Texas House of Representatives

Interim Report to the
70th Texas Legislature

Committee on
Agriculture & Livestock
November 5, 1986

The Honorable Gib Lewis, Speaker
Members of the House of Representatives
Texas State Capitol
Austin, Texas 78769

Dear Mr. Speaker and Fellow Members:

The Committee on Agriculture and Livestock of the Sixty-ninth Legislature herewith presents its interim report and recommendations for consideration by the Seventieth Legislature.

Respectfully submitted,

Robert Saunders, Chairman

Phyllis Robinson, Vice-Chairman

Dudley Harrison, Chairman
Budget and Oversight

Steve Carriker

Robert Earley

Eldon Edge

L. P. (Pete) Patterson

L. B. Kubiak

Rick Perry
COMMITTEE ON AGRICULTURE AND LIVESTOCK
69th LEGISLATURE
INTERIM SUBCOMMITTEES

Subcommittee on Budget and Oversight
Chairman: Dudley Harrison

Subcommittee on the Effects of the Water Plan on Agriculture
Chairman: Dudley Harrison
Members: Dudley Harrison, Steve Carriker, L. P. (Pete) Patterson and Robert Earley

Subcommittee on the Implementation of the Texas Brush Control Program
Chairman: Dudley Harrison
Members: Steve Carriker and Phyllis Robinson

Subcommittee on H. B. 1741, 69th Leg., Relating to Agricultural Liens
Chairman: Rick Perry
Members: Eldon Edge, Robert Saunders and Robert Earley

Subcommittee on Current Commodity Buyer Registration Requirements
Chairman: Steve Carriker
Members: Rick Perry and Eldon Edge

Subcommittee on Federal and Private Sources of Financing and Interagency Contracting Practices of the State's Agricultural Agencies
Chairman: L. P. (Pete) Patterson
Members: Robert Earley and Dudley Harrison

Subcommittee on State's Role in the Provision of Credit for Agriculture Enterprises
Chairman: Phyllis Robinson
Members: L. B. Kubiak and Rick Perry
Subcommittee on Budget and Oversight

Dudley Harrison, Chairman

Robert Earley

L. B. Kubiak

L. P. (Pete) Patterson

Robert Saunders
INTERIM REPORT
on the
Subcommittee on Budget and Oversight

I. Introduction

The Subcommittee on Budget and Oversight was charged with the responsibility of monitoring all activities of, and to have budget oversight responsibilities during the interim for the following agencies:

1. State Board of Veterinary Medical Examiners
2. Structural Pest Control Board
3. Texas Rodent and Predatory Animal Control Service
4. Texas Veterinary Medical Diagnostic Laboratory
5. Natural Fibers and Food Protein Commission
6. State Soil and Water Conservation Board
7. Texas Animal Health Commission
8. Texas Agriculture Extension Service
9. Texas Agriculture Experiment Station
10. Texas Department of Agriculture

In February, 1986, the State Comptroller warned that state revenues would fall $1.34 billion short during the 1986-87 biennium because of dropping oil and gas prices, federal budget cuts and a generally sluggish state economy.

When the Legislature approved the $37.2 billion budget for the 1986-87 biennium, it was balanced on the comptroller's premise that oil prices would average $25 per 42-gallon barrel during the 1986 fiscal year and $24.15 a barrel in the 1987 fiscal year.

After the Comptroller's announcement in February, the Governor issued an Executive Order on February 18, 1986 to all state agencies (MW-36). The Governor directed each state agency and university to structure a contingency plan to achieve an overall 13% reduction in spending from existing FY 86-87 biennial general revenue appropriation authority and to implement the plan by no later than March, 1986. The Governor also asked that the agencies incorporate spending reduction in programs financed from funds other than general revenue to the extent that such reduction would enhance fund balances remaining in the State Treasury.

Through the months of April and May, the spot price of oil fluctuated between $10.40 and $17.50. And by the end of May, the Comptroller was suggesting the revenue shortage could grow to $2 billion.
On May 30, 1986, the Speaker called the House to a briefing about the state's budget shortfall. The Comptroller, State Treasurer and the Legislative Budget Board Director presented budget information. The Speaker directed the Appropriation Committee to begin work in finding ways to trim the state budget. With this directive, the 24 Subcommittees on Budget and Oversight were instructed by the Speaker to explore certain budget issues with each agency under their jurisdiction. The issues included the following:

1. Compliance with the 13 percent voluntary reduction set forth in MW-36
2. Escalating consultant fees
3. Capital outlay on construction, recreation and computer purchases
4. Re-negotiation of existing lease contracts
5. Examination of hiring practices
6. Employee reduction

II. Hearing

The Subcommittee met with their agencies on July 9, 1986 in Austin, Texas to review their budget plans and their compliance with MW-36.

Texas State Board of Veterinary Medical Examiners

Donald B. Wilson, Executive Secretary, expressed the Board's interest in supporting the goal of Executive Order MW-36; however, he wanted the subcommittee to be aware that the agency has not grown to meet the needs of the public in regulating the veterinary profession.

Also, funding for the Board is obtained from examination and licensing fees which are deposited in the State Treasury to the Veterinary Fund 035. The agency does not draw on the General Fund for its appropriations.

However, the agency has realized savings in lapsed salaries, investigator travel, Board Member travel and per diem, licensing procedures, examination procedures, and lease/moving expenses. These changes equate at least a 13% reduction to the agency's appropriation.

The Board notes that full compliance with MW-36 would in effect keep the agency a good licensing agency, but an ineffective regulatory agency. With this consideration, the
Board requested that exempt positions, Administrative Technician III-salary group 13 and Investigator III-group 16, be authorized, which would have a net effect of increasing agency staffing by 1/2 of a staff position. If fee increases are necessary to upgrade and maintain an effective regulatory agency, the Board is willing to take that step.

Structural Pest Control Board

David A. Ivie, Executive Director, reported that the Board is a self-supporting agency and that the fees collected are placed in a designated treasury fund for the agency's exclusive use. Seventy percent of the operating budget goes for salaries and to cut expenditures would mean cutting personnel. The agency will continue to review their activities to make sure unnecessary expenditures are not made.

Don R. McCullough, Executive Director of the Texas Pest Control Association, Inc., testified in support of the Board that regulates many businesses and investigates a number of consumer complaints annually.

Texas Rodent and Predatory Animal Control Service

Donald W. Hawthorne, State Director, reported to the subcommittee that the agency has planned to reduce their 1986-87 appropriation by 4 percent or $170,600 in response to MW-36. To reach the 13 percent goal, the agency would need to require the involuntary termination of 26 employees. Since 78 percent of the budget covers salaries, longevity pay and staff benefits, substantial savings could only be reached through a reduction in personnel.

Savings from consultant fees and the capital outlay on construction and renovation are not applicable to this agency. The agency does not plan any computer purchases for the current biennium and leasing agreements are made through the State Purchasing and General Services Commission for the best possible lease rates.

The agency also reported that it had reduced its personnel by 8.5% (9 positions) and will be reduced by 9.4% (10 positions) on September 1, 1986. In fiscal year 1987, it will be necessary to involuntarily separate six employees to meet the reduction from MW-36 and the 67th Legislature.
However, with these reductions, the agency is trying to maintain their services in a professional and adequate manner during these austere times. This has meant that the remaining employees have assumed additional duties for continued service. The agency will keep positions vacant until it becomes critical to employ replacement personnel and when funds become available.

Texas Veterinary Medical Diagnostic Laboratory

The main objective of the Texas Veterinary Medical Diagnostic Laboratory is to provide a diagnostic service to the animal industries so that disease costs can be kept to a minimum and interstate and international commerce of livestock can occur in an orderly fashion.

Dr. A. K. Eugster, Executive Director, reported that the agency will return 6.2% of the appropriated general revenue funds. This would be achieved by staff attrition (4 positions), reduced travel, utility conservation, and no promotions, for a total of $225,490. Compliance at the 13 percent level would result in involuntary termination of staff.

Dr. Eugster also addressed the other issues reporting that:

1) The agency does not use any paid consultants.
2) Capital outlays on construction, renovation and computer purchases have been postponed.
3) The agency has two small lease contracts for a postage meter and a copier.
4) Hiring to replace existing vacant positions has been done only in emergencies.
5) The agency has not involuntarily terminated staff as of yet.

If further savings were needed to reach the 13 percent cut, the agency would need to terminate 2-6 staff positions, delay any replacement of instruments and equipment, postpone building maintenance and renovation, and reduce salaries across the board.

Natural Fibers and Food Protein Commission

Carl Cox, Executive Director, reported that the agency would reduce their 1986-87 budget by 6 percent for a total of $179,612.
State Soil and Water Conservation Board

Albert Roach, Chairman of the State Soil and Water Conservation Board, reported that the Board had cut their 1986-87 budget by the requested 13 percent. Mr. Roach stated it was very hard to do, but the Board was able to make reductions in the following areas: administration, field services, the conservation and technical assistance programs and water planning programs. The total reduction was $863,388.

Texas Animal Health Commission

Dr. John W. Holcombe, Director, reported that the Commissioner was not in compliance with MW-36, but will be able to return 2.0 percent of their budget. This would amount to $414,232. These reductions were reached by hiring attrition, reduction in travel, utility conservation and reductions in general supplies and equipment. If the full 13 percent reduction would have been made, 104 employee positions would have been eliminated. Dr. Holcombe also reported that Texas was at the verge of being a Class B state in the brucellosis program, with a goal of being a Class A state by 1990.

Texas Agricultural Extension Service

Dr. Zerle Carpenter, Director, reported that the Extension Service would reduce their general revenue expenditures by $2,432,000 over the 1986-87 budget. This is a 4 percent reduction. Primary savings were to be accrued through hiring attrition, reduction in travel, and reduction or deferral of operating expenses. To reach the goal of 13 percent, it would require the involuntary termination of 200 to 235 professional positions in addition to the 58 vacant positions that were frozen under MW-36. The agency has only considered new hires in highly critical positions. Also, employee reduction of filled positions have intentionally been avoided based on measures approved by the Board of Regents of Texas A&M University.

Consultant fees from general revenue appropriations were not planned by the agency. Capital outlay on construction, renovation, and computer purchases are being deferred. The agency reduced existing lease contracts in Houston by a reduction in space.
Texas Agricultural Experiment Station

Dr. Neville Clark, Director, reported that the Experiment Station would be able to reduce their 1986-87 budget by $4,839,000, a 6.8 percent reduction. This would be achieved with hiring attrition, reductions in travel, and reduction or deferral of operating expenses. To comply with the 13 percent reduction, the agency would have to reduce their employee numbers by 213 positions. Dr. Clark stated that agricultural research is a part of the budget solution.

Texas Department of Agriculture

Ben Delgado, Associate Deputy Commissioner, reported that the agency was complying with MW-36 in every way, besides laying off employees. Cost saving measures and a management efficiency plan have been executed by the agency since reductions were made in the agency's 1986-87 budget. The goals of the agency include plans to increase profits in the agricultural sector. This would mean operating within their already reduced budget. At the time of the hearing, the agency was not able to return a percentage of their general revenue appropriations. However, with further talks with subcommittee members and a closer look at the agency's budget, the Department of Agriculture fully complied with MW-36 by submitting a 13 percent budget reduction plan.

VII. Conclusion

The Budget and Oversight Chairman reported to the Appropriations Committee on July 11, 1986 on how the agricultural agencies were complying with MW-36. The agencies would be ready to work with the subcommittee, if additional appropriation hearings would become necessary.

The hearing in July was followed by two called sessions of the Legislature to reduce the 1986-87 appropriations. A summary of the budget reductions of the agricultural agencies is included with this report.
### SUMMARY OF THE GENERAL APPROPRIATIONS BILL FOR FISCAL YEAR 1987
#### S.B. 1, THIRD CALLED SESSION

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<th>AGENCY</th>
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Subcommittee on the Effects of the Water Plan on Agriculture

Robert Saunders, Chairman

Dudley Harrison

Steve Carriker

L. P. (Pete) Patterson

Robert Earley
INTERIM REPORT
on the
Subcommittee on the Effects of the Water Plan on Agriculture

I. Introduction

In its efforts to solve the various water problems of the state, the legislature has recognized that those problems cannot be adequately solved without addressing problems of agricultural water conservation. Of the total 17.9 million acre-feet of water used in the State in 1980, 15.8 percent was for municipal and domestic use, 8.5 percent was for industrial use, 1.8 percent was for steam-electric power use, 1.3 percent was used in mining operations, and 72.5 percent was for agricultural use.

With a majority of the water being used for agricultural purposes, the legislature determined during the 69th Legislature that adequate financing for agricultural water conservation programs should be made available through a bonding mechanism similar to that provided by the Texas water development program authorized by the constitution.

On November 5, 1985, the voters of Texas approved propositions 1 and 2 with over 70 percent of the vote. These propositions were basic parts of the Texas Water Plan of 1985. Proposition 2 amends the constitution to establish a $200 million dollar loan program for improving the efficiency of water use in agriculture. The Texas agricultural water conservation bonds would be general obligations of the state, and this constitutional provision would appropriate out of the first money coming into the state treasury, that is not otherwise appropriated by the constitution, sufficient funds to pay the principal of and interest on these bonds. The Texas agricultural water conservation bonds would be issued, sold, and managed as provided by law.

II. Hearing

The Subcommittee on the Effects of the Water Plan held a hearing on December 18, 1985 in Austin. Testimony was given by the following:

Charles E. Nemir, Executive Administrator, Texas Water Development Board,

Herbert W. Grubb, Director of Planning, Texas Water Development Board,
Suzanne Schwartz, General Counsel, Texas Water Development Board,  
Dr. Neville P. Clarke, Director, Texas Agricultural Experiment Station,  
Hermon Petty, Chairman, State Soil and Water Conservation Board,  
Robert J. King, Director, Office of Natural Resources, Texas Department of Agriculture, and  
Steve Stagner, Executive Director, Texas Water Alliance.  

III. Examination of Issue  

Proposition One has conditions and programs which are a prelude to further consideration by the legislature on Proposition Two for loans to improve water use efficiency in agriculture.  

Proposition One specified that a pilot program be carried out to test the efficacy of making loans through local soil and water conservation districts to the individual producers for water conservation purposes. The pilot program was designed by the legislature as a test program to gauge the usefulness of establishing a loan program. The pilot program will be funded with five million dollars of transferred money from the water assistance fund. That fund was established in 1981 with appropriations of general revenue of $40 million for loans to cities and for purposes of research and planning, flood protection planning and state participation in reservoir projects. Of the $40 million, approximately half of it was loaned to cities. The remaining funds have been invested in interest bearing securities and has earned a significant quantity of funding over the period of time from the proceeds of that water assistance fund. Proposition One transferred $5 million of what in effect is general appropriations for the pilot loan program.  

Charles Nemir reported that rules to implement that program were being drafted during November and December, 1985, and the Texas Water Development Board was enlisting assistance from key personnel of the State Soil and Water Conservation Board, the High Plains Underground Conservation District No. 1, Texas Department of Agriculture, USDA - Soil and Water Conservation District, and others.  

The pilot loan program is limited by House Bill 2, 69th Legislature, which implements Proposition One to only being
applicable to irrigation systems, either to install efficient ones or to renovate existing ones to make them more efficient. It is not applicable to brush control or dry land farming. At the time of the hearing, interest in the pilot loan program had been expressed by one local soil and water conservation district in the High Plains.

Proposition One also established a $10 million agricultural soil and water conservation trust fund. The financing for that trust was also taken from the water assistance fund which in essence is the use of appropriated general revenue monies. It was appropriated in 1981, and its earnings created the quantity of money available to finance that fund. The $10 million agricultural soil and water conservation trust fund will be invested in accordance with investment procedures of other similar trust funds in the state of Texas.

Half of the earnings will be reinvested in the fund, the other half then is available to the legislature to be appropriated for technical assistance to improve the efficiency of water use by plants and irrigation systems and for improving the efficiency of irrigation applications.

During the 69th Legislature, the three agencies that are mentioned in the fund, the Texas Water Development Board, the State Soil and Water Conservation Board, and the Texas Agricultural Experiment Station, were appropriated one-third of the earnings up to or not to exceed $200,000.

The State Soil and Water Conservation Board funding is specified to be for technical assistance in planning soil and water conservation programs through the State Soil and Water Conservation districts. The Texas Agricultural Experiment Station was directed to conduct research on improving the efficiency of water use, more efficient use of water by plants, and more efficient water irrigation systems. The appropriation to the Water Development Board will be used for grants to local districts for the purpose of their purchasing irrigation efficiency field water laboratories and testing equipment. With this equipment, tests will be run on the efficiency of existing irrigation systems, and thus prescribe improvements that would cut the cost of irrigation and save water.

A third program made available through Proposition One is the research and planning fund which is also financed from the water assistance fund. The purpose of this fund is to establish research projects to improve the efficiency of water use.
Hermon Petty reported that the State Soil and Water Conservation Board has four areas which should be considered during implementation of the Water Plan. These include: 1) The loan program should cover a broad spectrum of soil and water conservation practices; 2) Soil and water conservation districts be given a key role in working with the agricultural soil and water conservation fund due to their invaluable experiences; 3) Any program channeled through the State Soil and Water Conservation Board be administered and coordinated by the Board; and 4) Since the loan program specifies that local soil and water conservation districts must assume 50 percent of any losses on any loans, this liability on local districts should be re-evaluated.

Dr. Neville Clark reported on the role of the Texas Agricultural Experiment Station in providing technology to improve water use and efficiency. He discussed the urban/agriculture conflict and how methodologies to conserve water must also work in urban areas, such as water free lawns. Experiments being conducted now include: 1) LEPIS - low energy precision irrigation system for use in dryland farming; 2) Plant salt tolerance during use of marginal water in irrigation; 3) Biological control of crop insects to reduce the need of chemicals to reduce ground contamination; 4) Breeding plants which need less water; 5) Wastewater processing research, reusing water for additional agricultural purposes; and 6) Genetic engineering and remote sensing techniques.

The agricultural sector uses around 70 percent of the water used in Texas and is the user throughout the state whose long term water supply is most limited and most likely to be exhausted in competition with all other users. The municipalities and industries can afford to pay a lot more for water than the farm sector, but in the meantime, the farmers are using the water to grow food and fiber which is important to everyone. It is estimated that 40 percent of the value of agricultural products and crops which are sold are directly attributable to irrigation.

IV. Conclusion

The Texas Water Development Board will be reporting to the 70th Legislature on the status of these programs and how successful they have been and how much water is expected to be saved through the conservation efforts. Legislation to implement Proposition Two will be based on this information. Proposition One also specifies that the legislation to implement Proposition Two will have to have a two-thirds majority vote in each house of the legislature in order to be made effective. It will be essential to have good information about the potentials of the
agricultural and water conservation loan program. If legislation is not implemented by the fourth anniversary of the passage of Proposition Two, the legislature cannot authorize and the Texas Water Development Board cannot issue and sell any Texas agricultural water conservation bonds after November 5, 1989. The Legislature must implement legislation during the 70th or 71st Legislature. The Federal tax reform law passed by the 99th Congress will have an effect on the issuance of the agricultural water conservation bonds. The Legislature should be informed of those effects on the $200 million dollar loan program for improving the use of water in agriculture during the 70th Legislature.
Subcommittee on the Implementation of the Texas Brush Control Program

Dudley Harrison, Chairman

Steve Carriker

Phyllis Robinson
INTERIM REPORT

on the

Subcommittee on the Implementation of the Texas Brush Control Program

I. Introduction

During the 69th Legislature, Senate Bill 1083 by Senator Bill Sims of San Angelo was enacted. S.B. 1083 provided for the creation, implementation, administration, operation and financing of the Texas Brush Control Program under the jurisdiction of the State Soil and Water Conservation Board. The subcommittee was charged with the responsibility to study the progress being made in the brush control program. A public hearing was held June 26, 1986 at the Texas A&M University Agricultural Research and Extension Center in San Angelo, Texas. Testimony was given by the following:

City of San Angelo,
State Soil and Water Conservation Board,
Texas Water Development Board,
Kleberg Wildlife Research Institute,
Texas Parks and Wildlife Department,
National Audobon Society,
Texas Agricultural Experiment Station, and
Local Ranchers.

Also, a tour of West Rocky Creek was taken to demonstrate how brush control can revitalize a dry creek into a flowing creek.

II. Background

Water is one of the most valuable, but least abundant resource in Texas. Rapid population growth and economic development, coupled with a climate in which water resources are scarce, have imposed real and potential water supply problems in many areas within the state. In much of the state today, available storage capacity in existing surface water reservoirs will barely be sufficient to meet water demands during critical droughts. Additional water supplies will have to be developed to meet growing needs.

An area of land management that may provide additional water is brush control. Brush now infests 105 million acres of rangeland in Texas. Studies have indicated that brush and weeds use 38% of the average annual precipitation that occurs in Texas. The invasion of brush into Texas grasslands is largely attributed to past grazing pressures by domestic livestock and/or control of wild fires. More than a dozen major brush species now dominate 82% of Texas rangelands. This brush not only uses much needed precipitation, but also results in reduced forage yields,
diminished livestock production, increased evaporation loss and increased erosion potential. Since much of the brush does not serve a useful purpose, it is generally considered a wasteful user of significant amounts of water that would otherwise be available for more beneficial use.

The importance of our state's rangeland is substantial. The watersheds of the Texas rangeland provide most of the state's major aquifers such as Trinity, Edwards-Trinity, Edwards, Carrizo-Wilcox and Gulf Coast with water. Likewise, more than 60% of the surface flow in rivers is from rangeland watersheds. Cities such as Dallas, Fort Worth, Wichita Falls, Waco, Temple, Austin, San Antonio, Corpus Christi and many others are directly dependent on range watersheds for their water. These are also the areas where water shortages are projected.

Water yields can be increased in these areas by removing shrubs and trees that intercept and transpire large amounts of water, and replace them with grasses that require less water. The idea of improving water yield by vegetation management on rangelands began to receive attention in water short areas by the early 1950's (Barr, 1956).

Brush invasion has long been recognized as a severe conservation problem in Texas. In a long range plan prepared by the Texas State Soil and Water Conservation Board in 1980, undesirable brush and weeds was reported by 148 districts as one of their five most critical problems.

The brush survey conducted by the Soil Conservation Service and published in 1973 showed 92 million acres occupied by brush. Statewide results from the latest SCS survey completed as a part of the 1982 National Resources Inventory show an increase in total brush to about 105.6 million acres.

Mesquite is the most common and widely spread brush species in Texas. About 52 percent of the grasslands of the state are infested with mesquite, of which almost 16 million acres, 15 percent of the state total, are so densely covered as to suppress grass production.

The juniper has also been a considerable brush problem. They produce such a dense shade that grass is eliminated for livestock and poor wildlife habitat is provided.

Cacti occupy 35 million acres in Texas and grow everywhere except in the East Texas pines. Even oak trees, such as live, post, and blackjack, create a brush problem in Central and East Texas. Sand sagebrush, huisache, whitebrush, guaillo, saltcedar, yaupon and winged elm are several plants in certain areas of the state that contribute greatly to the brush problem.
With brush identified as a conservation problem in Texas, a West Texas legislator took action to develop a brush control plan.

The brush control plan proposed in S.B. 1083 is the start for a comprehensive strategy for managing brush in the state. The plan initially would identify areas of critical need in the state where brush is contributing to a substantial water conservation problem.

The bill includes the creation of a brush control fund in the state treasury which may be funded from legislative appropriations, money transferred to that fund from other funds, or other money required by law to be deposited in the brush control fund. These monies shall be used by the State Soil and Water Conservation Board to provide the state's share of the cost of brush control projects.

The SWCB will write the plan in the form of a methodology to implement the program on a statewide basis. The plan will explain the cost-share program that will be used to help operate the brush control plan. As described by Jay Kuykendall from the SWCB, the state brush control plan manual will include the following details:

I. Introduction
II. The Brush Problem in Texas
III. Increasing Water Yields from Rangeland Management
IV. S.B. 1083 - The Brush Control Bill
V. Delineation of Critical (High Potential) Areas
VI. Project Applications
VII. State Board Approval and Prioritization
VIII. Project Prioritization Criteria
IX. Project Planning
X. Cost Share Program

One incident that helps support the theory of increasing water yields from rangeland management is the Rocky Creek Story.

In the early 1960's landowners on five ranches near San Angelo, covering about half the 74,000 acre West Rocky watershed, began rootplowing, reseeding, treedozer, aerial spraying and chaining. The ranchers received technical assistance and cost-sharing for this work through the Great Plains Conservation Program. The program is administered through local soil and water conservation districts in selected Great Plains counties by USDA's Soil Conservation Service. These ranchers did not start out to prove anything, but through their collective efforts, a significant change in the rangeland did happen.
After several years of following an extensive range conservation program, one of the five ranchers noticed that a spring - dry since 1935 - had started flowing again. By replacing the water hungry brush with a good grass cover, more rainfall soaked into the aquifer, recharging the dormant springs. By 1970, springs had begun flowing on all five ranches. West Rocky Creek, which now flows at a rate of 475 to 4000 gallons per minute is not big by most standards but its sparkling waters are a welcome sight in West Texas.

The rangeland improvements have reduced erosion in the watershed and increased forage production for the ranchers' livestock. The story of West Rocky Creek may be more important to the 70,000 residents of San Angelo. Water from the Creek supplements the city's water supply reservoirs. West Rocky Creek now contributes approximately 7% of San Angelo's total water needs.

III. Examination of Issue

1. City of San Angelo

Burt Terrill, the mayor of the city, stated that anything that could be done to enhance the availability of water in the State of Texas would be a benefit to all the people. The city manager, Stephen Brown, wanted to emphasize the stake that cities have in brush control. "Brush control eradication should be as much a part of the state water plan as construction of reservoirs and viaducts are in the implementation of conservation measures." The City of San Angelo is very interested in considering any measure which would control brush and give it one additional water supply management tool.

2. State Soil and Water Conservation Board

Jay Kuykendall reported on the outline of the brush control plan. He expressed that the workability of getting some pilot projects on the ground was very important to the success of the brush control plan.

3. Texas Water Development Board

Herbert Grubb, Director of Planning, Texas Water Development Board, reported that for those who are interested in brush control, they need to pay attention to either amending House Bill 2 to broaden the purposes for which those loans can be made, and certainly when enabling legislation for proposition 2 is considered by the Legislature. He explained the research projects being funded by the Texas Water Assistance Fund established in 1981.
Mr. Grubb stated that in order to justify and convince the Legislature, we need to be able to answer the questions of how much can we expect to produce in the way of water and in the way of other benefits if the public sector is to supply either its credit through low interest loans or subsidy in some other way to try to accomplish brush control.

TWD has applications from Texas Tech and Texas A&I to do additional research in brush control work.

3. Texas Agricultural Experiment Station

Dr. Wilbert H. Blackburn suggested that citizens need to be aware of how the state is dependent on range lands for water. Shrubs and brush transpire more water than grasses. Research indicates that if we work in areas above sixteen inches of rainfall that there is an opportunity to increase water yield by vegetation manipulation. However, there has not been a lot of research done in Texas for Texas conditions on the impact of vegetation manipulation and water yield.

One thing to consider, the plants that will be used to replace the brush will need to be more efficient water users or use less water than the ones being destroyed. Not only control of brush but by restoring that brush land to productive grasses, an estimated 10 million acre feet of water could be yielded annually. This adds up to equal water use for municipalities. Blackburn said, "There is a high probability of yielding additional water by a brush management program."

4. Kleberg Research

Sam L. Beason, Director of Research, Kleberg Wildlife Research Institute, suggested that to gain public support for this law and to generate resources, wildlife should be given tremendous concern. Make a push for additional research. Also, in the long run find the economic trade-offs between brush removal impact on wildlife, soil water recharge and herbaceous forage production and livestock forage improvement. Emphasize soil moisture recharge.

5. Texas Parks and Wildlife Department

Craig A. McMahon reported that there is a real need for a brush management program that adequately considers wildlife. It will be his recommendation that guidelines for applicants to follow in planning for wildlife be included in the brush control plan.

6. National Audubon Society
Murray T. Walton reported that there should be assurances in any rules to implement this program, land which benefits from public funds remain in the program for a reasonable period of years and such lands not be brought into row crop agriculture. He also stated that this program should be coordinated with the Texas Natural Heritage Program.

He also suggested that there needs to be a vehicle which allows cities and other water supply entities to provide the cost sharing portion of the state funds. He also recommended that at least while it is a pilot program, general fund appropriation be made from the state to demonstrate the benefit of such a program to the citizens of Texas.

7. Association of Texas Soil and Water Conservation Districts

On the part of the conservation districts of Texas, Buddy Clark reported that they stand ready and are willing and able as far as the law and economics will allow to assist in any way that they can to help carry out this project. He noted that the money spent on the ranchers through the Great Plains Program had definitely gone back into the public sector more than once.

8. Chemical research

Since the late 1950's efforts have been made to look at new chemicals, more effective herbicides as well as better methods to control brush. Part of this was an effort to find more safe herbicides other than the 2-4-5-T, which had obvious health hazards. Research has produced at the present time, three herbicides that are much more effective than the current ones that are available. One has been researched since 1974 and perhaps EPA will grant the registration of that product by next year. A real problem is making the herbicides affordable for ranchers and farmers. Few stem plants are more easy to kill than multiple stem plants. This update on chemical research was provided by Pete W. Jacoby, Jr., a professor at the Texas Agricultural Experiment Station.

IV. Conclusion

The State of Texas should provide as much as it can to the continued research in brush control. The brush control plan as outlined in S.B. 1083 is an additional step in the overall water plan for Texas and needs financial support from the state as well as support from the people of Texas.
Subcommittee on H. B. 1741, 69th Legislature, Relating to Agricultural Liens

Rick Perry, Chairman

Eldon Edge

Robert Saunders

Robert Earley
INTERIM REPORT
on the
Subcommittee on H.B. 1741, 69th Legislature, Relating to
Agricultural Liens

I. Introduction

Under the current Business and Commercial Code, buyers of any
commodity or product in the ordinary course of business, except
agricultural commodities purchased from the producer, receive
title to the commodity free and clear of any liens. A buyer of
an agricultural product may be required to pay twice (double
payments) for the commodity, if the seller fails to satisfy the
lien with proceeds of the sale.

During, the 69th Legislature, H.B. 1741 was enacted. The
purpose of this law is to significantly reduce the period of time
over which a buyer of farm products is exposed to the possibility
of double payment due to enforcement of a security interest
created by the seller; to increase the penalties for unlawful
appropriations of the proceeds from sales of certain goods that
are collateral for loans; and to provide for the centralized
filing of agricultural liens in the office of the Secretary of
State. Previously, the law provided that the filing of
agricultural liens would be with county clerks.

II. Hearing

The Subcommittee on H.B. 1741, 69th Legislature, Relating to
Agricultural Liens, met in a public hearing on May 19, 1986 in
Lubbock, Texas. The following individuals testified at the
hearing:

H. A. (Bob) Poteet, Executive Vice President, Texas Cotton
Association,

Adolph Hanslik, President, Texas Cotton Association,

Nancy Patton, cotton merchant,

Dorothy Browne, County Clerk, Borden County,

J. R. Blumrosen, representing the Plains Cotton Cooperative
Association,
Richard McDonald, representing the Texas Cattle Feeders Association, and
Ann Davidson, County Clerk, Lubbock County.

The office of the Secretary of State submitted written testimony prepared by Wallis Boggus, Director, Uniform Commercial Code Section.

III. Examination of Issue

On December 24, 1986, Section 1324 of the Food Security Act of 1985 becomes effective. This section provides "clear title" protection against liens to buyers or commission merchants who purchase agriculture products from producers unless purchasers were given written notice that liens existed. Section 1324 will take precedence over state or local law. It also allows lenders to receive lists of potential buyers of commodities on which they hold liens so that notice of liens can be given and provides for fines of up to $5,000 for sellers who make "off-list" sales without notifying lenders of repaying the loans.

The Office of the Secretary of State reported that from their perspective the transition from local to central filing for farm related financing statements is occurring without significant complications. As can be expected, there has been confusion and misunderstanding by affected parties on the effect of H.B. 1741 specifically filing and lien search requirements. The five and one-half year transition period may pose a temporary problem for lien searchers but it is probably the only effective and efficient means of transferring farm related filings from the local to central filing. Subject of legislative appropriation, the Secretary of State plans to provide remote telecommunications with their computer system whereby much of the lien information required on specific debtors may be obtained.

The County Clerks at the hearing stated the transition was not working at this time. Long lines had been reported at the Secretary of State's office for lien searches. However, it was suggested that the County Clerks would be open to new and innovative approaches to central filing.

IV. Conclusion

The Committee would ask for clarification on how the Federal law, Section 1324 of the Food Security Act of 1985, would effect the state law passed during the 69th Legislature. An attorney general's opinion was requested on October 10, 1986.
Subcommittee on Current Commodity Buyer Registration Requirements

Steve Carriker, Chairman

Elvon Edge

Rick Perry
INTERIM REPORT
on the
Subcommittee on Current Commodity Buyer Registration Requirements

I. Introduction

Current law requires the registration of only certain cotton buyers who purchase cotton on a forward contract. Recently, many cotton sellers incurred substantial losses when checks for payment from the Cotton Exchange Company, a firm which operated a computerized marketing system linking producers and third-party buyers, failed to clear the bank. During the 69th Legislature, a bill was introduced that would have required all cotton buyers who purchase from growers to register with the Department of Agriculture and increase the annual registration fee for cotton buyers. The legislation also provided for verification that there are sufficient funds to cover bank drafts issued for cotton purchases and provided penalties.

The subcommittee was charged to study the efficacy of current commodity buyer registration requirements. Since legislation was introduced during the session in relation to cotton buyers, the subcommittee studied that area.

II. Hearing

A public hearing was held in Lubbock, Texas on May 19, 1986. Those who testified included the following:

Les Eubank, Senior Vice President at First National Bank of Lubbock,

H. A. (Bob) Poteet, Executive Vice President, Texas Cotton Association,

Jane Anne Stinnet, Vice President of R. S. Tapp and Company,

Fred Traylor, a cotton merchant,

J. R. Blumrosen, representing the Plains Cotton Cooperative Association

Pete McRae, Special Assistant to the Deputy Commissioner, Texas Department of Agriculture, and several farmers from the Lubbock area.
III. Examination of Issue

A. The Texas Cotton Association described disadvantages that the legislation could have on cotton buyers.

B. The Texas Department of Agriculture proposed legislation to create a Cotton Recovery Fund similar to the Produce Recovery Fund. Also, the department suggested that cotton buyers and cotton brokers be licensed.

C. Local farmers described their problems with cotton buyers.

IV. Conclusion

The cotton producer should be educated on the options he has available to protect himself from losses of non-payment by cotton buyers. Cooperation between cotton buyers, cotton producers, and the Texas Department of Agriculture should be sought to minimize losses.
Subcommittee on Federal and Private Sources of Financing and Interagency Contracting Practices of the State's Agricultural Agencies

E. P. (Pete) Patterson, Chairman

Robert Earley

Dudley Harrison
INTERIM REPORT
on the
Subcommittee on Federal and Private Sources of Financing and Interagency Contracting Practices of the State's Agricultural Agencies

I. Introduction

Appropriations to the State's agricultural agencies monitored by the Committee on Agriculture and Livestock are derived from general revenue funds, service fees, federal funds, interagency contracts, and, in some instances, private sources. This subcommittee was charged to study federal and private sources of financing and interagency contracting practices of the State's agricultural agencies. The purpose of the study was to reach a more clear understanding of how the agricultural agencies receive other funds besides general revenue and how those funds are used in operating the agency. The subcommittee was also going to study the possibilities of having a stronger coordinated effort in fire ant research and funding.

II. Hearing

The Subcommittee on Federal and Private Sources of Financing and Interagency Contracting Practices of the State's Agricultural Agencies met in a public hearing on November 5, 1986 in Austin, Texas. The following witnesses testified at the hearing:

A. Konrad Eugster, Executive Director, Texas Veterinary Medical Diagnostic Laboratory,

Carl Cox, Executive Director, Natural Fibers and Food Protein Commission,

David A. Ivie, Executive Director, Structural Pest Control Board,

Harvey Davis, Executive Director, State Soil and Water Conservation Board,

Kenneth Welch, Director of Administration, Texas Animal Health Commission,

Mike Moeller, Deputy Commissioner, Texas Department of Agriculture,
Richard Lowerre, Assistant Commissioner for Regulatory Programs, Texas Department of Agriculture,

Ben Delgado, Associate Deputy Commissioner, Texas Department of Agriculture,

Thomas W. Powell, Chairman & CEO, Powell Industries - Manufacturers Electrical Distribution Equipment, and

Stephen W. Seale, Jr., Owner, Seale Land And Cattle, Company.

Due to a scheduling conflict, written testimony was given to the subcommittee by the Texas Agricultural Experiment Station, Texas Agricultural Extension Service, and the Texas Rodent and Predatory Animal Control Service.

Each agency explained their use of federal funds, interagency contracts, and private funds.

III. Explanation of Issue

Texas Agricultural Experiment Station

The Texas Agricultural Experiment Station is the agricultural research agency for Texas; as such, it is a mission-oriented organization with efforts directed to the support of agriculture. All resources acquired from both general revenue and other sources are directed towards this mission.

TAES operates under a strategic plan, which is updated every two years and which defines needs for agricultural research in collaboration with farmers, ranchers, and others that use the products of its research. This strategic plan defines the areas of research that are in the mission of the agency. The plan focuses the attention of scientists and administrators into areas relevant to Texas agriculture. It forms the basis for our decision on the kind of funds that are accepted and the kind of research that will be undertaken in the agency.

Interagency contracts provide a mechanism for collaboration with other parts of state government in areas of mutual interest and responsibility. For instance, through this means, TAES provides continuing support for agricultural research at Texas Tech University, Texas A&I University, and Prairie View A&M University. By appropriating these funds to TAES for subsequent allocation to other universities, the Legislature assures a coordinated and integrated use of funds for agricultural research. TAES receives funds from such agencies as Texas Parks and Wildlife, the Texas Prison System, Texas Department of
Health, and the Natural Food and Fiber Protein Commission for research of interest to those agencies. TAES has twelve interagency agreements in effect at the present time.

The TAES receives appropriated federal funds from the U.S. Department of Agriculture for both agricultural and forestry sciences research; matching funds from general revenue are required to be eligible. Similarly, funds from the U.S. Department of Interior provided partial support for the Texas Water Resources Institute, a part of TAES. These funds are directly related to the mission of TAES and provide leverage for state general revenue.

Private funds for research come in the form of either gifts (grants-in-aid) or contracts with industry. The use of gift funds is specified by the donor, but are accepted only if they can be used to support the mission of the agency. Often such gifts are made to Texas A&M University, with which TAES shares a jointly salaried faculty. Thus, TAES is an indirect beneficiary of some gift funds. Gifts may be for support of individual research projects, support of graduate students, or endowments of faculty chairs. Contract funds are accepted, again, in areas of recognized mission of TAES; that is, in support of Texas agriculture. These funds allow for mutually productive sharing of state and industrial funds to meet common objectives and to enhance total state income and benefits to the state's agriculture. These are referred to as restricted funds; their use is restricted to the specific purpose for which the contract was awarded. TAES also receives restricted funding from federal granting agencies which are relevant to the mission of the agency.

Texas Agricultural Extension Service

The Texas Agricultural Extension Service uses interagency contracts to define the scope of educational programs or services rendered at the request of other state agencies. These contracts are negotiated by both agencies for mutual benefit and in all cases are used to enhance the programs of the agency in following its role and mission. During the 1985-86 fiscal year the agency entered into six contracts with other state agencies. TAEX has on a limited basis contracted for services which were available as cost savings from other agencies. The major source of the services was the Texas Department of Corrections in the areas of micro-filming of records and rehabilitation and refinishing of office furniture. There are no such contracts currently in effect. The largest single contract for fiscal year 1985-86 was with Texas Parks and Wildlife in the amount of $147,000. This contract was initiated to provide educational programs in the use of Texas seafood and to work with producers and commercial
fishermen to enhance the marketing of their catch. This program fulfills the legislative requirements that certain license fees collected by Texas Parks and Wildlife be used to provide educational information on the use of Texas seafood. All other contracts are less than $10,000 each and cover limited time periods and specific projects.

The Texas Agricultural Extension Service receives federal appropriations from the U.S. Congress under the authority of the Smith-Lever Act of 1914. These funds are provided by letter of credit and are used for support of educational programs provided by TAEX throughout the state. Funding is provided with requirement of a proportional match from state and county funds under the Smith-Lever legislation.

Private grants and contracts are negotiated by the agency for additional enhanced programming which helps to extend extension education efforts. These agreements are set forth in a standardized Memorandum of Agreement approved by the System Legal Council and the TAMU System Board of Regents which formally accepts each grant. All such programs and activities are restricted in the use of funds by the agreement with the grantor. Therefore, such funds cannot be redirected to areas other than those specifically stated in the memorandum of agreement. These grants allow for programming beyond the scope of available appropriated funds and in all cases result in materials or information which is integrated into general extension educational programs.

The policy of the agency is that all interagency contracts and federal and private grants or contracts must be in direct support of the mission of the agency. When such potential grants are identified, specific proposals and plans of work are developed for approval through subject matter department heads and the agency director. All grants and contracts must then be approved and accepted by the TAMU System Board of Regents as set forth in System policy. Funds may not be utilized for purposes other than specifically stated in the contract or memorandum of agreement. The agency encourages faculty and staff to seek such extramural funds in support of ongoing programs. This policy is in compliance with the Texas A&M University System Administrative Policy and Reporting Manual Sec. C.3.4 and with the Texas Agricultural Extension Service Policy and Procedures Manual Sec. J.7.

Texas Rodent and Predatory Animal Control Service

The Animal Damage Control Program in Texas is a cooperative program involving the Animal and Plant Health Inspection Service - USDA (Federal), the Texas Agricultural Extension Service
(State), and the Texas Animal Damage Control Association (County & Private). These organizations cooperate with funds, facilities, and personnel to conduct wildlife damage control.

In accordance with the legal authority granted by state legislation and the National Animal Damage Control Act of March 1931, a Master Cooperative Agreement was entered into involving the United States Government, the Texas Agricultural Extension Service, and the Texas Animal Control Association. This agreement spells out the terms and guidelines under which the Animal Damage Control Program is to be conducted and gives the general supervisory responsibility of the Texas Rodent and Predatory Animal Control Service to the Federal agency. Until December 19, 1985, the Federal agency involved was the U.S. Fish and Wildlife Service. However, on that date Congress transferred the program to the Animal and Plant Health Inspection Service in the U.S. Department of Agriculture.

The Master Cooperative Agreement established procedures for certification of payment. The expenditures charged to Federal funds are sent to the USDA National Finance Center in New Orleans for payment. Those expenditures charged against the State Appropriation are forwarded to the Texas Agricultural Extension Service for review, approval, and payment. The expenses paid from the account of the Texas Animal Damage Control Association are approved for accuracy and sent to their fiscal clerk for payment. Under the terms of the agreement the State Director is authorized to certify as to the correctness of all claims to be paid by each agency.

The Federal Government funds the salaries, benefits, travel, etc., of the 39 federal employees. They also pay for most of the total program administration and provided all but three of the program supervisors. All of the aerial hunting is paid by federal dollars, and most of the equipment used in the field operations is purchased by federal monies.

The State appropriations fund the 106 State employee salaries, staff benefits, longevity pay, etc. Until the last several years, the State paid for the mileage and per diem of its employees. However, with budget cuts and reduced funding, Federal dollars were used to "bail out" the State. This "bail out" came in the form of State employees submitting Federal travel vouchers for mileage and per diem.

The Texas Cooperative Trapping Fund supports the salary, benefits, worker's compensation, travel, and per diem/mileage of its 70 employees.

As outlined in the Master Cooperative Agreement, each fund (Federal, State, and local) is dealt with as a separate funding
source. There are no interagency contracts nor are any funds transferred from one agency to another nor are any funds commingled into a single fund.

Texas Veterinary Medical Diagnostic Laboratory

The Texas Veterinary Medical Diagnostic Laboratory (TVMDL) has executed four interagency contracts in fiscal year 1986. TVMDL has three contracts in which they are the performing agency. These include: 1) A $5,000 contract with the Texas Animal Health Commission (TAHC) to provide laboratory diagnostic support for TAHC programs (mostly pseudorabies testing in swine). 2) A $10,000 contract with the Texas Department of Corrections to provide laboratory diagnostic service for TDC livestock, and 3) A $3,500 contract with the Texas Parks and Wildlife Department to provide laboratory diagnostic service. The agency has a $10,000 contract with Texas Department of Corrections in which the agency has TDC prepare microfiches for all of TVMDL's official records.

In FY 1986, TVDML received a grant in the amount of $10,988 from the American Veterinary Medical Association Foundation to study the diagnosis of rodenticide poisoning in animals. The agency has never received any federal funds or grants.

Natural Fibers and Food Protein Commission

The Natural Fibers and Food Protein Commission was created in 1941 in an effort to find new markets and uses for both Texas' natural fibers and cottonseed products.

The four universities comprising the NFFPC are the University of Texas at Austin, Texas A&M University, Texas Woman's University and Texas Tech University. Each university plays a major role in completing the circle of field-to fabric-to food and "value added" through research and development.

The research conducted by these universities is contracted by "Memorandum Agreement" with funds appropriated by the Legislature.

Federal and private sources of funding is the backbone of the research program. It is estimated that for every State dollar appropriated, $1.30 is generated in outside funds. These funds are handled primarily by each individual contracting university. For fiscal year 1987, $1,638,105 is pledged for cooperative NFFPC research projects. However, as stated, for every dollar lost through State Budget reductions, $1.30 is lost in outside funding.
In 90 percent of the cases of outside grants, one to five members of NFFPC's Industry Advisory Committee has been directly involved, whether the funds are Federal or from private industry. Many of these members are on committees at the national level and know where NFFPC's current research programs are able to interface with available funds.

It is also important to point out that the Executive Director of NFFPC considers one of his main duties is to start this interdisciplinary planning for outside funding.

A third dimension is the use of State officials such as Representatives, Senators and staff of the Texas Economic Development Commission to show state level governmental interest in bringing new industry to utilize our research results of both fiber and oilseeds. One example is the nineteen Levi Strauss cutting and sewing plants now on line in the State.

Structural Pest Control Board

The Structural Pest Control Board has been operating under interagency contracting with the Texas Department of Agriculture as the performing agency since 1972. The services provided by TDA have included printing or reproduction of forms, stationary, laws and regulations, newsletters, and data processing services.

In the past four years the contracts have been for the following amounts:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>$15,000</td>
</tr>
<tr>
<td>1985</td>
<td>$11,000</td>
</tr>
<tr>
<td>1986</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>1987</td>
<td>$ 5,000</td>
</tr>
</tbody>
</table>

The service has been provided to the agency satisfactorily.

The Federal funds received by the Board are from the Environmental Protection Agency for pesticide enforcement. Since the EPA has a policy of funding only one State lead agency, federal funds are received directly from the TDA under interagency contract. Even though the agency does not receive funds directly from the EPA, the agency is involved in the grant negotiations and have a set amount approved for each grant period. The Board is also the primary State agency designated by the EPA for enforcement of Federal laws governing structural pest control operators. The agency is audited by the EPA and agency programs are included in their assessment of the State pesticide enforcement programs. Interagency contracts for Federal funds
for the past four years have been for the following amounts:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>$30,000</td>
</tr>
<tr>
<td>1985</td>
<td>$50,000</td>
</tr>
<tr>
<td>1986</td>
<td>$46,296</td>
</tr>
<tr>
<td>1987</td>
<td>$51,704</td>
</tr>
</tbody>
</table>

The increased amount from 1986 to 1987 was for data processing. The payments have been made in a satisfactory manner.

The Structural Pest Control Board has no private sources of funding.

State Soil and Water Conservation Board

The State Soil and Water Conservation Board has one interagency contract for the 1987 fiscal year. The contract is with the Texas Water Commission in the amount of twelve thousand ($12,000.00) dollars and covers data processing services for the current biennium. The State Soil and Water Conservation Board is the receiving agency under this contract.

The Board does not currently receive nor does it anticipate receiving any federal or private funds. The agency budget request for the 1988-89 biennium does not include funding from federal or private sources.

The State Soil and Water Conservation Board does not have a formal policy dealing with the receipt of private donations since the Board has never received any during the history of the agency.

Texas Animal Health Commission

The Texas Animal Health Commission has six interagency contracts for fiscal year 1986 and 1987 and is the recipient agency in each contract. The provider agency, their service, and the amount of the contract are in the following list:

1) House of Representatives, reproduction, $10,000.00,
2) Texas Water Commission, reproduction and graphic arts, $4,000.00,
3) Texas Veterinary Medical Diagnostic Laboratory, lab testing for pseudorabies, $ 5,000.00,
4) Texas A&M University, calfhood vaccination, $10,000.00,
5) Texas Water Commission, Computer processing for calfhood vaccination program, $25,000, and
6) State Purchasing and General Services Commission, computer services for accounting and payroll, open ended (approximately, $18,000.00).

In the agency's appropriations, Rider #1 states that "Any grants or gifts of money received by the Texas Animal Health Commission for the Screwworm Eradication Program shall be deposited in the General Revenue Fund and are hereby appropriated for the purposes intended by the donors." There have been no donations to the Screwworm Program in over 10 years.

All other private funds or donations are deposited into the General Revenue fund, to the Agency's unappropriated cost center. These funds then become available for appropriation. Only one dollar has been received in this manner during the last six years.

The TAHC receive Federal funds through a Cooperative Agreement with the U.S. Department of Agriculture, Animal Plant Health Inspection Service-Veterinary Services. All of the funds provided by this agreement are utilized in the Brucellosis Program and related support functions.

The TAHC must submit an annual request for Federal assistance and funding is provided or denied based on that request. For Federal Fiscal year 1986 and again in FY 1987, the agreement has been funded at $3,051,093. These funds were utilized in fiscal year 1986 in the following manner:

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surveillance (Market and Slaughter)</td>
<td>53.3%</td>
</tr>
<tr>
<td>Herd Testing</td>
<td>25.2%</td>
</tr>
<tr>
<td>Laboratory</td>
<td>7.5%</td>
</tr>
<tr>
<td>Employment Retirement System Transfer</td>
<td>7.0%</td>
</tr>
<tr>
<td>Administration</td>
<td>4.1%</td>
</tr>
<tr>
<td>Statistical Services</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

The U.S. Department of Agriculture, Animal, Plant, Health Inspection Service-Veterinary Services (APHIS-VS), works cooperatively with the Texas Animal Health Commission in the State's Brucellosis Eradication Program. In addition to providing funds to the TAHC through the Cooperative Contract, APHIS-VS also participates directly in the program.

This participation takes various forms including personnel, data processing, supplies and blood collection for market and slaughter surveillance, laboratory support and calfhood vaccination. The amount of support provided by the Federal government can vary greatly from year to year because of non-reoccurring time allotments of funds.
A primary example of one-time funding is the money put into childhood vaccination in Federal Fiscal Year 1986. These funds were provided on a one-time basis and will not be available in FY 1987.

Texas Department of Agriculture

For fiscal year 1986, the Texas Department of Agriculture had 17 interagency contracts for services with other agencies. Those include the following agencies, the service provided, and the amount of the contract:

1) Aircraft Pooling Board, airplane expenses, $30,000.00,
2) Board of Pardons and Paroles, computer training, $250.00,
3) Comptroller's Office, access to computer files to cross check agricultural businesses for purposes of appropriate licensing, $5,000.00,
4) General Land Office, $6,703.19,
5) Institute of Texan Cultures, one-time specialized printing, $1,825.23,
6) Natural Fibers and Food Protein Commission, cotton pricing projects, $36,205.74,
7) State Department of Highways and Public Transportation, specialized printing, $3,500.00,
8) State Purchasing and General Services Commission, Austin building leases, $15,000.00,
9) Structural Pest Control Board, Federal funds for pest control, $40,000.00,
10) Texas Agricultural Experiment Station, fire ant research, $160,000.00,
11) Texas Agricultural Extension Service, buffalo gnat eradication and control, $5,000.00,
12) Texas Tech University, fire ant research, $140,000.00,
13) Texas Youth Commission, leasing land for the seed lab in Giddings, $5,000.00 (fiscal year 1987),
14) University of Texas at Arlington, TDA renting space for conferences on the farm crisis, $6,000.00,
15) University of Texas at Austin (Computation Center), recipes for TDA marketing program, $2,200.00,
16) University of Texas at Austin, proposed fire ant research in fiscal year 1987, $40,000.00, and
17) University of Texas (Joe C. Thompson Center), renting space for TDA conference, $1,348.00.

The Texas Department of Agriculture is not authorized to receive grants and gifts.

During TDA's presentation, considerable time was also given to discuss the coordination of fire ant research in the state. Mike Moeller, Deputy Commissioner, stated that there needs to be a
long-term commitment from the State in fire ant research. The Deputy Commissioner suggested several ideas that could be beneficial to the fire ant program. One suggestion was to have the state research groups meet annually, or quarterly, to report their fire ant research projects and to make sure that research projects were not overlapping. Also, it was suggested to use a referendum check-off, which is provided under the Texas Commodity Laws, for fire ant pesticide use. Another approach was to include urban victims and their contributions to the fire ant problem, because it is an urban problem as well as a rural one.

Additional Testimony

Tom Powell, Chairman and CEO of Powell Industries, Inc. presented testimony that addressed the issue of fire ant control and its need for a focused plan by the State. He pointed out that fire ants cause problems in many areas and industries, including 1) agriculture, 2) livestock and poultry, 3) hunting operations, 4) wildlife, 5) industry and public utility, and 6) the general public. He recommended that an independent advisory council be established to work with the Department of Agriculture in fire ant control. He suggested several guidelines that the council could follow. They included:

1) The council should be appointed by the Committee on Agriculture and Livestock.
2) The council should be selected from a list submitted by agricultural and wildlife organizations of the State.
3) Selection of council members should be based on each individual's ability to perform and to dedicate time toward a solution to the problem.
4) The council should be charged with the immediate task of steering research for 1987, suggesting the direction, planning, and pace for TDA in education and research, and establishing accountability controls over expenditures.
5) The council should represent the State in proposals and solicitation of funds from the Federal government.

Steve Seale, an executive for Southwest Research, suggested that the fire ant program needs an overall policy for there is a lack of coordination in the present program. His recommendations included the solicitation of competitive bids for fire ant research, a timely exchange of fire ant information, and an overview of research.

Mike Moeller closed with testimony stating that a review panel for the coordination of fire ant research is a welcomed idea. Private funding for fire ant research would require a rider in the appropriations bill. The State will still need to pay for the county inspections of fire ants.
IV. Conclusion

The Committee should be informed of proposed interagency contract agreements for current and future bienniums. This information would be beneficial while considering the budget appropriations for the agencies during the regular sessions of the Legislature.

The Committee should take the necessary steps to help establish a review panel or advisory council to coordinate the fire ant research program of the State.
Subcommittee on the State's Role in the Provision of Credit for Agricultural Enterprises

Phyllis Robinson, Chairman

L. B. Kubiak

Rick Perry

[Signature]
INTERIM REPORT
on the
Subcommittee on the State's Role in the Provision of Credit for
Agricultural Enterprises

I. Introduction

Agriculture/agri-business is one of the leading enterprises in Texas. It is a $30 billion industry. Texas agriculture directly and indirectly accounts for about 19% of the gross state product, 20% of the state's business establishments and 21% of employment.

Texas is a state of great agricultural diversity and imagination. Creativity, perseverance, and financial genius will be keys to the success of the part-time farmer of the future and the large full-time commercial farms of the future.

At this time, there is simply not enough income or short-term prospects to support the number of full-time commercial farms that now exist. Combining low farm income with declining assets, values, and fewer off-farm employment opportunities in rural areas, with reduced cash flows from energy revenues, it is going to force large numbers of farmers out of business.

This subcommittee was charged to study the State's role in the provision of state credit for agricultural enterprises. The subcommittee overviewed programs that the state has established such as the Family Farm and Ranch Security Program and the Agricultural Development Bond Program in the Texas Department of Agriculture. Ideas to expand these programs and develop new ones were also explored.

II. Hearings

The subcommittee held two public hearings. The first was a joint hearing with the Senate Subcommittee on Agriculture on July 1, 1986 in Austin. Testimony was received from the following:

Garry Mauro, Land Commissioner on the Farm and Ranch Finance Program,
William T. Woody, Vocational Agriculture Teacher,
Herbert Grubb, Director of Planning, Texas Water Development Board,
Jack Hagler, representing the Associated Milk Producers,

Dr. Danny Klinefelter, Economist, Texas Agricultural Extension Service,

Congressman Kika De La Garza, Chairman of the U. S. House Committee on Agriculture

Wayne Richardson, Texas Seed Trade Association,

Vernie Glasson, Texas Farm Bureau, and

Mike Moeller, Deputy Commissioner, Texas Department of Agriculture.

The second public hearing was held on August 19, 1986 in Austin. The list of those that testified include:

Mike Moeller, Deputy Commissioner, Texas Department of Agriculture,

John Vlcek, Assistant Commissioner for Marketing and Agricultural Development, TDA,

Larry Douglas Strange, Administrator, Family Farm and Ranch Security Program,

Sal Vladez, Director, Agricultural Development Program

Danny Klinefelter, Economist, Texas Agricultural Extension Service,

Marsha Martin, Vice President, Farm Credit Banks of Texas, and

Joe Maley, Director of State Affairs, Texas Farm Bureau.

III. Examination of Issues

Family Farm and Ranch Security Program

The Family Farm and Ranch Security Act was enacted in 1979 to assist agricultural producers in the financing of land. The Commissioner of Agriculture may guarantee loans, under this program, made by mainstream lending institutions. The Commissioner may also provide for payment adjustments which can reduce and defer a portion of the interest being charged on the loan.
Ten million dollars of general obligation bonds were sold to finance the program in 1980, but implementation was postponed until September 1983. The TDA has the responsibility to administer the program, and internal estimates of administrative expenses are set at approximately $140,000 annually for the first fifteen years, and $70,000 annually for the remaining eight years, according to a state auditor report.

TDA has expended a great deal of time and effort to attract qualified applicants to the program. However, due to the statutory requirements this program must follow, it is not being used to any reasonable extent. As of the hearings, only two applicants have been able to benefit from the loan program with total guarantees of $815,068. Since the program was developed over seven years ago, the statutory goals of the program appear to be at odds with current economic conditions.

TDA suggested several changes to the program that could be beneficial. The subcommittee considered the following changes.

One, under the wording of the constitutional amendment authorizing the Family Farm and Ranch Security Program (FFRSP), the only action authorized is the issuance of loan guarantees to applicants wishing to purchase farm or ranch real estate. In order to provide loan guarantees for broader purposes such as equipment, improvements to land, and production financing, a constitutional amendment would be required. In addition, the FFRSP enabling statute would have to be revised accordingly.

Secondly, as the bonds forming the bond fund supporting the program were sold to investors with certain warrants as to the use of the funds obtained from the bond sale, the existing bonds would have to be called in and retired as the purpose of the program would be changed to include purposes not contemplated at the time bonds were sold.

Third, a new bond issue would have to be sold to capitalize the program with funds clearly intended for the program's revised purposes. These new bonds could be taxable general obligation bonds rather than tax-exempt general obligation bonds as under the current program. This change would avoid new restrictions on tax-exempt offerings and use (including a lower volume cap) and allow the funds to be committed with significantly greater flexibility.

Finally, the subcommittee considered revising the program to target selected groups of applicants similar to those in the current FFRSP, such as inter-generational transferees, tenant farmers, or young people seeking to get started in agriculture. Another focus of the program would be to attract applicants who have innovative approaches to agricultural production and/or
marketing of products that cannot be served by conventional agricultural lenders.

Agricultural Development Bond Program

The Agricultural Development Act was passed by the 68th Regular Session of the Texas Legislature. Under this Act, a county or group of counties may form Agricultural Development Corporations which in turn may sell tax-exempt revenue bonds. The capital raised by the sale of the bonds will go to providing low-interest, long-term financing for producers who want to move into marketing and processing of their own products.

Presently, the Agricultural Development Bond Program has a low utilization rate. This is attributable to changes in federal tax laws. The marketability of tax exempt bonds is based primarily on their treatment under the Internal Revenue Code. Recent tax revisions could severely limit the utilization of small issue, private purpose tax exempt bonds. Also, the overall financial situation in agriculture and rural banks is distressing. An increasing number of banks with bad energy and agriculture loans has made potential bond buyers hesitant to buy agricultural development bonds. In addition, banks purchase tax-exempt bonds to lower their taxable income. Because many banks are not in a high profit position, they do not need to buy tax-exempt bonds.

The lack of any governmental guarantee for the bonds has contributed to the low rate of use. The bonds are backed only by the credit worthiness of the potential project. The rapid decline in agricultural asset based collateral has made it increasingly difficult for producers and enterprises they operate to borrow money. Another reason is that the size of the proposed agricultural development projects are too small to be of interest to major financial institutions. Almost all projects require under $3 million in capital investment and many are under $1 million. The front-end financing costs associated with bond issuance discourage use of bonds for small projects.

Forty-six counties have formed, or are in the process of forming, Agricultural Development Corporations as of September, 1986. Three plants have been established under the Bond program, with only one being established through the issuance of bonds. The other two plants received technical assistance from the Texas Department of Agriculture and the Texas Agricultural Extension Service to aid in development and establishment.
Farm and Ranch Finance Program

Proposition 10 was approved by the voters in November, 1985, authorizing the issuance of $500 million in bonds for financing the Farm and Ranch Finance Program and placed in effect the enabling legislation for the program. The Farm and Ranch Finance Program would become effective September 1, 1986 and be administered by the Veterans Land Board (VLB).

To be eligible for these loans, an applicant must purchase at least 50 acres of land and may borrow up to $100,000. The applicant must be a Texas resident for at least five years; must have a net worth of less than $250,000; and must be a member of a household whose gross income in the previous three years was comprised of 35% from agriculture.

This program will not cost the state any appropriations. Administrative costs will be covered through the interest paid on the loan. County boards with members from agricultural backgrounds will be created to screen applicants for loans and determine whether the applicants meet the requirements.

The General Land Office held several hearings to set rules for the program. Several questions were raised during the hearings. Some of the more significant questions dealt with the 35% gross income requirement, severances of land, local county committees, land appraisals, payment schedules, and terms of loans.

As reported at the hearing, a total of 1,970 personal inquiries had been made by telephone or letter and approximately 50% have asked to be notified when loan applications become available. According to the General Land Office, the potential loan market for the Farm and Ranch Finance Program totals 335,616 operators.

The General Land Office recommends no changes for the program, even though several suggestions have been made. The Land Office wants to operate and promote the program for at least one to five years to have hard data and experience for a sound basis to recommend change. The Farm and Ranch Finance Program is expected to be small with possibly 250 loans the first year for total loans of $10 million to $20 million.

Additional Proposals

Dr. Danny Klinefelter, reported on options that the state could consider to lower the cost of operating loans and to establish transition programs for the farmer. The first are linked deposit programs. Under these programs, state funds are temporarily deposited in commercial banks. The banks accepting
these special deposits agree to make below-market rate loans to farmers. Linked deposit programs have been politically attractive because no direct expenditure of state funds is required. However, for the program to really make a difference in reducing farmers' financing costs, the deposits would need to be made at below-market interest rates with the interest income foregone by the state becoming a hidden cost of the program.

A second option involves interest deferral or buy-down programs. With a deferral, the state pays the interest payments on qualified borrowers' loans for a limited period of time, but then these funds must be repaid over time. Because the interest paid by the state is usually repaid at little or no interest, the state foregoes the income that could be earned if the funds had been invested. Because of the tremendous potential costs of such programs, states have placed relatively low limits on total expenditures and, therefore, there is serious question as to whether the state can afford to make a significant difference with an interest buy-down program.

A third option is a direct, low interest rate loan program typically set up as a revolving fund with an initial allocation of funds to support lending activities. The problem again exists as to whether the state can afford to allocate enough dollars to such a program to make much of a difference.

A fourth option currently employed by several states is a guaranteed loan program. Under this program, the state agrees to protect a private lender against some portion or all potential losses resulting from borrower default. One issue in the development and use of such programs is the extent to which they complement or compete with existing loan guarantee programs offered through the Farmers Home Administration.

Despite all of the credit assistance programs that might be implemented, many farmers are simply not going to be able to stay in business. In addition, many of these farmers will not possess the skills or expertise they need to obtain the jobs available today. Furthermore, it is unlikely that many of these farmers will have access to the cash they will need to cover living expenses while they are in transition between farming and a new job. Thus, it appears that farmers leaving the business may have a need for two programs that could be implemented at the state level: 1) educational assistance, and 2) transition loans.

Under an educational assistance program, the state could cover all or part of the costs that farmers incur while they attend educational institutions to develop marketable job skills. Such a program could increase the employability of exiting farmers and help reduce the length of time they would be unemployed.
Under transition loans, exiting farmers would be eligible to receive loans that would cover family living and relocation expenses from the time they left farming until they obtained jobs. This program could be handled as either a direct loan program or a guaranteed loan program.

Implementing and administering a transition loan program could be costly; however, it may be more costly if no loans are offered to these exiting farmers, and they instead require welfare assistance.

An overview of the national conditions in agriculture were discussed by Congressman Kika De La Garza, Marsha Martin of the Texas Farm Credit Banks, and representatives from the Texas Farm Bureau.

IV. Conclusion

The State should carefully consider the agricultural programs established and make changes that will help the agricultural industry.

Under the Family Farm and Ranch Security Program, the Committee has made the following recommendations:

1) Broaden the program to include guarantees for non-traditional crops; for new and used equipment; for buildings, barns, etc.; for long-cycle crops; or to allow partnerships to participate. A constitutional amendment would be required.

2) A new bond issue would have to be sold to capitalize the program with funds clearly intended for the program's revised purposes. These new bonds could be taxable general obligation bonds rather than tax exempt general obligation bonds as under the current program. These changes would avoid new restrictions on tax exempt offerings and use (including a lower volume capital) and allow the funds to be committed with significantly greater flexibility.

3) The revised program could be targeted for young people seeking to get started in agriculture. Another focus of the program would be to attract applicants who have innovative approaches to agriculture production and/or marketing of products that cannot be served by conventional agriculture lenders.

Under the Agricultural Development Bond Program, the Committee recommends the following:

1) A resolution from the Legislature to recommend that the Texas Agricultural Extension Service should take the lead in providing technical assistance and the Texas Department of Agriculture
provide necessary assistance in the issuance of bonds under this program.

2) Provide State guarantees for the Agricultural Development Bonds that are issued.

3) Clarify the authority of the state/local Agricultural Development Corporations to issue taxable bonds.

4) Review current criteria defining eligible projects to expand the number of enterprises that can qualify for bond financing.

No recommendations of change for the Texas Farm and Ranch Finance Program until the Committee knows the status of the loan program after its implementation.

The Committee also recommends that educational assistance programs and transition loan programs should be developed to relocate the farmer to a better economic situation and that efforts being made by the agricultural agencies to help distressed farmers be supported by the Legislature.