has been lost in the industry due to this recent doubling in corn prices. He stated that this increase has affected our food prices and that we can only see these trends continue in the future.

TSCRA supports Governor Perry's request to waive a portion of the renewable fuel standards and urges EPA to grant this request. Also, they support Senator Kay Bailey Hutchison and U.S. Congressman Joe Barton's legislation to freeze and/or repeal certain provisions of the 2005 and 2007 energy bills. He spoke of recent studies that point to cellulosic crops producing better net energy up to five times that of corn and use less water than food sources. In conclusion, he stated that the TSCRA supports a free-market system and they would like to see our nation being less dependent on foreign oil, but not at the risk of our cattle industry.

Edwin Carter, Senior Vice President of Commodity Risk Management for Pilgrims Pride testified on the use alternative feedstock like biomass, waste oils, and processed animal fats in lieu of the government's policies of using food for fuel. He stated that the federal government has diverted large portions of our food supply to produce fuel thus forcing the food companies to compete with ethanol producers to compete for corn, costing some food companies millions of dollars. Last year, food to fuel policies lead to one-fourth of the corn crop going to the production of ethanol; this year it will be one-third and by the year 2012 as much of 40 percent will be mandated by the federal government to be used in the production of ethanol. Mr. Cater talked about how these federal policies have affected his company in that Pilgrims Pride buys 324 bushels of corn annually, so when the price of corn goes up one cent, the cost to them equals 3.2 million pre-tax dollars. They purchase 3.2 million of soybean mill a year, so when the price of soybeans go up a dollar a ton it cost them 3.2 million pre-tax dollars on the bottom line. This

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is important because the price of corn has tripled in the last two years from 2.50 a bushel to 7.50 a bushel and soybean mill has gone from \$170 a ton to \$450 a ton. This increase in price has meant that Pilgrims Pride has spent an additional \$2.5 billions, this from a company with a net sales a little over \$8 billion. He stated that this year alone, they have lost \$144 million in the first two quarters and have had to close a plant in North Carolina and six distribution centers nationwide.

Pilgrims Pride understands that ethanol is not the only factor that is contributing to higher prices in food, but the policies for subsidizing and mandating corn to fuel can be controlled by Congress and they feel that they must look for other options that do not affect our food prices. In conclusion, Mr. Carter stated that Pilgrims Pride asks the committee to study and look into the use of biomass materials grown on land that are not suitable for food or feed production. They feel this is a way we can keep food prices low for everyone.

Josh Winegarner with the Texas Cattle Feeders Association (TCFA) testified that cattle feeders have suffered losses up to \$200 an animal as a direct result of higher corn prices. Mr. Winegarner stressed the importance of the cattle industry by reminding the Committee that the cattle and beef industry is the largest contributor to the Texas agriculture economy and that 23 percent of the nations beef is made in Texas. He told the committee about a study conducted by Texas A&M Ag & Food Policy Center that showed that record high feed grain prices have resulted in a \$6.2 billion reduction in economic output in the livestock sector in fiscal year 2007 and 2008. He also noted that TCFA urges caution and thoughtful deliberation regarding efforts to implement state incentives for biofuel production and that TCFA believes government policies should not just benefit one industry or sector of the economy over others.

### **Conclusion**

The Committee conducted hearings during the interim and took oral and written testimony from various industries and companies on alternative fuels. The Committee felt it was important that the testimony be included in this report. The summary of each individuals who testified are their own opinions and not the members of the Agriculture and Livestock Committee.

### **Recommendations**

The Committee believes that it is important that the state of Texas becomes the leader in the U.S. in production of alternative fuels. The Committee urges the Legislature to continue funding to find alternative non-grain feedstock that will not affect our cattle industry and our food prices.

The Committee believes that it is important that our state continues to look into research that is currently being conducted by our agriculture agencies and take guidance from them before we offer any other fuel incentive programs.

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**References**

Committee on Agriculture and Livestock Interim Hearing, July 11, 2008, witness testimony and handouts.

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**Charge 4**

**Study the impact on the equine industry due to increased competition from other states as it relates to larger purses in equine competitions.**

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## **Introduction**

The House Committee on Agriculture held meetings during the interim to discuss issues and ways to help the \$5.2 billion equine industry. The committee heard witness testimony from individuals across this state with various ideas on where they feel the industry needs to make changes. It is important that before we discuss possible changes that we understand how we have arrived at this point.

## **Background**

In 1987, Texas voters approved the Texas Racing Act, which allowed pari-mutuel wagering on horse and greyhound races at facilities regulated by the Texas Racing Commission (Commission). In support of this change, voters expected a significant impact to Texas' agriculture economy and increased state revenues. The Texas racing industry, however, has struggled to build and maintain profitability, making it difficult for Texans to continue to compete in this state. The Commission estimates that the majority of Texas racetracks are actually losing money. Many experts say that the tracks are losing money due to changes in states that surround Texas and that winnings and payouts in those states are driving the industry out of the state.

### Kentucky Incentive Funds

In 2005, legislation was passed creating two Kentucky-bred incentive programs, the Thoroughbred Breeders Incentive Fund and the Standardbred Breeders Incentive Fund. The tax revenues were set up to be dispersed directly to the breeders and owners of Thoroughbred and Standardbred racehorses. In 2006, Kentucky announced the formation of a third program, the Kentucky Horse Breeders Incentive Program. This allowed for the same stipends to be dispersed to breeders and owners of the following nine breeds: Appaloosa, Hackney, Morgan, Kentucky Mountain Horse, Paint Horse, Paso Fino, Quarter Horse, Saddlebred and Walking Horse. The programs are funded from a 7 percent sales tax on stud fees and have very strict qualifications. The stud fee tax was not a new tax. It was previously collected and deposited in the General Fund of the Commonwealth. Kentucky established guidelines: 1.) That stallions must live in Kentucky all year, and 2.) That mares must breed and foal in KY. These guidelines allow the state to keep their horses. KY has benefited from this program with payouts of \$15 million in 2006 and \$19 million in 2007, causing stallion owners across the U.S., including Texas to move to Kentucky for breeding. This program has caused rural job growth, rural real estate to soar, and the price of KY bred horses to increase from \$5,000 to around \$20,000.

### Other states

With the support of the horse industry, New Mexico legislators legalized the introduction of slot machines as part of the racing experience at tracks in 1999. Arkansas legislators legalized Instant Racing Machines in 2000, which is wagering on archived races or races that had been run several years ago. Louisiana legislators legalized the expansion of slot machines into the state's racetracks beginning in late 2002, and Oklahoma followed suit in 2005. These states have been devastating to the Texas horse racing and breeding industry. There is much more money to be

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earned in purses offered in races at tracks in our neighboring states and from the breeder incentive programs in place in those states compared to Texas.

### **Conclusion**

With Texas being the leader in horse population, the Legislature has the opportunity unlike any other state to revitalize its horse industry. Surrounding states have tried and accomplished incentive programs that Texas cannot compete with until the Legislature acts.

### **Recommendations**

It is the Committee's opinion that in order to create an equine incentive fund in Texas that the horse industry must do everything in their power to keep this historic business in our state. It is our opinion that the committee must further review options for creating revenue with a focus on the following:

- 1) Self-imposed industry fees.
- 2) Set up an incentive fund by using existing money from general revenue.
- 3) Apply for funds through the Texas Enterprise Fund.
- 4) Allow slot machines (Video Lottery Terminals, VLT's) at racetracks.



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## References

Kentucky Horse Racing Commission, *Fact Sheet on the Thoroughbred Breeder Incentive Fund*

Sunset Advisory Commission Report, Texas Racing Commission, July 2008

Committee on Agriculture and Livestock, October 1, 2008 hearing, Witness Testimony and handouts.

Western Horseman, *Fort Knox Fever*, April 2008

American Horse Council Foundation, *The Economic Impact of the Texas Horse Industry*

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**CHARGE 5**

**Examine the opportunities for increased economic development funding in rural Texas.**

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## Background

The Legislature created the Texas Agriculture Finance Authority (TAFA) in the 70th Legislature (1987) as a resource to provide assistance for the expansion, development, and diversification of Texas agriculture products through various programs. TAFA is a public authority within the TDA and is governed by a nine-member board of directors comprised of the commissioner of agriculture, the director of the Institute for International Agribusiness Studies at Prairie View A&M University and seven members appointed by the governor with the advice and consent of the Texas Senate. TAFA's most utilized programs, the Interest Rate Reduction Program and the Young Farmer Loan Guarantee Program offer the most financial benefit to Texas agriculture in today's economy. TAFA has a constitutional authority to issue up to \$525 million in general obligation bonds and since inception they have issued more than a 100 loans worth \$82 million. Although TAFA has the ability to issue bonds, in 2002 their board issued a moratorium on most of their programs due to defaulted loans. These defaulted loans have resulted in an estimated \$14.7 million debt that the program is still carrying.

The Texas Sunset Advisory Committee reviewed TDA during the interim and issued their report in June 2008. The Sunset staff indentified concerns with TAFA and its programs. The report asks TDA to develop a strategy for TAFA's future and present it to the Sunset Commission before the legislative session. In December, TDA issued TAFA's strategic plan which removed and added programs to better serve the needs of the agriculture industry.

Currently, The Young Farmer Loan Guarantee Program is an active program that provides loan guaranties to lenders at a reduced interest rate for borrowers between the ages of 18 and 39 looking to establish or enhance a farm or ranch operation or agriculture-related business. This program will be discontinued and replaced with a package of grant and loan programs to better meet today's agriculture needs. The strategic plan asks for the following programs to be instituted and would require statutory changes that will be a part of TDA's sunset legislation:

1. Loan Guarantee Program - Provides financial assistance through loan guarantees to agricultural producers or agricultural businesses. The program also includes an interest rate rebate component to further assist applicants.
2. Interest Rate Reduction Program (f/n/a Linked Deposit) - Facilitates commercial lending at below market rates to qualified applicants for eligible projects. Eligible projects include any agricultural purpose or agriculture related business. This program utilizes funds provided from the Comptroller of Public Accounts. Total program funding limit is \$30 million with an individual applicant limit of \$500,000. Lenders must be an approved state depository to utilize this program.
3. Young Farmer Interest Rate Reduction Program - Facilitates commercial lending at below market rates to qualified young farmer applicants for eligible projects. The funds must be used for agricultural purposes and the loan limit is \$500,000 per applicant. Funds for this program utilize a portion of the Young Farmer Fund. Lenders who wish to utilize this program must be an approved state depository.

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4. Young Farmer Grant Program - Provides assistance to eligible young farmers and ranchers by leveraging their ability to begin or expand an operation through an equal match grant basis. Applications will be accepted twice per year and will be scored by an objective scoring criteria and a panel of reviewers. Funds for this program utilize a portion of the Young Farmer Fund. Grant amounts will range from a maximum of \$20,000 to a minimum of \$5,000.

## **Rural Programs**

### Texas Capital Fund

The Texas Capital Fund (TCF) is a \$10 million per year federally funded program designed to create and retain jobs in rural communities. The TCF is a program administered by the Texas Department of Agriculture through an interagency agreement with the Office of Rural Community Affairs (ORCA). The TCF program encourages business development, retention, or expansion by providing funds to eligible applicants. Funds will be awarded for the express purpose of assisting in the creation of new permanent jobs or retention of existing permanent jobs, primarily for low and moderate income (LMI) persons. In order to comply with the national goal of expanding economic opportunities for LMI persons, a minimum of 51 percent or more of all the jobs created or retained by the business must benefit persons who qualify as LMI.

These funds are a part of the U. S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program and is known as the Texas Community Development Program (TCDP) in our state. The program is only available to non-entitlement city or county governments. Non-entitlement cities and counties do not receive direct funding from HUD and typically include cities with a population of less than 50,000 and counties of less than 200,000. There are over 1,200 eligible cities and counties in the state. Awarded cities and counties receive funds to make public infrastructure and/or real estate improvements to support a specific business that is expanding or beginning operations in the applicant's jurisdiction and are contingent upon the business making a capital investment and creating or retaining jobs for Texans.

### Texas Rural Job Development Fund

Last session HB 2598 would have created the Texas Rural Job Development Fund to promote rural employment opportunities. The legislation passed the House Agriculture and Livestock Committee, but was held up in the calendar process. This bill would allow the use of Texas Enterprise Funds for grants ORCA to expand the office's powers and duties relating to rural job development. The bill would also promote rural employment and would create a new Texas Rural Job Development Fund as an account in the General Revenue Fund. The program would specify how it would be funded and how the fund could be used. This legislation would establish that sources of funding for the newly created fund would include legislative appropriations, money received from the Texas Enterprise Fund, and any gifts, grants, donations, and matching funds received by ORCA. The bill would make implementation of the program contingent on appropriation of funding by the Legislature and would require ORCA to develop rules for the program.

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## Texas Rural Investment Fund

To continue fostering economic growth in rural Texas, TDA is proposing a new Texas Rural Investment Fund (TRIF). The proposal calls for this state-funded program to be about half the size of the federal sister program (Texas Capital Fund) at \$5 million per year. Without the requirements of the federal program, TRIF will have the flexibility needed to address Texas-specific needs such as creation of higher wage jobs and tools for education and training that will put our workforce on a parallel pathway with our workforce needs. With a dual focus on economic development and workforce readiness, TDA will coordinate with the Texas Workforce Commission to identify workforce needs. TDA is seeking this fund through its Legislative Appropriation Request, exceptional item #4.

### **Recommendations**

It is the Committee's opinion that the current Young Farmer Loan Program under TDA is underutilized and is in need of an overhaul. We recommend adoption of changes in current statute in order to implement TFAA's strategic plan. These changes should be apart of TDA's sunset legislation.

It is the Committee's opinion that we must do everything in our power to help create jobs for our rural communities. The committee recommends the passage of the following two funds:

- 1) Texas Rural Job Development Fund
- 2) Texas Rural Investment Fund

Both funds are vital to our rural communities and will help with economic development and job creation.

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## References

Agriculture and Livestock Committee, February 11, 2008, witness testimony

Fiscal Note and Bill analyses, HB 2598, 80th Legislature

2010-2011 Texas Department of Agriculture, Legislative Appropriations Request exceptional item #4

Texas Sunset Advisory Commission, "Decisions Report: Texas Department of Agriculture," June 2008

Texas Agriculture and Finance Authority Strategic Plan, December, 2008

Texas Department of Agriculture, Report on Performance Audit Services for the TAFA loan Programs, September 8, 2008.



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February 11, 2009

Re: House Committee on Agriculture and Livestock 2008 Interim Report

Dear Chairman Miller:

I have recently reviewed the 2008 Interim Report for the House Committee on Agriculture and Livestock. Agriculture and livestock are an important part of our state's economy. Through the implementation of many of these charges, Texas can continue to be a leader in this historic industry.

I have always supported the equine industry in Texas, but I am conflicted about supporting this report because of the recommendations of Charge 5, studying the impact on the equine industry due to increased competition from other states as it relates to larger purses in equine competitions. While I believe the report accurately reflects the testimony heard in the Committee, I do not believe that endorsing Video Lottery Terminals is the right direction for Texas, nor do I believe that any additional research on this issue would affect my decision.

We can look to our own recent history to understand why gambling is not the answer. In 1986, the legislature and the citizens of Texas were counting on incredible profits from pari-mutuel betting to vastly expand the equine industry. In 1991, we hoped that the money from the lottery would strengthen our economy. Both times that the state has turned to gambling as a solution, we have been deeply disappointed by the ultimate economic outcome. Gambling is not a reliable source of revenue, and I do not believe that the future of the Texas agricultural economy is dependent upon Video Lottery Terminals.

Because of my opposition to the expansion of gambling in our state, I am unable to sign this interim report. Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Betty Brown".

Betty Brown  
State Representative