

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 5th Meeting of the 2021 Interim

October 6, 2021

Call to Order and Roll Call

The 5th meeting of the Interim Joint Committee on Appropriations and Revenue was held on Wednesday, October 6, 2021, at 1:00 PM, in Room 149 of the Capitol Annex. Representative Jason Petrie, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jason Petrie, Co-Chair; Senators Danny Carroll, David P. Givens, Morgan McGarvey, Stephen Meredith, Michael J. Nemes, and Robin L. Webb; Representatives Lynn Bechler, Danny Bentley, Randy Bridges, Joseph M. Fischer, Ken Fleming, Chris Fugate, Al Gentry, David Hale, Mark Hart, Angie Hatton, Jason Nemes, Ruth Ann Palumbo, Melinda Gibbons Prunty, Josie Raymond, Brandon Reed, Steve Riley, Sal Santoro, James Tipton, and Lisa Willner.

Guests: Ryan Quarles, Commissioner of Agriculture; Wayne Hunt, Kentucky Agriculture Development Board; Dave Maples, Executive Vice President, Kentucky Cattlemen's Association; Becky Thompson, Director, Kentucky Beef Network; Tom Underwood, Executive Director, KY Wholesale Distributors Association; and Michael W. Clark, Director, Center for Business and Economic Research.

LRC Staff: Grant Minix, Jennifer Hays, Cynthia Brown, Sarah Watts, and Chase O'Dell.

Approval of Minutes

A motion was made and seconded to approve the minutes from the September 24, 2021, meeting. The motion carried by voice vote.

Economic Impacts to the Agriculture Industry

Ryan Quarles, Commissioner of Agriculture, Wayne Hunt, Kentucky Agriculture Development Board, Dave Maples, Executive Vice President, Kentucky Cattlemen's Association, and Becky Thompson, Director, Kentucky Beef Network, discussed the economic impacts of the COVID-19 pandemic on the agriculture industry.

Commissioner Quarles testified that farmers are necessary and have risen to the challenge during the pandemic. Over \$170 billion in agriculture goods were exported in the United States in 2020. Kentucky farmers are worn-out and stressed and as a result there is concern of a shut down for two to three weeks. Input costs are increasing. Most notably, fertilizer and parts prices are increasing. Labor shortages are occurring across agriculture.

There will be a net increase in farm income of over \$18 billion nationwide in 2021. This is due to new trade agreements, such as historical purchases from China and Japan, and higher commodity prices. Corn, wheat, and soybean receipts are expected to rise over \$38 billion. Broiler, hog, and cattle receipts are expected to rise \$27 billion over last year. Net farm cash receipts will go up. However, feed costs will rise \$6.2 billion this year. In Kentucky, more than half of farm receipts come from livestock. The increase in expenses is cutting into farm profitability.

There are over 10 million jobs available in America. Inflation is being seen in raw commodity prices and in grocery stores. Supply chain disruptions are leading to products being packaged differently. There have also been shipment issues.

In response to a question from Representative Petrie, Commissioner Quarles stated that printing trillions of dollars has had a macro-economic effect on farmers and the economy as a whole.

Mr. Hunt testified that farmers the last two-to-three years have been the best years they have ever had. There are no 100 horsepower tractors made in the United States. Shipping container prices have increased substantially. There are issues with transportation and labor. There are some parts that cannot be obtained due to shipping issues. Mr. Hunt's company stocked \$22 million of parts. Farmers cannot wait on parts. Inflation is a big worry. The price of equipment has gone up. Mr. Hunt spoke to the potential crisis of not being able to get parts and not being able to get labor to unload shipments.

Commissioner Quarles stated that the consumer price index shows the increase in the cost of food in grocery stores. The agriculture development board has invested six million dollars across 30 different local meat processors. Meat processing capacity in Kentucky has increased from 45,000 to 70,000 head a year.

Mr. Maples testified that Kentucky is the largest beef cattle state east of the Mississippi River. If a cow is sold in Kentucky, it must ride a minimum of 500 miles before it is processed. There are four large meat packing companies in the United States. These companies do 75 to 80 percent of the business.

Mr. Maples stated that Kentucky has not done a good job of recruiting a potential food processing plant to locate to the state. Kentucky has many secondary distributors. Ms. Thompson also spoke to the desire for a beef processing plant in Kentucky.

In response to a question from Representative Petrie, Commissioner Quarles testified that the JBS pork plant in Louisville pushes 10,000 head a day. Chicken manufacturers in Kentucky are also very large. The largest beef processor in Kentucky pushes 100 head a day, which is relatively small.

Representative Tipton spoke to the inefficiency of beef processing in Kentucky. In response to a question from Representative Tipton, Commissioner Quarles testified that H-2A is an administrative burden on the operator. He continued to say that the program should be administered by the United States Department of Agriculture. Commissioner Quarles voiced support for policy changes to allow H-2A workers to work year-round. The H-2B program is also an administrative burden and has not been effectively updated for three decades. The program has a quota allotment which prevents some access to work.

In response to a question from Representative Hale, Mr. Maples stated that he does not believe that Kentucky has lost the potential beef processing plant bid. He continued to say that the company is looking to invest \$350 million to \$500 million.

In response to a question from Representative Petrie, Mr. Maples stated that the Economic Development Cabinet was, and still is, involved in trying to recruit the project. In response to another question, Commissioner Quarles testified that 1,400 jobs would result from the project. The jobs would earn wages much higher than \$10 an hour.

Commissioner Quarles stated that Kentucky would do a better job of recruiting companies if people in Frankfort worked together. The Kentucky Department of Agriculture was not pulled into the recruitment until late.

Senator Webb expressed her belief that the Department of Agriculture should have been involved in the discussions earlier. Senator Webb continued to express her support for the potential project.

Representative Petrie stated that there would be multiple suitable locations for the potential processing plant. Other committee members expressed a desire for the processing plant to locate within their district. Mr. Hunt testified that the company looking to establish a new beef processing plant wanted to move where there is a good population size.

In response to a question from Representative Fleming, Commissioner Quarles reaffirmed that the payroll from the plant would potentially be around \$55 to \$65 million.

Representative Petrie expressed his hope that the potential project is not dead.

Economic Impacts to the Wholesale Industry

Tom Underwood, Executive Director, KY Wholesale Distributors Association, discussed the economic impacts of the COVID-19 pandemic on the wholesale industry.

Mr. Underwood testified that the wholesale industry brings products to retailers. Over the past 12 months, a record number of shipping containers have been lost overboard at sea due to max loading on cargo ships. Longshoremen in ports have been worked to exhaustion. Almost every major harbor in the United States is backed up with ships off shore. Shipping containers are in short supply and warehouse space is running out.

Manufacturers are regularly backordering or suspending product lines. The percentage of orders from retailers which were filled was previously 99 percent. The average fill rate in the industry has fallen to 73 percent. Transportation disruptions are expected to continue into the third quarter of 2022.

American manufacturing is not set-up to completely provide finished products from start-to-finish. Many products made in the United States are suffering from packaging problems. Many major retailers are now chartering their own ships. Mr. Underwood displayed the fill rates on several major brands in the United States.

There are labor shortages across the wholesale industry. Ninety-seven percent of wholesalers are short on labor. A total of 68 percent of wholesalers have reported being unable to make deliveries on time due to labor shortages. Ninety-eight percent of wholesalers reported having employees working overtime and extra shifts.

The industry is dealing with an increase in product and overhead costs. Wages and benefits have increased. The cost of energy has gone up 24.4 percent. The cost of gasoline is up 41.8 percent. There has been cost increases on 40 percent of product lines.

Kentucky's reimbursement rate per pack of cigarette has not changed since the President Eisenhower administration. The industry is requesting that the reimbursement rate be changed to 1.5 cents per pack. This rate would not cover all costs, but it would help.

In response to a question from Representative Petrie, Mr. Underwood recommended that individuals begin shopping for holiday foods and Christmas. As the consumer rush on products begins, it will become more difficult to find desired products.

In response to a question from Senator Meredith, Mr. Underwood testified that wholesale industry employees have been deemed essential workers. Senator Meredith discussed the issue of identifying essential workers during the pandemic, explaining that anyone working during the pandemic is essential.

Current Economic Climate in Kentucky

Michael W. Clark, Director, Center for Business and Economic Research, discussed the economic climate in Kentucky.

Mr. Clark testified that the economic climate in Kentucky has continued to improve. Employment gains are being seen.

Kentucky's unemployment rate has been going down the last few months. Kentucky's labor force participation is lower than at the national level. More people are getting jobs. Some people are coming back into the labor force. Those individuals are finding jobs.

The initial claims for unemployment insurance have continued to fall and are close to levels seen before the pandemic. Nonfarm employment increased in the state in August. Kentucky had been recovering nonfarm employment faster than the nation for much of the pandemic. Over the last few months, the nation started recovering faster. In Kentucky, total nonfarm employment is still down 3.8 percent from before the pandemic. About 75 percent of the non-farm jobs lost during the pandemic have been recovered.

In response to a question from Representative Petrie, Mr. Clark testified that government jobs in Kentucky included federal, state, and local jobs and that local government jobs included education. He added that most of the government jobs in Kentucky were local school system jobs.

A large part of the recent job growth has come from the manufacturing sector. Manufacturing employment is close to pre-pandemic levels. The financial activities sector in Kentucky has recovered well. Employment in the leisure and hospitality sector is still down 16.2 percent from pre-pandemic levels.

In response to a question from Representative Petrie, Mr. Clark testified that the information sector deals with news broadcasting and publications and is a relatively small sector in terms of employment. Employment in this sector is falling in Kentucky and is not recovering in pace with the rest of the nation.

Over the last few months, job openings in the United States have increased substantially. Hires are up, but not as much as job openings. Quit rates have risen slightly, but not substantially.

Nationally, there is still a high number of job openings in the manufacturing sector. Quit rates have been rising in the health care and social services sector. The healthcare sector has a high number of job openings relative to the number of hires. The leisure and hospitality sector quit rate is about five percent, which is higher than other sectors. Over the last few months, the number of job openings in this sector has been high relative to the number of new hires.

Wage growth has accelerated over the last quarter in the United States. Sectors seeing particularly high wage growth include the retail sector and the leisure and hospitality sector.

Many national economists believe inflation will be temporary. Many of the issues driving inflation may resolve themselves. Prices rose substantially in June, but they have not continued to rise from that level. Prices are still higher than pre-pandemic levels. The general consensus is that these higher prices are transitory.

In response to a question from Representative Hart, Mr. Clark testified that private school or non-government educators would be included in the education and healthcare employment category.

In response to a question from Representative Hatton, Mr. Clark stated that Kentucky's lower recovery in the mining and logging sector is likely due to the type of mining done in Kentucky versus the rest of the nation.

In response to a question from Representative Fischer, Mr. Clark testified that official labor force statistics consider everyone over the age of 16. He continued to say that retirements contribute to a lower labor force participation rate. Prime age workers consider individuals ages 25 to 55. Kentucky labor force participation rates are lower than nationally, even among prime age workers. As Americans on average get older, the labor force participation rate will decrease.

In response to a question from Representative Petrie, Mr. Clark testified that labor force participation rates among prime age workers will not be impacted by retirements.

In response to a question from Senator Nemes, Mr. Clark stated that initial unemployment insurance claims likely do not include refiled claims.

In response to a question from Representative Tipton, Mr. Clark said that he was unsure when the Federal Reserve may change its policy and raise interest rates.

With no further business before the committee, the meeting was adjourned at 2:40 p.m.