



*VIRGINIA DEPARTMENT
OF AGRICULTURE AND
CONSUMER SERVICES*

**REPORT ON THE FUNDING STABILITY AND ALTERNATIVES FOR
THE COMMODITY GRAIN GRADING OFFICE
DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES**

**Joseph Guthrie
Commissioner**

October 15, 2022

**Report on the funding stability and alternatives for the Commodity Grain Grading Office
Virginia Department of Agriculture and Consumer Services**

EXECUTIVE SUMMARY

The Office of Grain Services (OGS) commodity grading and inspection program supports approximately 4,000 farms in Virginia that planted 1.3 million acres and harvested 82.2 million bushels of corn, soybeans, wheat, and barley in 2020. Currently, the program is funded by user fees charged for services that enhance the market value of commodity products sold in the domestic and international marketplace. The program provides industry support through official grading, inspection, and weighing services; mycotoxin (fungal) testing; moisture analysis; oil and protein analysis on soybeans and grains; and falling numbers testing on wheat by certifying the quality and quantity of Virginia-grown grains based on the U.S. Grain Standards Act and the federal Agricultural Marketing Act for both export and domestic markets. Grains with established standards include barley, corn, flaxseed, mixed grain, oats, rye, sorghum, soybeans, sunflower seed, triticale, and wheat. Virginia is one of only three state programs that provide official federal grading, inspection, and weighing services at export port and domestic locations on behalf of the U.S. Department of Agriculture (USDA).

OGS provides services (i) at a deep-water export elevator that loads bulk ocean carriers, (ii) at approximately 15 intermodal grain loading locations across the Commonwealth, and (iii) to Virginia grain farmers who submit samples for quality determination.

Information in this report includes a general overview of the impact of fluctuations in requests for service, including revenues and expenditures for the past six fiscal years; the program's fee schedule; and information on alternative funding concepts that would help to stabilize the program's long-term budget for the benefit of Virginia's row crop farmers, grain elevators, and grain exporters.

LEGISLATIVE MANDATE

This report is required by Item 103 (B) of the 2022 Appropriation Act (HB 30) (2022 Session of the General Assembly, Special Session I).

GENERAL OVERVIEW

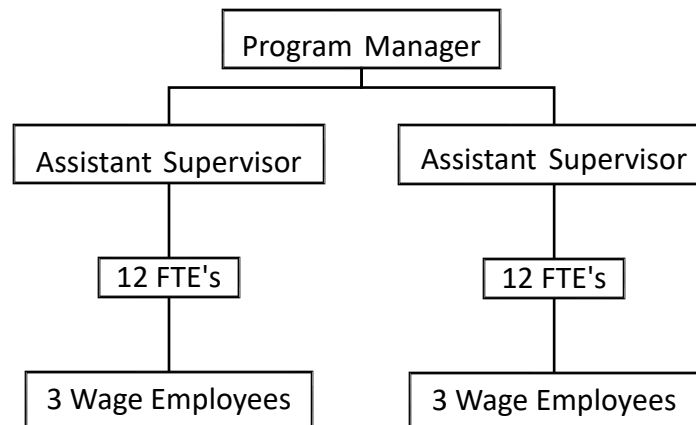
Virginia's standing as a major international grain supplier and shipping point lies in its ability to provide companies with official grading, inspection, and certification services. The VDACS Office of Grain Services (OGS) works to maintain a qualified licensed staff to provide essential export certifications to the companies that export grain, grain products, soybeans, and soybean products. Staff provide official grading, inspection, and weighing services; mycotoxin (fungal) testing; moisture analysis; oil and protein analysis on soybeans and grains; and falling numbers testing on wheat in order to certify the quality and quantity of grains based on the U.S. Grain Standards Act and the Agricultural Marketing Act. Grains with established standards include barley, corn, flaxseed, mixed grain, oats, rye, sorghum, soybeans, sunflower seed, triticale, and wheat.

The services provided by OGS directly benefit the Virginia farmers who produce grain and soybeans as the program provides for a value-added market price for their commodity products. As an example, the Norfolk Terminal Market, which purchases soybeans for export, pays an average of 25 cents more per bushel compared to the Norfolk Producer Market. The grain sold to Norfolk Terminal Market is typically purchased for export and will be sampled, graded, weighed, and certified by OGS staff. This protects the buyer and the seller as it reaches its destination overseas. Grain purchased by the Norfolk Producer Market is typically purchased for domestic use, which means OGS sampling, grading, testing, and certification services are not normally requested. Based on the average price of soybeans from 2006-2020, this would represent approximately 2.45% in added-value paid directly to farmers. This does not include the additional added-value to exporters and associated businesses. The market value of soy and grain commodities inspected by OGS exceeded \$1.27 billion in 2021.

Volatility in the global grain marketplace, coupled with a stringent and lengthy accreditation process for inspectors, has presented challenges for OGS. The program is currently funded by user fees charged for services that enhance the market value of commodity products sold in the domestic and international marketplace.

ORGANIZATION AND ACCOMPLISHMENTS

The OGS is comprised of a Program Manager and two Assistant Supervisors who oversee the work of 24 FTE's and six wage staff members



OGS ACCOMPLISHMENTS

Grain Services Work Performed	2021	2020	2019	2018	2017
Bushels of barley, soybeans, corn, sorghum, and wheat inspected and weight certified, in millions	125	35	62	75	74
Soybean meal/pellets inspected and weight certified, in millions of pounds	1,050	1,424	1,269	1,500	844
Approximate value of inspected grains	\$1,271 (billion)	\$526 (million)	\$702 (million)	\$913 (million)	\$876 (million)
Phyto-Sanitary inspection of dried distiller grains provided, in millions of pounds	157	158	117	206	275
Oil and protein analyses conducted on soybeans	2,076	1,196	1,407	1,299	1,359
Protein-only analyses conducted on wheat	178	91	149	160	142
Aflatoxin analyses conducted on corn and soybeans	584	479	515	671	695
Vomitoxin analyses conducted on wheat	138	118	216	202	556
Falling Numbers tests conducted on wheat	170	147	189	162	537
Stowage exams on containers performed	33,903	28,912	20,027	21,092	13,077
Stowage exams on ships performed	160	65	155	178	165
Ocean vessels loaded with grains, meal, or pellets	62	34	76	73	68

PRESENT DAY PROGRAM FEES TO SUPPORT ORGANIZATION

The program is currently funded by user fees charged for services that enhance the market value of commodity products sold in the domestic and international marketplace.

The OGS hourly fee schedule is competitive with the USDA Federal Grain Inspection Service (FGIS) fee schedule. OGS has always strived to provide services to clients at the most economical price-point, which has helped provide an incentive to shipping point loaders to establish business locations in Virginia. Additionally, OGS cannot adjust the state fee schedule without federal approval. OGS is required to submit any proposed fee changes to FGIS for its review and approval. This is to ensure that the fees are not excessive and are based on the average costs of providing the services.

Present Day User Fee Pricing Comparison (per hour)

CATEGORY	VDACS CY22	FGIS CY22
CONTRACT 6am-6pm	\$37	\$37.30
CONTRACT 6pm-6am	\$37	\$39.10
CONTRACT Overtime (OT)	\$48	\$44.60
CONTRACT HOLIDAY	\$52	\$66.20
NON-CONTRACT	\$55	\$66.20
NON-CONTRACT OT	\$60	\$66.20
NON-CONTRACT HOLIDAY	\$60	\$66.20

I. CONTRACT RATES PER SERVICE EMPLOYEE FOR SAMPLING, WEIGHING AND GRADING

<u>Regular Time</u>	<u>Overtime</u>	<u>Holidays</u>
\$37.00 per hr.	\$48.00 per hr.	\$52.00 per hr.

II. NON-CONTRACT RATES PER SERVICE EMPLOYEE FOR SAMPLING, WEIGHING AND STOWAGE EXAMS

<u>Regular Time</u>	<u>Overtime</u>	<u>Holidays</u>
\$55.00 per hr.	\$60.00 per hr.	\$60.00 per hr.

ADDITIONAL TESTS (per individual test)

Aflatoxin (per test-quantitative).....	\$31.00
Don (Vomitoxin) (per test-quantitative).....	\$41.00
Soybean protein and oil (one or both).....	\$10.00
Wheat protein	\$10.00
Corn oil, protein, and starch (one or any combination)...	\$10.00
Falling Number Determination.....	\$21.88

*Additional 1/2 Hour minimum preparation charge per test for Non-Contract rates

GENERAL FINANCIAL INFORMATION

Meeting Needs of Service Requests

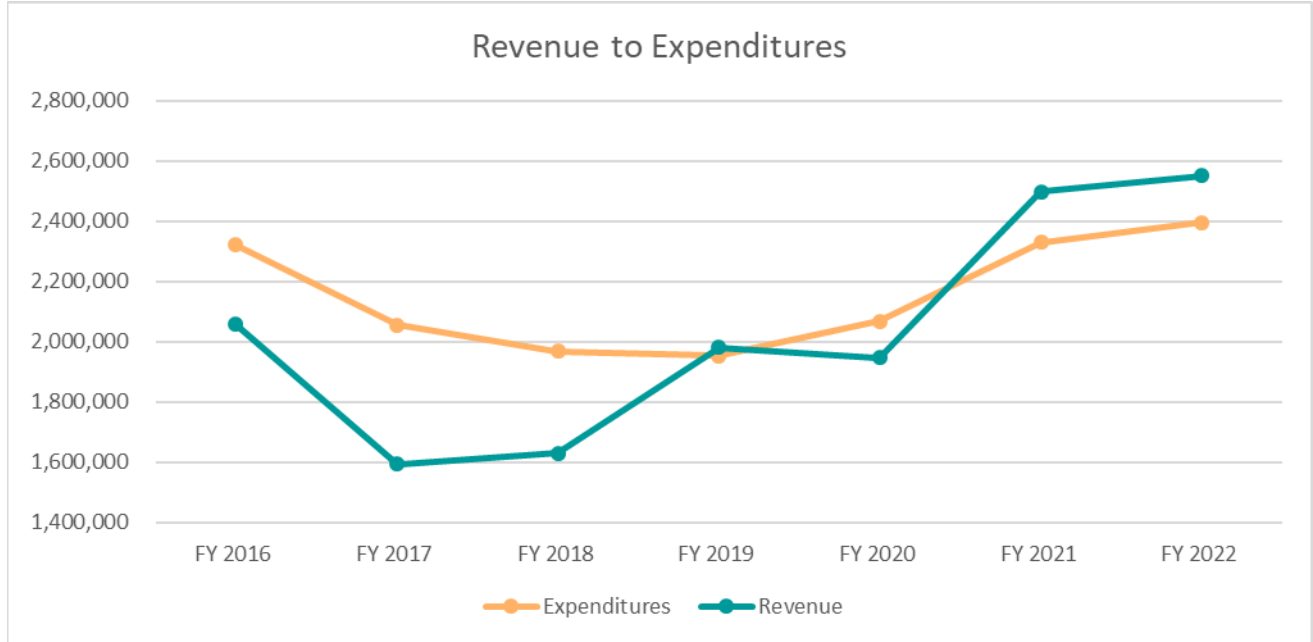
In order to provide grading and inspection services for clients, OGS must maintain an adequate number of credentialed staff to respond quickly to demands for service. New hires undergo an extensive training program to prepare them to obtain the required USDA licenses. It normally takes an employee over two and a half years to qualify for the needed USDA corn, soybean, wheat, and barley licenses. This represents a significant investment in each OGS employee, meaning that it is neither feasible to quickly increase, nor prudent to quickly decrease, staffing levels in response to commodity market conditions that do not appear to be long-term structural changes to the grain markets.

Revenue and demand for service can change rapidly, influenced by international political volatility, changing tariffs or other trade barriers, and global weather events that drive the cost of grains and soybeans. When demand for services decrease, revenues are negatively impacted and expenditures outpace revenues. This occurred in 2016, 2017, and 2018 following a series of global tariff disputes and other market factors, causing the program's non-general reserve balance to decrease by more than 60%. During this time, OGS lost three full time licensed inspectors to attrition and six wage staff due to reduced work hours. The vacant full-time and part-time positions were not immediately filled due to the financial instability in grain markets. To help stem the losses, OGS sought federal approval to raise contract user fees 18.5%, which was ultimately approved and took effect in October 2018. In 2019, international grain markets began to improve, and with the 2018 fee increase, the program's revenues began to slightly outpace expenditures. The program resumed recruitment to fill the staff vacancies it had incurred during the prior three years; however, a sudden dramatic increase in service requests greatly strained the program's ability to continually provide prompt services. In 2020, the program experienced reductions in revenues once again due to a slow-down in grain shipments and implemented a fee increase on non-contract user fees of 20% in April 2021. The increase in fees and strong service requests helped OGS revenues to exceed expenditures by the conclusion of Fiscal Year (FY) 2021 and FY 2022. Currently, the conflict between Russia and Ukraine has again injected significant volatility and uncertainty into the grain export market.

During the recent years when market uncertainties and volatility occurred, OGS's expenditures substantially outpaced revenues, which negatively impacted the program's fund reserve balance and created financial instability for the program. This instability directly impacted the program's ability to support and maintain a licensed qualified staff. During these periods of volatility, positions were held vacant to accommodate revenue shortfalls. However, when the market strengthened and the purchases of Virginia grains and soybeans substantially increased, OGS struggled to effectively meet industry demand for the inspection and certification of grain for export until it was able to hire and train new staff. As mentioned above, new hires undergo an extensive training program to prepare them to obtain the required USDA licenses. On average, it takes more than two and half years for an employee to qualify for the needed corn, soybean, wheat, and barley licenses.

Revenue and Expenditure Data

Over the span of the last six fiscal years, OGS has experienced periods of revenue volatility during which expenses have surpassed revenue, which has impacted the program’s long-term stability.



Expenditure Major Object	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
Personal Services	1,923,572	1,891,843	1,763,504	1,621,220	1,641,881	1,661,830	1,866,704
Contractual Services	210,885	143,648	106,711	92,491	86,843	129,745	148,031
Supplies and Materials	35,551	38,673	40,178	31,842	37,845	48,982	63,790
Transfer Payments	123,425	143,913	72,268	122,214	126,138	134,171	144,657
Continuous Charges	94,410	104,064	83,573	71,447	65,804	44,138	26,418
Equipment	8,748	7,445	2,320	13,666	8,496	36,139	72,432
Expenditure Total	2,396,592	2,329,585	2,068,554	1,952,881	1,967,008	2,055,005	2,322,032
Revenue Total	2,551,777	2,498,708	1,946,154	1,980,751	1,629,753	1,593,088	2,057,171
Net Change in Cash (Revenue – Expenditures)	155,185	169,123	(122,399)	27,870	(337,255)	(461,918)	(264,862)

ALTERNATIVE CONCEPTS TO STABILIZE FUNDING

General Fund Concept

One approach to mitigate the impact of international volatility on the OGS program would be to consider limited general fund support for key supervisory positions within the program, which would greatly assist the program in stabilizing its budget during periods of lower demand and assist with keeping pace with attrition and the training of full and part time staff.

PERSONAL SERVICES

Position/Title	Number of Positions / FTE	Pay Band	Salary	Total Amount (Salary + 49.13% fringe)
Agricultural Manager III	1	6	\$ 84,000	\$125,269.00
Agricultural Specialist V	1	5	\$ 57,750	\$ 86,123.00
Agricultural Specialist V	1	5	\$ 58,000	\$ 86,495.00
TOTAL			\$ 199,750.00	\$297,887.00

Total Budget Increase Resulting from General Fund Concept \$297,887.00

User Fee Increase (Nongeneral Fund) Concept

Assuming approval from federal authorities, if OGS raised user fees an average of 12% across the board, the program could potentially increase its revenues enough to equal the \$297,887 appropriation proposed in the General Fund Concept. However, a plan to further increase the OGS fee schedule above the federal rate schedule may not be approved by USDA FGIS. A 12% user fee increase would also, in most pricing categories, drive OGS's hourly fees higher than those charged by FGIS, potentially negating the present-day competitive advantage OGS currently maintains over the federal inspection services' fee schedule. This could possibly negatively impact grain exporters' decisions to maintain loading terminals in Virginia. Additionally, if the program encounters future international market volatility, service requests would decrease, and revenues could very well perform poorly due to a reduction in the hours being billed to clients.

12% VDACS User Fee Increase Concept Pricing Comparison (per hour)

CATEGORY	VDACS 12% Increase CY22	FGIS CY22
CONTRACT 6am-6pm	\$41.44	\$37.30
CONTRACT 6pm-6am	\$41.44	\$39.10
CONTRACT OT	\$53.76	\$44.60
CONTRACT HOLIDAY	\$58.24	\$66.20
NON-CONTRACT	\$61.60	\$66.20
NON-CONTRACT OT	\$67.20	\$66.20
NON-CONTRACT HOLIDAY	\$67.20	\$66.20

NEXT STEPS

The agency plans to further evaluate an update to the user fee schedule to address long term funding stability in the program before evaluating other alternative concepts to stabilize funding.