

**Washington State Department of Commerce**

# **Commodity commission funding as model to support innovation-based economic development**

Examining the functions and operations of agricultural commodity  
commissions per E2SHB 2658 2010 session

**Daniel Malarkey, Deputy Director**  
**December 6, 2010**



**Department of Commerce**  
Innovation is in our nature.

# Legislative direction in E2SHB 2658

“...examine the functions and operations of agricultural commodity commissions in the state and collaborate with industry sector and cluster associations on legislation that would enable industries to develop self-financing systems for addressing industry-identified issues such as workforce training, international marketing, quality improvement, and technology deployment.”



# Method

- Review commodity commission legislation and interviews with:
  - Geri Thomas, Assistant Attorney General
  - Chris McLucas, California Travel and Tourism Commission
  - Craig Smith, Northwest Food Processors Association
  - Susannah Malarkey, Technology Alliance
  - Chris Rivera, Washington Bio-tech and Bio-medial Association
  - Kelly Frost, Washington Department of Agriculture
  - Marsha Massey, Washington State Tourism
  - Chris Stone, Washington Wine Commission
  - Washington Apple Commission



# Agriculture commodity commissions are 'industry-funded state agencies'

- Self-selected and self-taxed organizations formed around one topic or interest
- Twenty-three agricultural commodity commissions and boards defined in statute or rule
  - Apple, beef, beer, dairy products, fruit, grain, tree fruit research, and wine commissions are individually defined in statute
  - Other agricultural commodity boards and commissions are defined in rule after formation under Title 15.65 and 15.66



# Department of Agriculture oversight

- The Director of Agriculture:
  - Appoints commissioners and board members
  - Reviews budgets, projects, and work plans
- Assessments are taxes that fund the board or commission
- Enforcement of assessments:
  - Personal debt enforced via civil action or
  - State and local police, county prosecutors, superior courts



# Examples of commission revenues

- Each commodity has a specific assessment, ranging from under \$50,000 to over \$13 million per biennium
- 2011-2013 biennial revenues and assessments

Commission	Revenue	Rate of Assessment
Apple Commission	\$ 7,400,000	8.75 cents per 100 pounds sold
Beef Commission	\$ 2,211,600	\$1 per head of cattle sold
Dairy Products Commission	\$ 13,352,862	11 cents per 100 weight
Grain Commission	\$ 8,500,000	1% of net receipts at first sale
Hop Commission	\$ 950,000	\$2/200 pounds of dried hops
Tree Fruit Research Comm.	\$ 10,000,000	\$1/ton (\$4/ton of cherries)
Wine Commission	\$ 12,819,696	\$10/ton grape, 6 cents/gallon wine



# Commission function

- Support for a narrowly defined agricultural product (apples, beef, dairy, potatoes, wine, etc.)
  - International marketing, market access, trade fairness
  - Funding research that benefits the entire group



# Commission model advantages

- Shared costs
- Access to the state to direct spending of tax
- Topic area expertise, each commission “speaks for the state”
- Common practice for place-bound natural resource industry





# Commission model advantages

- “Fair,” based on prorata share of the market
- Expanded markets, higher demand
- Improved technology & research available to all
- Economies of scale
- No free-riders



# Agriculture is well suited to this model

- Large number of small producers
- Agriculture is place bound
- Consistent product
- Marketing can focus on influencing taste and qualities



# Challenges with the model

- Members differ
  - Sub-groups have different goals
  - Marketing contentious, favors one subgroup
- Restricted by rules and laws



# Restricted by state rules and laws

- Ethics and constitutional language limit promotional opportunities
- Commission business is public business
- Records subject to disclosure with a few specific exemptions
- Subject to state spending regulations
- Subject to state audits
- Specific exemptions to public disclosure for competitive information
- Constitutional provision for spending exemptions



# Formation of a board or commission

- RCW 15.65 and 15.66 provide a cafeteria plan for agricultural groups to create new commissions
  - A group of like-minded growers works with the Dept. of Agriculture to create a “marketing order”
  - Statute provides framework for organizing a new commission



# Adapting the model to non-agriculture uses

- Create new legislation patterned on RCW 15.66
  - Identify state agency to provide oversight
  - Would allow a new industry option
  - Any require a joint resolution for voters to amend constitution in a manner similar to Article VIII, Section 11:

*Allowing use of assessments (taxes) for trade promotion and promotional hosting, exempting from the constitutional prohibition of gifts of tax funds found in Article VIII, Section 5*



# Innovation-based industries differ from agriculture

- No obvious analogue to commodity as basis for assessment. Medical devices not like apples.
- Assessments may be perceived as a tax/tariff on business and business un-friendly, especially a single large competitor taxed by a many small competitors
- Marketing is the most contentious issue; are member interested in growing the whole pie, or just their slice of the pie?



# Innovation-based industries differ from agriculture

- Few “true commodities” in industries other than agriculture, most compete within a category on innovation, and difference from their competitors
- Mobility of businesses works against this model because of the possibility of relocation/acquisition
- Trade secrets closely guarded, often legally protected
- Marketing for an industry can be conducted by trade organizations





# Possible applications

- Workforce training
- International marketing
- Infrastructure improvements
- Research into quality improvement
- Could move costs onto specific industries via a new assessment



# Other potential models

- Providing state assistance or funding to private industry associations
- California Travel and Tourism Commission model, 501c6 private not-for-profit funded by state assessments
- Kansas Economic Growth Act model (using incremental B & O tax for promotion of an industry cluster or area)



# Questions

- Daniel Malarkey
- Nick Demerice





**Department of Commerce**  
Innovation is in our nature.