

Seed Advisory Board Meeting
 CDFA Plant Diagnostics Center
 3294 Meadowview Road
 Sacramento, CA
 8:15 AM, Wednesday May 13, 2009

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1. Call to Order – Roll call

Chairman Scarlett called the meeting to order at 8:16 am. The following members and guests were present:

Kelly Keithly	Dennis Choate	Mike Colvin
Rick Falconer	Umesh Kodira	John Heaton
Gabe Patin	Connie Weiner	Sue DiTomaso
Ken Scarlett	Deborah Meyer	Jamie Miller
John McShane	Mike Campbell	Tim Tidwell
Larry Hirahara	Jim Effenberger	William Mathews
Paul Frey	Riad Baalbaki	Kent Bradford

2. **Oath for appointed members**

Heaton administered the Oath for members recently appointed to the Board. He explained that signed copies of their oaths must be submitted by CDFA to the Governor's Office of Registrar and the Secretary of State's Office.

3. **Acceptance of minutes from Nov. 6, 2008 meeting**

Chairman Ken Scarlett noted one correction to the minutes, which was the addition of member George Hansen, whose name was initially left off the list of attendees. Kelly Keithly motioned that the corrected minutes be accepted. John McShane seconded the motion. Motion carried.

3. **Seed Services Overview – Recent Developments and Items of Interest**

Heaton briefly reported on the following recent events that may be of interest to the Board.

Investigation of CDFA Feed and Fertilizer Program - A recent article in the Sacramento Bee reported that the California Senate recently held hearings about the lack of enforcement by the CDFA Feed and Fertilizer Program. The hearings brought forward the question of whether an industry is capable of providing proper and adequate oversight of itself. Senator Florez has also stated that he intends to investigate more of CDFA and find out if the problem in the Organic Feed and Fertilizer Program is more widespread than just that program. While the Seed Services Program is very similar to the Feed and Fertilizer Program, Heaton assured the Board that the Seed Services Program could withstand the scrutiny of the Legislature. He concluded by stating that the article a good example of what can happen when an industry does not maintain a strong enforcement program; basically the door is left open for enforcement and oversight by other political interests. He referenced another recent news article about a case in New York related to certified seed.

Case of Certified Seed in New York - The Attorney General of New York recently concluded an investigation and settlement about a case of mislabeled certified seed in New York. The investigation resulted in payment to farmers in the amount of \$240,000 and fines to the Department in the amount of \$100,000.

Heaton commented that the CDFA Seed Services Program conducted two major enforcement actions on certified seed since the November meeting of the Seed Advisory Board. One enforcement action involved a stop-sale order on wheat seed that was mislabeled as certified, and the other enforcement action involved a stop-sale order on alfalfa seed. The enforcement action on the alfalfa seed brought to light some deficiencies in lab analyses performed by private labs testing seed being considered for certification. Those deficiencies have been addressed by the California Crop Improvement Association and are not expected to occur in the future. The CCIA has hired an auditor to monitor the methods used by private seed labs. CCIA and CDFA will work closely to make sure proper testing methods are being used in any private seed labs testing seed for certification.

Heaton noted that these enforcement actions demonstrate the value of a strong regulatory program for both the consumer and labeler; especially in light of the

fraudulent certified seed case in New York and the action take by their Attorney General.

Proposed Tax Incentive for Canadian Certified Seed – In December 2008, the Canadian Seed Trade Association proposed that their government implement a broad based tax incentive for farmers who purchase certified seed. The incentive would allow farmers to claim 155% of the cost of certified seed as an expense on their tax returns. The reduction in taxable income and increased refund would offset the extra cost of the certified seed, as well as create a demand for Canadian Certified Seed.

Heaton suggested that companies which export seed to Canada may want to watch this proposal closely. He noted that proposals such as these make it important for California to maintain excellent certification and regulatory programs that can quickly respond to new market requirements.

Heaton reminded the Board that fifty-five countries participate in the OECD Seed Schemes, which require countries to certify varietal purity. In the United States, varietal certification for the OECD Seed Schemes is carried out by the state seed certifying agencies under Cooperative Agreements with the USDA Agricultural Marketing Service. In California, the California Crop Improvement Agency (CCIA) is named in the Seed Law as the seed certifying agency for the state. It is CCIA's responsibility to meet the requirements of the OECD and to maintain a quality management system that is to the satisfaction of USDA.

Heaton added that although the CCIA is the agency authorized to do field inspections and seed sampling for OECD certification, the CDFA lab is the official lab currently authorized by USDA to test and certify seed samples under the OECD Seed Schemes.

USDA Accredited Seed Laboratory - Heaton provided a handout from the recent Items of Interest published by the USDA Federal Seed Testing and Regulatory Branch. It explained how the USDA has placed three-accreditation programs under a single quality management system. Of interest to the Seed Services Program is the possibility of the CDFA Seed Lab becoming an Accredited Seed Laboratory (ASL). Heaton informed the Board that he and the CDFA Seed Laboratory staff will be meeting with a USDA Representative in June, to further discuss the process of obtaining this accreditation. Once the lab is accredited CDFA can use the USDA Process Verified shield on their certificates. This is something that is very desirable to companies that export seed to other countries. Heaton will report back to the Board about the details for accreditation.

Noxious Weed Seed Test as Part of Complete Record - Another handout was provided to explain that a noxious weed seed test is part of the complete record that labelers are required to keep under the Federal Seed Act. Heaton informed the Board that just having a lab do a germination test and a purity test may not provide the kind of assurances and indemnification about seed quality that labelers think they are getting. It is important to specifically request a noxious weed seed test if the product requires a statement about noxious weed seeds on the label.

Possible Amendment to RUSSL for Coated Seed – Heaton informed the Board that there appears to be some confusion how coated seed should be labeled. The Federal

Seed Act says that seed coating should be lumped with the percent inert matter, while the California Seed Law says it should not be with the pure seed or inert, when it is shown on the label as coating. This infers therefore, that in California, the label could have a 5th category for seed coating. Other states have also had some confusion about how to label coating. Heaton anticipates that an amendment to the Regular Uniform State Seed Law (RUSSL) may be presented at the July meeting of the Association of American Seed Control Officials. He requested direction from the Board as whether they would like him to vote in support or opposition to an amendment to RUSSL that would provide for a 5th category on the purity statement of labeled seed.

Member Gabe Patin made a motion to instruct Heaton to support an amendment to RUSSL that would provide a 5th category in the purity statement on the label of coated agricultural seed.

Member Keithly seconded the motion. Motion carried.

Harmonizing CCR 3855 with CCR 4500 – CDFA recently removed two weeds species, namely poverty weed (*Iva axillaris*) and alkali mallow (*Malvella leprosa*) from the list of noxious weeds that are designated in section 4500 of the California Code of Regulations (CCR). Section 4500 is the part of the quarantine regulations that lists weeds that should not be introduced into the state. Heaton noted that the primary reason the two species were removed from the 4500 list is that the species are native to California. The consensus by reviewers in the Department was that it is not logical to list these weeds in quarantine regulations when they are already native species.

Heaton brought the matter to the Board's attention because the same two species are also listed in CCR 3855 of the Seed Law as restricted weeds. The Seed Law requires that the number of these weed seed per pound of planting seed must be listed on the label of planting seed. Heaton suggested that perhaps these weeds were a problem in previous era however he is not aware of them being a problem in planting seed today. He asked the Board if their experience as seed producers and labelers was the same as his observation. He sought input about removing the two species from the 3855 list of restricted weed seeds in the seed law.

Heaton added that the current situation presents the following possible scenario. A quarantine enforcement officer clears a shipment of seed for entry into California, only to later have a seed law inspector issue a stop-sale order because the seed label does not list one or both of the species as restricted weed seeds. Such a scenario would be in accordance to the quarantine law and the seed law. However, it may be in the best interest of the state to avoid this situation. Heaton shared the outcome of a federal case many years ago that resulted in the federal government paying a substantial settlement for causing damages to a seed company experiencing almost the exact scenario. In that case, federal quarantine inspectors cleared some a shipment of seed and the company proceeded to process and package the seed. Later, the seed was seized by federal seed law enforcement inspectors for violation of the Federal Seed Act. The company was successful in recovering damages because they lost a substantial amount of money processing seed that initially cleared by federal inspectors, only to find out later it actually should not have been cleared because it

failed a different inspection. The judge ruled in favor of the company that had damages because of inconsistent enforcement by the federal entities involved.

Heaton suggested that CDFA could avoid a similar situation if the two species removed from the quarantine list (CCR 4500), are also removed from the restricted weed seed list (CCR 3855). Since the species are native and the industry does not encounter them in planting seed anyway, Heaton asked the Board if they would provide some direction about what they believe should be done.

Member Hirahara asked if California removed these restricted weeds from the California list, wouldn't other states still require them to be listed on their labels as restricted weeds?

Heaton replied that other western states may still require these two weeds to be listed as restricted weed seeds, however he noted that each state has its own unique list anyway and probably have other restricted weeds that California does not have anyway. California labelers should check the weed lists of other states anyway when they think they might export seed to those states.

Member Scarlett commented that he believes California's regulations should be consistent with the Federal list.

Deborah Meyer explained that the USDA Federal Seed Regulatory and Testing Branch annually prepares a compilation of all the noxious weed seeds listed by the states. The compiled list is then used by seed labs to conduct what is known as an all states noxious weed seed exam. She further explained that the Federal government maintains another list called the Federal Noxious Weed Seeds List, which is different than the All States List. The Federal Noxious Weed Seeds List was developed to prevent the importation of weed species into the United States.

Member Kelly Keithly motioned that the Board recommend the Secretary remove poverty weed and alkali mallow from the list of restricted weeds in CCR 3855.

Member John McShane seconded the motion. The motion passed with one abstention by Gabe Patin.

4. Fund Conditions

Seed Lab Ag Fund Condition Report (attachment 1)

Heaton explained that the Seed Lab Ag Fund (PCA 90009) is different than the Seed Lab General Fund (PCA 13015). Since PCA 90009 is an Ag Fund, it is able to receive revenue from fees charged for services. He provided a brief history of the Seed Lab Ag Fund for new members.

Around 2005, it became apparent that the Seed Lab Ag Fund was not receiving enough revenue to offset expenditures. Consequently the Board recommended to the Department that the only expenditure to be charged to the Seed Lab Ag Fund should be the Bond Debt Repayment. The projected annual revenue from fees for services provided by the lab was estimated to be adequate to pay the Bond Debt Repayment each year. In subsequent years the Program received information, however, that the Bond Debt Repayment would be covered by a general increase in Bond repayment

funds to the Department. Heaton and the Board were skeptical about this information since the Board was previously told that eight years remained for payment of the Bond Debt. The skepticism was accurate and Heaton noted the charge of \$36,518 for the Bond Debt Repayment in FY2007-08. He expects there will be charges in future years for this expenditure, so he used a figure of \$36,000 to project Bond Debt Repayments through FY2010, the last year of his projections for the fund condition report. Heaton could not explain the previous misinformation he received. He agreed to provide a status report about the remaining Bond Debt at the next Board Meeting.

Heaton concluded the Seed Lab Ag Fund Condition Report by noting that conservative estimates of revenue in the approximate amount of \$30,000 and expenditures of about \$37,000, results in a slow decline of cash balance in PCA 90009. He projected that the cash balance for the Seed Lab Ag Fund will be \$56,675 at the end of FY2010.

Member Falconer made a motion for the Board to accept the Seed Lab Ag Fund Report. Member Keithly seconded the motion. Motion carried.

Seed Services Fund Condition Report (attachment 2)

Heaton explained that budgets in state government operate slightly different than what Board members from the private sector may be used to. He stated that a budget remains open for a couple of years beyond the end of its original fiscal year, so that expenditures or charges that are received late, can be charged to the appropriate budget year.

In the handout provided, he reported the year-to-date revenue and expenditures for the prior-prior year, or fiscal year 2006. He also provided the same kind of estimates for the prior year, FY 2007, and the current fiscal year of 2008. Heaton projected a beginning cash balance for FY2009 of \$892,099. He estimated that revenue from assessments, fees and interest in FY2009 will be \$1,688,574. He then used the budget approved by the Board in May 2008 for FY2009, as the estimate for expenditures in FY2009. For estimates of the Seed Services fund condition in FY2010, Heaton adjusted revenue from FY2009 by 3% and adjusted the approved budget amount from FY2009 by 5%. He noted that his projections included reduced amounts for the MOU with the CDFFA Seed Lab, and an increase in funding to the UCD SBC, which will be part of a later discussion. His final projection showed a figure of \$953,292 in the cash balance at the close of FY2010.

Heaton attributed much of the increase in the cash balance to enforcement efforts by Seed Services on firms not previously reporting sales or having authorization to sell seed in California. He provided a graphic depiction (attachment 3) of the additional revenue collected from such firms since 2005. The graphs showed that in the most recent fiscal year, these firms submitted approximately \$207,000. Heaton noted that the accumulation of previously unpaid assessments and fees over the last four years, calculates to approximately \$750,000 of additional funds into the program.

At the bottom of the Seed Services Fund Condition Report, Heaton noted the reserve calculation. He explained to the Board that the Department likes a Program to maintain one-fourth to one-half of the approved budget in the program's cash balance. This reserve is for unforeseen emergencies or for use if the program is shut

down. The reserve requirement means that the Seed Services Program should maintain from \$436,881 to \$869,956 in the cash balance. Heaton noted that the projected cash balance of \$953,292 covers the high end of the reserve requirement.

Chairman Scarlett noted that the balance of the Seed Services' Ag Trust Fund account is approximately \$122,855. He asked Heaton to explain to the Board what the Ag Trust Fund is and how it relates to the reserve.

Heaton provided Board members with a handout (attachment 4) about AB2252, which became effective January 1, 1994. The handout explained that the Agricultural Trust Fund was setup in 1992 to protect industry monies from future legislative "transfers" to the General Fund.

The idea is that industry programs can use the Ag Trust Fund as a pooled insurance account. A Program can transfer a percentage of their operating budget from the Ag Fund to the Trust Fund. A Program that finds itself in an emergency situation can borrow from the Ag Trust Fund to meet the financial needs of the emergency. The percentage of a budget that can be transferred by a Program in to the Ag Trust Fund is determined by the Secretary but cannot exceed 10%. By creating this pooled insurance account, individual program are not necessarily required to maintain individual reserves of one-fourth to one-half in their individual reserves, although CDFR Financial Services has stated they still like to see a Program maintain a reserve of one-fourth to one-half of their budget.

Another option to Programs is to deposit funds outside the Ag Trust Fund into one of three possible approved entities:

1. A bank or other depository approved by the Dept. of Finance
2. A marketing order board or commission
3. A state agency

A brief discussion followed about placing some of the Seed Service's cash balance into the Ag Trust Fund. The idea fell from favor when Umesh Kodira noted that once the funds were transferred into the Ag Trust Fund, they would be available to any program that has an emergency and the funds may not be easily withdrawn by the Seed Services Program unless the Seed Services Program can meet very specific emergency criteria.

John McShane agreed with those concerns but his sentiment is that it is better to have someone borrow the Program's money than to have someone else simply take it.

Member Patin motioned that Heaton investigate and determine how the Program might deposit funds into the Ag Trust Fund or move funds into a bank account or other depository. Member Hirahara seconded the motion. Motion carried.

John McShane added that in light of the budget situation for the state, it may be wise for the Board to consider moving some money from the cash balance into a more safe account.

Heaton finished the Fund Condition Report by reviewing previous and projected expenditures for the Seed Services Program, in terms of percent of budgets approved by the Board from FY2006 through FY2009. He reported the following:

	FY 06/07	FY 07/08	FY 08/09	FY 09/10
Approved by Board	\$ 1,367,461	\$ 1,400,028	\$ 1,553,629	\$ 1,671,291
Estimated Total Expenditure	\$ 1,301,270	\$ 1,359,033	\$ 1,476,821	\$ 1,659,996
Difference or Savings = Under Budget	\$ 66,191	\$ 40,995	\$ 76,808	\$ 11,295
Est. % of approved budget spent	95%	97%	95%	99%

Chairman Scarlett noted that the projections for revenue and cash balance on the fund condition report assume that the assessment fees will stay at the same level.

Heaton agreed and also pointed out that his projections also include a smaller MOU to the Seed Lab than has been seen in previous years. He further suggested that part of the surplus is due to enforcement actions on firms not previously authorized to sell seed, as well as the intrinsic increase in the value of seed sold in California. He stated that his projections conservatively estimate a 3% increase in the value of seed sold during FY2008 and FY2009.

Larry Hirahara noted the estimated expenditures of \$655,265 for FY2008 was considerably lower than the projected value of \$803,463 for expenditures in FY2009 and the even higher expenditure of \$928,215 in FY2010. He asked Heaton if he could explain this.

Heaton offered two reasons why the projected expenditures for the Seed Services Program increase in this manner on the Fund Condition Report.

First, he explained that there are no expenditures yet for FY09-10 so he can only project expenditures by Seed Services to match the total approved budget. There are, however, some fixed obligations, namely the Lab MOU, the SBC funding and the Seed Subvention to counties, which Heaton has shown as line items. His estimate for expenditures by the Seed Services Program has to be \$803,463 because that is the value needed to make the total expenditures fit the budget amount previously approved by the Board for FY2009. He does not expect the final expenditures to be that high, however that amount is necessary in the fund condition report to fit expenditures to the future approved budget of FY2009. He expects the program will be under budget though.

The estimate for FY2010 is simply a 5% increase over the prior year's expenditures. Heaton acknowledged this is a generous projection of expenditure, but he stated it is part of his overall strategy to estimate expenditures high and revenue low, so that the Program does not spend more than it takes in.

Member Rick motioned to accept the Seed Services Fund Condition Report. Member Keithly seconded the motion. Motion carried.

5. Seed Laboratory Level of Funding

Chairman Scarlett referenced a document (attachment 5) titled "History of Assessment on Reported Value of Seed Sales," which he recently directed Heaton to prepare. Scarlett noted that the history of the assessment rate shows that for the last four or five years, the assessment rate has been at the highest level of the last seventeen years, with the exception of 1993 which also had the present rate of \$0.32. He wanted the Board to be

aware of this information before the meeting entered into discussions about the level of funding for various activities. He also noted that for every one cent change in the assessment rate, it will generate or reduce the revenue by about \$50,000 depending on the change in direction of the rate.

Heaton referenced a handout (attachment 6) titled "Estimate of 2010-2011 MOU between Seed Services and the Seed Laboratory." He explained that the values for the calculations on the MOU are derived from numerous expenditure reports issued by the Department and then adjusted by a percentage to represent the Seed Lab's portion. He reminded the Board that since the present fiscal year has not ended, he had to use projected expenditure values for the present fiscal year.

Using the most recent expenditure reports, Heaton projected that the payment for FY2008 will only be about \$407,911 to the lab. He noted that this is less than the \$461,556 approved by the Board in May 2007 for the FY2008 MOU with the lab. Heaton also projected that expenditures for the Lab MOU of FY2009 will only be \$419,526 instead of the \$497,828 approved by the Board in May 2008.

It was also noted that the most recent payment to the lab for FY2007, actually fell short of covering one-half the expenditures by about \$70,000. Umesh Kodira explained that most of that amount was due to the fact that two people retired and it was necessary to buy-out their vacation. He explained that retirement buy-outs are expenditures that are not easy to project and calculate as part of the MOU because one often does not know when an individual will announce their retirement.

For FY2010, Heaton used an expenditure increase of 6.5% over the prior year's projected expenditure to propose an amount of \$449,028 for the Lab MOU. He credited salary savings and various expenditure controls for the reduction in the amount of the lab MOU from previous years.

Member Patin asked if 6.5% is an adequate estimate for inflation by FY2010.

Heaton replied that he did visit a service on the internet called the Moore Inflation Predictor. He showed a small graph that initially showed some deflation, followed by inflation. Their graph did not go to the start of FY2010, but Heaton continued the trend line for their most likely scenario and it showed a rate of about 12% annualized for FY2010. Heaton agreed with Patin that the MOU amount of \$449,028 for FY2010 may not be enough in light of that inflation prediction, but he expressed optimism that the lab can continue to keep its expenditures low.

Chairman Scarlett asked if the estimates included any consideration for the 10% furlough that state personnel are currently experiencing.

Heaton explained that the furlough was not included in the EOY projections for 08-09 and so were not carried forward in future projections.

Chairman Scarlett asked if there might be some additional retirements from the lab soon.

Umesh Kodira replied that he is not sure when individuals might retire and he is comfortable with proposed MOU amount.

Scarlett asked if it is necessary to bring new people on board now as part of succession planning.

Kodira replied that the hiring process at the state can only be initiated once a vacant position occurs. It is not really possible in state service to offer a job before it is vacant.

Heaton added that the proposed amount does not include the cost of the lab becoming a USDA Accredited Seed Lab. His recollection was that the cost of accreditation is \$5,000 for a three year certificate, which could be paid by the Seed Services Program.

Member McShane motioned that the Seed Services Program enter into a Memorandum of Understanding with the Seed Laboratory and support one-half of the estimated operating cost for the lab during FY2010, to a maximum amount of \$449,028.

Member Choate seconded the motion. Motion carried.

6. Seed Biotechnology Center Report

Mike Campbell noted that the SBC recently celebrated their 10th Anniversary. He was happy to note that the SBC has been able to leverage the contributions from the California Seed Industry into approximately ten times more revenue that has been sent to the SBC from various entities supporting research.

Kent Bradford provided a brief summary and update on some of those research efforts.

Outcrossing among Cotton Species

Showed that Acala cotton outcrosses approximately 10 times more frequently than Pima cotton. Any hybrids formed are generally from Acala to Pima.

Solanaceae Coordinated Agricultural Project

SolCAP, a 4-year, \$5.4 million project to develop markers in breeding germplasm of tomato and potato. \$800,000 will come to SBC to identify markers and to organize outreach workshops.

Pepper GeneChip Development

Enabled development of a maximum parsimony tree derived from 19,951 single feature polymorphisms (SFPs) accounting for 7,167 polymorphic sequences.

Cotton Single Nucleotide Polymorphism discovery project

To identify genetic markers associated with fiber quality of cotton and to facilitate the introduction of improved traits from diverse germplasm.

Bradford further reported that the SBC is currently reviewing or developing research proposals for the following projects:

- Pepper Phytophthora resistance (AFRI)
- Melon markers and mapping (SCRI)
- USDA Seed Longevity (SCRI)
- USDA Seed CAP (AFRI)

- USDA Plant Breeding Education (AFRI)
- Two additional projects with private and/or UC Discovery sponsors under development

Bradford concluded his report by noting that the SBC had over one-hundred participants attend their Seed Biology, Production and Quality Course offered in March 2009. He expressed optimism that the Center can continue to provide a forum for the interaction between industry and public researchers.

Jamie Miller reported that the SBC 10th Anniversary Celebration was very successful. The celebration was conducted in conjunction with a Symposium about molecular markers, changing methods of crop improvement, commercialization, and education. There were one-hundred and sixty-nine participants from industry and UC at the symposium. The comments received from participants were very positive.

Measure of the Economic Contribution of California Seed Industry

William Matthews, from the University of California Agricultural Issues Center, presented a progress report of his recent efforts to quantify the seed industry in California. He explained that he is drawing on various sources of data to compile the industry profile.

The first data he developed was derived from annual reports prepared by the County Agricultural Commissioners. He presented a graph that showed the real value of seed crops reported annually by Commissioners has declined from a high of about \$405 million in 1980 to around \$215 million in 2007. He emphasized that the numbers reflect real value, which Matthews explained as the values adjusted for inflation, with the base year being 2000. He also reminded the Board that the assumption is that this is the aggregate value of seed coming off the farms.

Matthews then presented a slide showing that the harvested acres of seed crops reported by County Agricultural Commissioners have fluctuated from around 255 thousand acres in 1980 to their present value in 2007 of about 245 thousand acres. He noted that there was a dramatic drop in harvested seed acres between 2000 and 2001. He asked the Board if they knew of a possible explanation.

Paul Frey suggested that some of the drop in 2001 seed acres can be explained by a reduction in the demand and production of alfalfa seed. He speculated that the drop may coincide with the collapse of Argentina markets and the downfall of Agri-business Development Teams (ADT).

Matthews noted that each of the top five counties showed a reduction in seed acres.

He presented a summary of the top seed producing counties for 1980, 1990, 2000 and 2007. He noted that Imperial County has consistently ranked high as a seed producing area and that Yolo County has moved higher in ranking to its current position of number two. In contrast, Glenn County dropped out of the top five seed producing counties by 1990.

The second set of data that Matthews is seeking to develop is coming from the industry survey recently sent out. Unfortunately the response rate to the survey has

been lower than expected. He is hoping that a little nudging by the California Seed Industry and perhaps the Board will increase the response rate. He hopes to get survey responses from at least the top fifty companies since they represent about two-thirds of the sales in California that are reported to CDFA.

Sue DiTomaso presented a brief summary of the SBC Annual Report. She noted the Center's recent success in helping to create a partnership between Chile and California. She provided the Board with copies of the annual SBC report so they could learn more about the various research projects and outreach efforts.

Mike Campbell presented a three year financial summary of expenditures at the SBC which are funded by the recommendations from the Seed Advisory Board. The handout showed that one-half to three-fourths of the funds received each year were used to support core personnel services of SBC staff. Campbell noted that the \$40,000 recently allocated by the Board for the industry survey, is not included in the present financial statement.

Chairman Scarlett asked if the values presented are actual amounts or values presented to make the financial statement total out to \$200,000.

Sue DiTomaso replied that the amounts presented are actual amounts from accounting statements. She explained that revenue received at SBC has to be tracked and can only be spent as stipulated by the funding source.

Bradford added that each grant has to have separate budget tracking. He added that this is one of the reasons the funds from the Seed Advisory Board are so greatly appreciated; they support many administrative and outreach efforts that the other funds can't be used for.

Chairman Scarlett asked what the line for "writer" on the report, meant.

DiTomaso explained that this is a person hired to help "write" some of the various web pages and outreach publications.

Mike Campbell noted that much of the money received from the Seed Advisory Board is used to pay Dr. Allen Van Deynze. He is responsible for writing many successful grants that have been awarded to SBC. Unfortunately only a small part of the grants can be used to pay his salary. This is how grants are stipulated. The bulk of the funds must be spent on the actual research. It is important that funding continue for Dr. Van Deynze so that he can continue to pursue the grant monies that are so essential for the SBC to continue its research.

Member Patin asked if the SBC is self-funding.

Dr. Bradford replied that many of the research projects are funded through grants received from entities other than the Seed Advisory Board. He explained that the core operations however, are supported by the Board and the University. He added that the University does not charge the typical overhead on the funds received from the Board, and they provide one-half of his salary, as well as various other resources such as facility services.

7. Seed Biotechnology Center Level of Funding

Mike Campbell recalled that at the last meeting, there was a mention of increasing the level of funding to the Seed Biotechnology Center. He related that in conversations with John Heaton, it was suggested that he consider presenting a budget for the next three years at the level of \$250,000 per year.

Heaton stated that in order to construct fund condition reports and budget projections for FY2010, he had to consider several factors and anticipate what scenarios may occur. Information in the minutes of meetings in prior years and predictions about the economy in the future compelled Heaton to urge Campbell to consider approaching the Board about increasing the level of funding for SBC to \$250,000 per year.

The following considerations were briefly discussed.

1. The third year of the last contract had to be amended to \$240,000 for the industry survey.
2. There was an indication at the last Board meeting that some members thought the level of funding should perhaps be increased for the next three year contract.
3. Minutes of the June 2000 Board meeting indicated that the original direction from the California Seed Advisory Board was to support the SBC at a rate as high as \$0.05 per \$100 of reported seed sales, up to \$150,000. In 2006 the Board adjusted that amount to \$200,000. By coincidence the new level of funding was in agreement to the maximum rate of \$0.05 per \$100 of reported seed sales. Heaton recently observed that the present level of reported seed sales would justify funding the SBC at the \$250,000 level if the same rate of \$0.05 per \$100 of reported seed sales was used.
4. An inflation calculator on the internet showed that \$150,000 in 1998 is approximately equal to \$244,000 in 2007, when GDP is used as the indicator. Recent predictions of hyper-inflation due to the economic bailout implemented by the Obama Administration suggest that \$200,000 will not be enough to meet the needs of the SBC by FY2011.
5. Since it was so difficult to amend the previous contract by \$40,000, Heaton suggested to Campbell that it might be wise to consider the above factors now, and approach the Board before the next three year contract is put into place.

Chairman Scarlett read the following information pertaining to funding the SBC, from the minutes of the May 2008 meeting.

“Member Rick Falconer made a motion that the Board enter into another three year contract in the amount of \$200,000 per year. Member John McShane asked if there’s a possibility to increase the level of funding if the Board sees the need.

Heaton clarified that the present motion is to let the SBC know that the Board is committing to another three years of funding at the rate of \$200,000 per year, and that the new agreement will start July 1, 2009 and run through June 30, 2012. He added that an increase is presently possible or at a later date, if the Board makes such a recommendation to the Secretary.”

Member Patin inquired about the process that was undertaken to amend \$40,000 to the last year of the present contract.

Heaton explained that the process was quite involved because an amendment must clearly spell out the additional work to be done, the timeframe for the work, plus the measurements of the work that will determine fulfillment of the contract. In short, it is analogous to doing a whole new contract. He noted that the amendment process took about six months.

Patin stated that he did not believe the intent of approving the \$40,000 was to set a new benchmark for funding SBC.

Scarlett agreed and explained it was simply a one time infusion to fund a very specific activity, namely the industry survey. He further explained that the initial approval to fund SBC was for a three-year agreement at the rate of \$150,000 per year. This was done at the request of the California Seed Association. He referenced a timeline and notes from previous meetings of CSA which reported.

In March of 1998, the membership of CSA was surveyed about funding the SBC. The survey was completed in May, and based on the survey, the CSA Board voted to accept the recommendation that CSA continue to support the establishment of the SBC. The CSA Board also voted to accept the recommendation by the Field Seed Section of CSA, that a portion of the state's seed law assessments be used for funding operational costs up to \$05 per one hundred dollars of reported California seed sales.

However, the Board approved an action to sunset the operational funding mechanism after three years, in order to evaluate the progress and benefits of the SBC. The CSA Board also approved a motion that enabling legislation regarding the operational funding, also provide oversight authority by the Seed Advisory Board.

Chairman Scarlett reported that recent communications with the CSA about the original funding at the rate of \$0.05 per hundred dollars is no longer valid. He noted that the rate was originally put forward ten years ago. The CSA has expressed a desire to return to its members and reassess their level of support for SBC and to determine how long they wish to continue their support.

Scarlett acknowledged the great work done by the SBC during the last ten years. He urged attendees from SBC to approach the CSA membership, particularly the Field Seed and Vegetable Seed sections, and convince them how valuable the SBC has been for the seed industry. He added that to justify the Seed Advisory Board's continued funding of SBC, and even at perhaps a higher level than present, the Board needs a directive from the broader-based group in the industry indicating their support.

For comparison purposes, Chairman Scarlett noted that funding of the County Seed Subvention has not changed in ten years. He also referenced the previous handout that showed Seed Services expenditures have only gone up about ten percent.

Heaton stated that he believed the Seed Services Program has averaged about a nine percent increase per year over the last sixteen years.

Chairman Scarlett wondered if recent arguments for increasing the funding to SBC justified greater increases than other programs funded through the Seed Services budget have received.

Scarlett also suggested that CSA should give the Board some guidance on the assessment rate. He noted that on the handout titled "History of Assessment on Reported Value of Seed Sales," the assessment rate was \$0.25 per hundred dollars of reported seed sales in 1991. It fluctuated after that between twenty eight and twenty five but for the last four or five years it has remained at \$0.32 per hundred dollars of sales. Scarlett would like CSA to determine if this is a rate that the industry feels comfortable with.

Kent Bradford was not sure how an estimate of a 10% increase for other funded program was determined because he observed on the handout that Seed Services expenditures went from \$388,389 in 1998 to \$895,265 in 2008, an increase of more than two times. For lab expenditures, he noted an increase from \$267,360 in 1998 to 462,556 in 2008.

Heaton also noted that these increases have paced the increase in reported value of seed sales in California. In 1991, the value reported was \$226,605,600 versus \$482,936,250 reported in 2008 for sales FY2007. These reported sales are roughly double.

Chairman Scarlett made the distinction that funding for the CDFR Seed Lab and the County Seed Subvention, are mandated by law, whereas funding for SBC is discretionary.

Heaton agreed and he noted that all of those funding expenditures are listed as line items in the budget of the Seed Services Program. He reported that even with those expenditures included, the thirteen year average expenditure of the Seed Services Program, expressed as a percentage of reported sales, has been about 0.32%. During the last four years, or since 1991, program expenditures have actually averaged 0.31% of reported sales. He was surprised that the expenditures for enforcement of such a large market have been so stable for so many years.

Falconer asked why projections show \$250,000 as the level of funding for SBC if the last three year contract was only for \$200,000.

Heaton took responsibility for the \$250,000 figure and explained that for the purpose of budget projections, he had to consider prior year expenditures and experiences. Since the original funding for SBC was \$150,000 and it was adjusted in FY2006 to \$200,000, which also corresponded to the maximum rate of \$0.05 per \$100 of sales, Heaton used that same rate to project the Seed Services expenditure for funding SBC in FY2009 through FY2011. He felt this was reasonable in light of the fact that it was necessary to amend the third year of the existing contract.

Kent Bradford reminded attendees that the increase from \$150,000 to \$200,000 was not automatic based on the \$0.05 per \$100 of sales rate. He noted that presentations were made to the Board and the increase was considered and approved by the CSA Board.

Mike Campbell suggested that SBC should meet with the CSA Board in June to discuss the matter.

Member Falconer agreed with Chairman Scarlett that it is important to get input from the greater body of CSA members.

Chairman Scarlett asked Heaton if it was possible to do a one year contract.

Heaton said it was possible, but he noted that the Board already agreed and informed SBC that they will fund the SBC at least to the \$200,000 level for the next three years. He stated that the CDFA contract does not really lend itself well to adjusting the amount of a contract in midstream.

Chairman Scarlett asked if adjustments were possible if the economy got really bad.

Heaton replied that amending a contract upward requires justification, including new budgets and new scopes of work with measurements of performance.

John McShane suggested that the justification could simply be an industry request for additional funding. He asked Heaton if such a justification would be sufficient.

Heaton replied that the contract is actually between CDFA and UC SBC. While the funds originally come from the industry and they can make recommendations, the contract is ultimately between CDFA and SBC. It is important for the Department to make sure that the expenditure is essential and necessary. Heaton informed the Board that contracts are looked at by various groups. In recent months, programs in the Department were required to submit copies of all their research contracts in fulfillment of a Freedom of Information request. Heaton does not know who requested the information or what they were investigating.

Chairman Scarlett asked if it would be possible to earmark \$50,000 of a \$250,000 contract with SBC for payment to CSA to promote the seed industry and improve California seed sales, which would also increase the revenue to CDFA.

Heaton replied that he would try to prepare such a contract if that was the Board's desire. He also suggested that he could prepare a three year contract for \$700,000 with \$200,000 the first year and \$250,000 the remaining two years. He said he'd try whatever combination the Board would like and was justified by the scope of work.

Chairman Scarlett explained that he is not comfortable with those scenarios because he wants to get approval from the greater CSA membership at their mid-year meeting in September.

Heaton recognized that concern but reminded the Board that they have already committed to \$200,000 for the next three years so the input will be about increasing the amount above the \$200,000 level.

Mike Colvin stated that the Program will present whatever kind of contract the Board desires. If the Board wants a one year contract for \$200,000 so they can get direction at the CSA mid-year meeting in September, than that is what Heaton will do.

Mike Campbell asked Heaton if a one-year contract followed by a new three-year contract would be less work than trying to amend a three year contract.

Heaton said it is less work.

Paul Frey asked Heaton what the timeframe is for putting the contract in place.

Heaton replied that requests for contracts are supposed to be submitted by March 31st so that they can be in place at the start of the next fiscal year. Based on history, the formula of five cents per hundred dollars and the level of sales, Heaton prepared a contract in the amount of \$250,000. When he learned that some members and CSA were not in agreement with this, he pulled the contract back to wait for the present meeting. He further stated that as soon as the meeting is complete, he will submit either a one year or three year contract in the amount approved by the Board.

Chairman Scarlett asked if it would be possible to implement a one year contract for \$200,000 and then amend it to \$250,000 if CSA makes such a recommendation in September.

Heaton replied that he did not believe it would be possible because you would probably run out of fiscal year before the amendment could be finalized.

Chairman Scarlett asked Heaton what he would suggest.

Heaton replied that it is important to consider that the Board is considering funding the funding of SBC for a contract that runs through June of 2012. He believes that by FY2011, the SBC will absolutely have the need for \$250,000.

Member Patin asked if the contract could be designed to incrementally increase each year.

Heaton replied that could be done.

Larry Hirahara stated that the crux of the issue is the fact that there is a desire to have the CSA membership weigh-in on the level of funding, but the timeline to get a 3-year contract in place doesn't facilitate it.

Kelly Keithly suggested a one year contract for \$200,000, during which time the CSA membership can provide input, and then a three-year contract can be put into place. In this manner, CSA gets to have input and the Board maintains transparency while fulfilling its role to provide advice.

Kent Bradford expressed support of the idea and emphasized how important it is to have CSA participate in the Board's decisions to fund the SBC.

Member Keithly made a motion that the Seed Advisory Board recommend to the Secretary that CDFA execute a one-year contract with SBC for \$200,000 during which time the issue concerning the level of funding for SBC in the future can discussed with CSA so that their members can have input about the level of funding for SBC in future years.

Paul Frey seconded the motion. Motion carried.

8. Out of State Travel Proposal

Heaton provided a handout that listed ten out-of-state trips proposed for staff in the Seed Services Program or the Seed Laboratory. The estimated cost for the ten trips totaled \$41,311. He reminded the Board that some of the trips are not typically used because of schedule conflicts and cuts by the Department.

Paul Frey motioned that the Board recommend the Secretary authorize the list of ten trips proposed at the amount of \$41,311 for FY2010.

Kelly Keithly seconded the motion. Motion carried.

9. Seed Services Proposed Budget FY2010

Heaton provided a handout with a proposed budget for Seed Services in FY2010. He noted that the budget included line item expenditures for:

- MOU to the Seed Lab = \$449,028
- Contract with SBC for \$250,000
- Seed Subvention for \$120,000
- Travel Blanket for \$41,311

There was discussion about leaving in the \$250,000 for SBC funding in FY2010 without knowing whether the CSA members want to fund at that level in FY2010.

Mike Colvin suggested that it is better to leave the \$250,000 in the proposed budget because that way it will be in place. He stated that future contracts do not have to be executed for that amount if CSA decides to only fund at \$200,000.

Chairman Scarlett agreed and directed Heaton to leave the \$250,000 in the proposed budget.

Heaton proposed a total budget of \$1,747,243 for Seed Services in FY2010. He added that it represents a 5% increase over the budget of FY2009. He suggested that a 5% increase may not be adequate considering reports of hyper-inflation coming. He expressed comfort with this level of increase though because the program has a healthy reserve and has consistently been under budget for the last few years.

Analysis of Seed Subvention Funding

Gabe Patin wondered if the \$120,000 for Seed Subvention is still adequate and if the efforts of the Commissioners are adequate.

Heaton reported that in early May, he provided the Agricultural Commissioners a summary of their work reported over the last three years. The data from Report 6s show that in FY2007 the county inspectors looked at about 7,000 lots of seed. Heaton was not sure what percentage of the seed lots in the marketplace this represents. He reminded the Board that part of the survey being conducted by SBC is supposed to also capture how many lots of seed are being handled by California labelers. His understanding is that a sufficient compliance monitoring program is supposed to look at about ten percent of the product in the marketplace.

In addition, the Commissioners reported their total hours. Dividing the \$120,000 for subvention by total hours reported, works out to an hourly rate of about \$35.00 per hour. Heaton noted that this does not cover a county's entire cost to put inspectors in the field, but the subvention for seed law enforcement is only supposed to cover one-third anyway. He added that if one considers \$35.00 per hour is one third of \$105 per hour, the present level of subvention is probably adequate to cover the Board's share of expense for counties to place inspectors in the field.

Heaton also related that he is optimistic counties will adopt and submit a new record of each inspection to Seed Services. The new form will assist county inspectors and allow the Seed Services Program to identify out-of-state labelers that are not collecting and paying the required assessment on seed sales in California. A key part of this effort will be county inspectors noting the AMS number on incoming seed shipments and forwarding the information to the Seed Services Program for investigation. Heaton is implementing this procedure because sometimes labelers claim the dealer is paying the assessment and the dealer claims the labeler is paying, when in fact neither party is paying the assessment. Without know which labeler is supplying which dealer, it is hard to know who should be paying. Heaton has designed the new inspection record to allow him to cross reference the AMS numbers with program records and close this loophole.

Finally, with regards to county subvention, Heaton reported that he has received several requests from counties for more training in seed law.

Kelly Keithly asked how the proposed budget amount fits with the current assessment rate. Heaton replied that his projections are based on the assumption that the thirty two cent assessment rate will be continued. He referenced the fund condition handout and noted that expected revenue from collections at that rate, plus interest and reimbursements from the gas tax (224A) will be about \$1,765,818. This revenue, in addition to the cash balance, gives the Program about \$2,750,000 of resources to cover the budget of \$1,747,243 for FY2010.

Paul Frey asked Heaton about his assumption for the base level of sales that will be reported for FY2009.

Heaton referenced a column graph (attachment 8) on the backside of the handout titled "History of Assessment on Reported Value of Seed Sales." He stated that the graph shows an annual increase in reported sales of about nine percent. He later corrected the rate of sales increase to five percent per year for the last seventeen years, with a higher rate of ten percent per year since FY2005.

Paul Frey stated that he was a little uncomfortable with the expected rate of increase in sales. He stated that he sees some very difficult times ahead for field seed sales and advised that the Board consider a decrease in projected sales.

Heaton replied that since 1993 there has been a pretty steady increase in reported sales. He added that he tried to stay conservative in his projections using only a 3% increase in reported sales for FY2009.

Frey suggested that there may be an increase for one or two more years, but due to an expected downturn in the general economy, domestically and internationally, he expects the seed business to also be effected negatively.

Heaton noted that his projection for reported sales in the prior year was actually lower than reported. He expects that for FY2008, reported sales will surpass \$500,000,000 and again exceed his projections.

Frey agreed, but he cautioned that beyond that, the rate of growth may not be like prior years and will probably be declining.

Chairman Scarlett added that while the quantity of seed sales may decrease, the value of the added traits may keep the reported value of sales on the positive side of the curve.

Kelly Keithly motioned that the Secretary implement the proposed budget in the amount of \$1,747,243 for FY2010.

Gabe Patin seconded the motion. Motion carried.

10. Recommendation for the assessment rate on sales made in FY08-09

Chairman Scarlett noted that Heaton's projections for the Ag Fund Balance show a surplus of roughly \$170,000 if the present assessment rate of \$0.32 per \$100 of seed sales is maintained.

Kelly Keithly recommended the rate be kept the same.

John McShane motioned that the assessment rate be kept at \$0.32 per \$100 of seed sales. Kelly Keithly seconded the motion. Motion carried.

12. Legislative Report

Chairman Scarlett noted that Chris Zanobini of CSA had a meeting conflict and was not able to attend. He did provide a handout of the Legislative Report which Scarlett distributed and recommended Board members read at their leisure.

13. Appointment of Nominating Committee

Chairman Scarlett noted that the term of Paul Frey's appointment is set to expire March 31, 2010. He appointed the following three members to determine if Frey wants to continue on the Board, or to nominate a replacement if he does not wish to continue on the Board:

- Kelly Keithly - Chairman
- George Hansen
- Gabe Patin

14. Closed Executive Session

Chairman Scarlett requested a closed executive session at 11:45 am. He requested Mike Colvin – CDFR Program Supervisor to attend and participate with the Board.

15. Reconvene Executive Session

Chairman Scarlett reconvened the general meeting of the Seed Advisory Board at 12:15 p.m. He briefly reported that during the Executive Session, the Board discussed the issue of program structure and succession planning.

16. Public Comment

Chairman Scarlett asked if there were any additional comments from the public in attendance. None were made.

17. Other Items – Next Meeting Date

Chairman Scarlett set the date for the next meeting on November 10, 2009 at 8:15 a.m.

18. Adjournment

Kelly Keithly motioned for adjournment.

John McShane seconded the motion. Motion carried.

Chairman Scarlett adjourned the meeting at 12:20 p.m.

19. Attachments 1 through 8

SEED LABORATORY (PCA Rev Code 90009)
 AG FUND CONDITION
 May 13, 2009

	PPY 2006/07	PY 2007/08	2008/09 March 31, 09	2009/10 Estimate	2009/10 Estimates
CASH BALANCE FORWARD	\$15,023	\$63,661	\$66,758	\$69,681	\$63,196
Uncleared revenue (suspense)	10,340	5,573	6,647	4,000	4,000
Transfer between codes (actually Bond Debt - see below)					
Controller Transfers	-224	0	0	0	0
BEGINNING CASH BALANCE	\$25,138	\$69,234	\$73,405	\$69,681	\$63,196
Prior Yr Expenditures - Adjustment	-85	-27	-62	75	75
Prior Prior Yr Expenditures - Adjustment	8	-81	2	6	6
ADJUSTED CASH BALANCE	\$25,061	\$69,126	\$73,345	\$69,762	\$63,277
REVENUE					
<i>Testing Fees</i>	28,121	35,965	32,998	30,000	30,000
Miscellaneous	3	86	-130	0	0
Interest	1,266	2,138	891	914	937
TOTAL REVENUE COLLECTED	29,390	38,189	33,759	30,914	30,937
TOTAL CASH BALANCE (AG FUND)	\$54,451	\$107,315	\$107,104	\$100,676	\$94,214
EXPENDITURES (Ag Fund)					
Plant Lab Bond Debt **	-18,164	36,518	36,000	36,000	36,000
Seed Lab Ag Fund: salary	0	0	0	0	0
Other	8,954	4,039	1,423	1,480	1,539
TOTAL PROGRAM EXPENDITURES	-9,210	40,557	37,423	37,480	37,539
BALANCE (ENDING RESERVE)	\$63,661	\$66,758	\$69,681	\$63,196	\$56,675
AG TRUST FUND (PCA 91009)					
Interest	12,941	13,588	13,933	14,229	14,573
	647	345	296	344	344
TOTAL AG TRUST FUND (RESERVE)	\$13,588	\$13,933	\$14,229	\$14,573	\$14,917

** Bond Debt payments continue - best estimate based on recent payment FY07

SEED SERVICES [15551] FUND CONDITION - May 13, 2009

Attachment 2

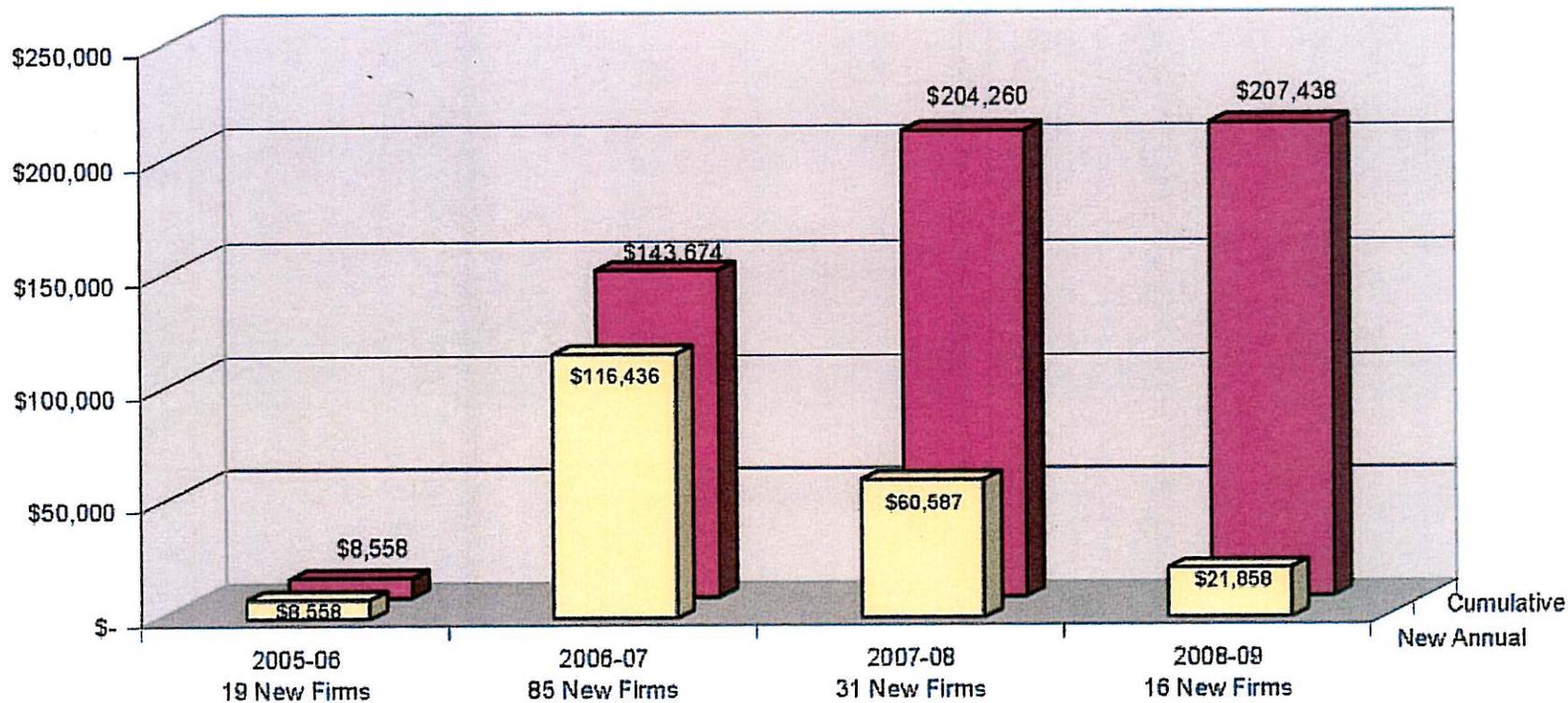
	PPY 2006/07	PY 2007/08	2008/2009 EOY Estimate from 3rd qtr projection	2009/2010 Fund Condition Expend Approv SAB 5/15/2008	2010/2011 Fund Condition Est. 3% Inc Rev vs. 5% Exp.
BEGINNING CASH BALANCE	\$432,992	\$516,095	\$704,588	\$892,099	\$934,717
REVENUE CATEGORIES					
Assessment \$	1,265,156	1,426,221	1,542,180	1,588,446	1,636,099
Miscellaneous	3,277	219	223	230	250
License Fees	18,600	20,146	20,300	20,720	21,000
Penalties	13,294	7,802	8,036	8,277	8,000
Interest	60,464	68,148	69,511	70,901	73,843
Interest from Infrfund Loan	1,820	2,098	-	-	-
TOTAL REVENUE	\$1,362,611	\$1,524,634	\$1,640,251	\$1,688,574	\$1,739,192
Reimbursement 224A - Admin	21,762	22,892	24,082	25,334	26,626
TOTAL RESOURCES	\$1,817,365	\$2,063,621	\$2,368,920	\$2,606,008	\$2,700,535
EXPENDITURES					
Seed Services	618,918	628,805	655,265	853,463 803,463	928,215
Seed Laboratory	362,352	410,228	461,556	497,828	449,028
Ag Commissioners	120,000	120,000	120,000	120,000	120,000
UCD SBC	200,000	200,000	240,000	200,000 250,000	250,000
TOTAL EXPENDITURES (BUDGET)	\$1,301,270	\$1,359,033	\$1,476,821	\$1,671,291 <i>approved by SAB 5/15/08</i>	\$1,747,243
BALANCE IN AG FUND (Resources - Expenditures)	\$516,095	\$704,588	\$892,099	\$934,717	\$953,292
AG TRUST FUND					
Interest	115,091	117,623	120,211	122,855	125,558
Interest	2,532	2,588	2,645	2,703	2,762
ENDING AG TRUST (RESERVE)	\$117,623	\$120,211	\$122,855	\$125,558	\$128,321

Notes of Interest

Reserve Calculation: The amount required to keep in reserve = 1/4 budget (expenditures)

	\$325,318	\$339,758	\$369,205	\$417,823	\$436,811
Number of Licenses	465	504	508	518	525
Reported Value of Seed Sold in CA	\$395,361,341	\$445,694,063	\$481,931,316	\$496,389,255	\$511,280,933
Assessment Rate	0.32	0.32	0.32	0.32	0.32
				Low Proj<500 milln	Low Projection

Collections from new firms authorized since FY 2005-06



Chapter 872/93 (AB 2252)

The 1992 Budget Act contained two provisions that jeopardized the operation of the agricultural programs. It authorized the State to borrow up to \$25 million from the Food & Agriculture Fund (Ag Fund); and it required interest earnings from the fund be transferred to the General Fund.

In response to this action, AB 2252 was enacted to protect industry monies from future legislative "transfers" to the General Fund. The bill, which became effective January 1, 1994, gives an advisory body, or the Secretary if an advisory body does not exist, two options for handling agricultural program funds.

The first option is for programs to use the newly created Agriculture Trust Fund as a pooled insurance account. Although the Ag Fund is composed of many individual small reserves, collectively the large dollars make agricultural programs prone to legislative "transfers." To resolve this situation, the Department proposed the creation of the Agriculture Trust Fund. Programs would transfer a percentage of their operating budget from the Ag Fund to the Trust Fund. This percentage, not to exceed 10%, is determined by the Secretary. The transfer will reduce the Ag reserve to a level sufficient to carry out operations, while at the same time eliminate the need for individual reserves at the 25-50% of operating budget level. The Agriculture Trust Fund, which will be significantly smaller than the Ag Fund, may not be subject to legislative "transfers", since it is a trust fund and not a fund of the State Treasury. ^{to 1/2} _{1/4}

Monies in the Trust Fund shall be used only to pay for costs arising from unanticipated occurrences associated with administering self-funded programs. Such costs includes, but are not limited to: attorney fees related to litigation; workers compensation; unemployment; program phaseout; temporary funding of programs implementing a fee increase; audit of the Trust Fund; and administrative charges for costs incurred in maintaining the Trust Fund.

The Trust Fund will exist as long as the agricultural programs exist. Upon termination of any program, its remaining funds, after financial obligations, must be returned on a prorata basis to all persons from whom fees were collected in the preceding marketing season. If the amount is so small that calculating and refunding are impracticable, the remaining funds must be paid to a state or federally authorized program related to the same industry. If a related program does not exist, the funds must be paid to the Ag Fund.

The second option available to agricultural programs is to have the Department deposit their funds outside the Ag Fund, with one of the following three entities:

1. A bank or other depository approved by the Department of Finance; the deposited funds will receive interest at the current rates of the selected bank/depository;
2. A marketing order board or commission that exists under authority of the Food & Agricultural Code;
or
3. A state agency.

The entity must enter into an agreement covering provisions (e.g., custodianship, audit requirements, maintenance of a sufficient reserve to cover unanticipated costs associated with the program, etc.) outlined in the bill. The agreement must be completed prior to making any deposits with the entity.

History of Assessment on Reported Value of Seed Sales in CA

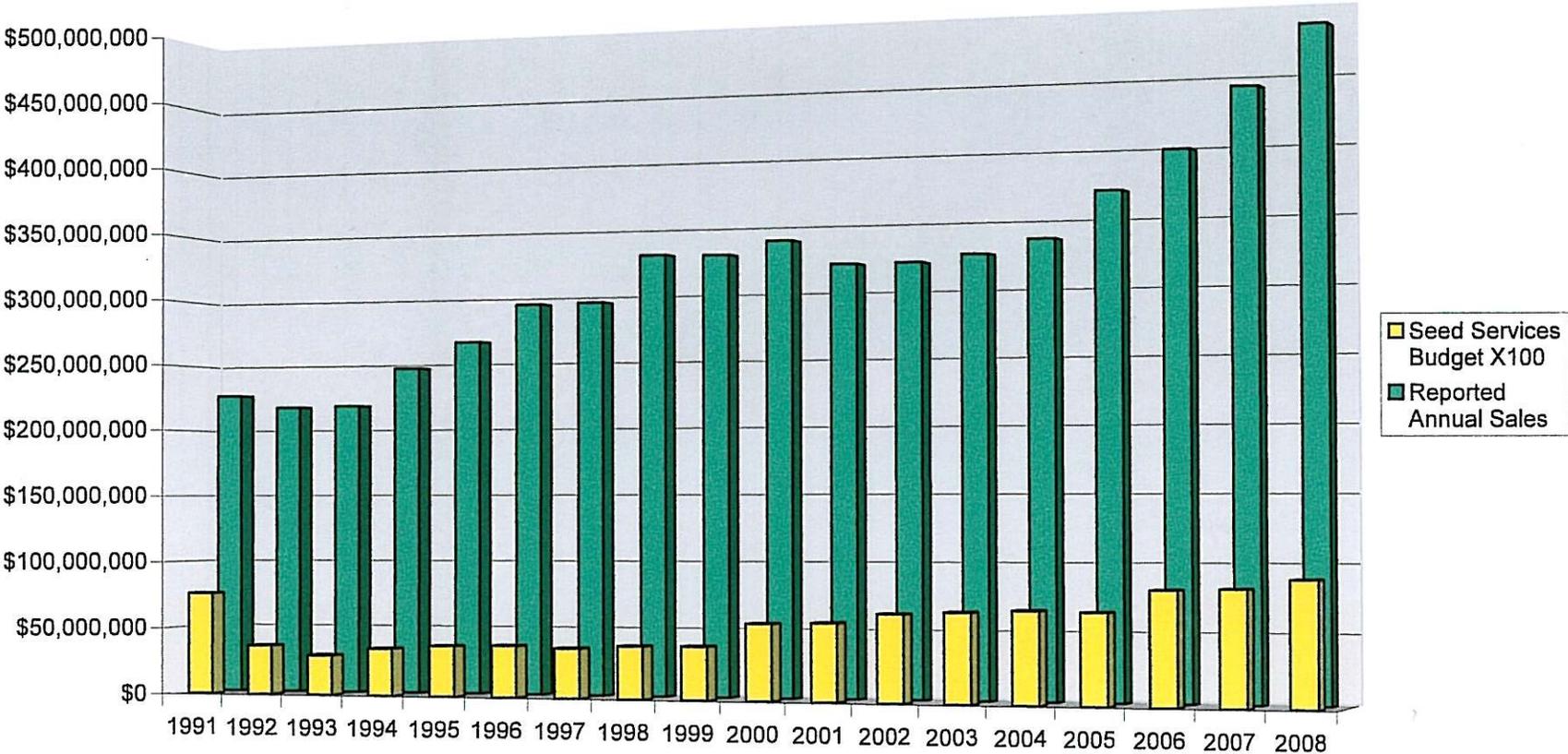
Prepared 5/23/02											
A C T U A L	FY	Assessment Rate \$ per \$100 Sales	Assessments \$ Collected	Annual Value of Seed Sold in CA	No. Lic.	Seed Services Expenditures	Lab Expend.	County Sub	Total Program	Budget as % of Sales	% Inc in sales from PY
	1991	\$0.25	\$566,514	\$ 226,605,600	401	\$ 760,549	\$ 185,977	\$ 120,000	\$ 1,066,526	0.47	-
	1992	\$0.25	\$543,214	\$ 217,285,600	401	\$ 369,952	\$ 193,091	\$ 119,993	\$ 683,036	0.31	-4%
	1993	\$0.32	\$697,258	\$ 217,893,125	405	\$ 300,926	\$ 202,745	\$ 119,993	\$ 623,664	0.29	0%
	1994	\$0.30	\$739,438	\$ 246,479,333	392	\$ 351,955	\$ 206,017	\$ 119,702	\$ 677,674	0.27	13%
	1995	\$0.25	\$665,044	\$ 266,017,732	397	\$ 376,581	\$ 215,870	\$ 123,478	\$ 715,929	0.27	8%
	1996	\$0.25	\$735,119	\$ 294,047,512	412	\$ 383,483	\$ 229,403	\$ 116,356	\$ 729,242	0.25	11%
	1997	\$0.25	\$736,748	\$ 294,699,256	412	\$ 367,773	\$ 266,860	\$ 120,000	\$ 754,633	0.26	0%
	1998	\$0.20	\$658,663	\$ 329,331,465	418	\$ 388,389	\$ 267,360	\$ 119,998	\$ 775,747	0.24	12%
	1999	\$0.15	\$492,574	\$ 328,382,727	407	\$ 392,003	\$ 261,068	\$ 120,000	\$ 773,071	0.24	0%
	2000	\$0.20	\$676,077	\$ 338,038,475	412	\$ 564,607	\$ 278,878	\$ 120,000	\$ 963,485	0.29	3%
E S T I M A T E D	2001	\$0.25	\$799,336	\$ 319,734,584	408	\$ 573,496	\$ 302,521	\$ 120,000	\$ 996,017	0.31	-5%
	2002	\$0.28	\$896,000	\$ 320,000,000	400	\$ 641,607	\$ 308,100	\$ 120,000	\$ 1,069,707	0.33	0%
	2003	\$0.28	\$910,000	\$ 325,000,000	400	\$ 656,355	\$ 317,343	\$ 120,000	\$ 1,093,698	0.34	2%
	2004	\$0.28	\$938,000	\$ 335,000,000	400	\$ 671,546	\$ 326,863	\$ 120,000	\$ 1,118,409	0.33	3%
Prepared 5/12/2009									13 yr avg	0.32	
E s t i m a t e d	2005	0.32	\$ 1,179,569.00	\$ 368,615,313	416	\$663,063	\$347,003	\$ 120,000	\$1,130,066	0.31	10%
	2006	0.32	\$ 1,270,835.00	\$ 397,135,938	463	\$818,918	\$362,352	\$ 120,000	\$1,301,270	0.33	8%
	2007	0.32	\$ 1,408,885.00	\$ 440,276,563	504	\$828,805	\$410,228	\$ 120,000	\$1,359,033	0.31	11%
	2008	0.32	\$ 1,545,396.00	\$ 482,936,250	498	\$895,265	\$461,556	\$ 120,000	\$1,476,821	0.31	10%
									4 yr avg.	0.31	*
* Over 17 years, the average % increase in reported sales from the prior year has been 5%											
* Over just the last 4 years, the average % increase in reported sales from the prior year has been 10%											

ESTIMATE OF 2010-2011 MOU BETWEEN SEED SERVICES AND THE SEED LABORATORY

Seed Laboratory MOU Calculation

	Unadjusted 08/09 EOY Proj Values	Adjustments	08/09 EOY	Estimate 2% increase for 09/10	Estimate 6.5% increase for 2010/2011
PS, OE&E, SPEC ITEM (use 13015 3rd qtr proj YTD + Adj)	\$ 691,355.00	none	\$ 691,355.00	\$ 712,095.65	\$ 758,381.87
FACILITIES OPERATIONS (use PY of 13012)	\$ 348,593.00	16%	\$ 55,774.88	\$ 56,890.38	\$ 60,588.25
UTILITIES (use PY of 13012)	\$ 326,565.00	16%	\$ 52,250.40	\$ 53,295.41	\$ 56,759.61
SEED IT (use CY of 13010 3-27-426-08)	\$ 102,762.00	16% then 20%	\$ 16,441.92	\$ 16,770.76	\$ 22,326.07
TOTAL EXPENDITURE FOR SEED LABORATORY PER MOU			\$ 815,822.20	\$ 839,052.19	\$ 898,055.80
Less Revenue from Service Samples		Now = \$0 since revenue is now used to offset Bond	\$ -	\$ -	\$ -
EXPENDITURE AMOUNT FOR MOU CALCULATION			\$ 815,822.20	\$ 839,052.19	\$ 898,055.80
TOTAL REIMBURSEMENT 50% of Lab Costs = MOU Funding			\$ 407,911	\$ 419,526	\$ 449,028
Note: The new MOU for 2010 will cover 1/5th of IT. Previously not correct to base IT on square footage (16%). Seed = 1 of 5 labs			vs. \$461,556 Approved for FY 08 in May 2007	vs. \$497,828 Approved for FY 09 in May 2008	Need Approval by Seed Advisory Board

Comparison of Reported Sales and Seed Services Budget x 100



Reported Annual Seed Sales in CA

