

ARKANSAS RICE RESEARCH & PROMOTION BOARD

Enabling Laws

Act 186 of 2016
A.C.A. §2-20-505 et seq.

History and Organization

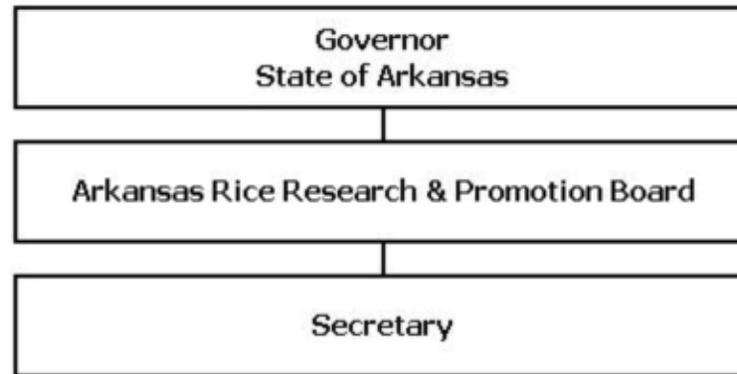
The Arkansas Rice Research and Promotion Board was established by Act 725 of the 1985 General Assembly to provide rice producers in Arkansas an organization through which they can work for the improvement of the rice industry. The legislation created a nine-member board appointed by the Governor from nominations submitted by certain rice-related organizations to administer the program. It is the responsibility of the Board to plan and conduct a program of research, extension, promotion and market development to foster the growth and development of the Arkansas rice industry.

The Arkansas rice industry has a long history of support for research and promotion programs. With the founding of the Rice Council in the late 1950's, Arkansas' rice producers voluntarily contributed a portion of the profits from each crop to promote rice domestically and abroad. In the late 1970's, farmers began voluntarily contributing to a fund specifically for research. In 1985, the programs were codified and combined into one state agency, the Arkansas Rice Research and Promotion Board, created by Act 725 of 1985. The Arkansas Rice Research and Promotion Board consists of 9 rice producers, nominated by industry organizations and appointed to two year terms by the Governor.

The initial legislation established a producer-paid assessment of two cents per bushel of all rice produced in Arkansas with an automatic escalation to three cents per bushel after a specified period of time. Subsequently, Act 344 of 1995 provided for a referendum of producers on the question of reducing the producer-paid assessment for research and extension program funding to a rate not more than 1.5 cents per bushel, instituting a buyer-paid assessment of 1.35 cents per bushel for promotion and market development funding, and to make both assessments nonrefundable. Producers overwhelmingly ratified the proposed changes in a referendum conducted by the Board in February of 1996. The changes became effective August 1, 1996. Prior to the referendum, the Board made a commitment to the producers to set the producer-paid assessment rate at 1.15 cents per bushel for a minimum of two years. Act 16 of 1999 provided for equal assessment of 1.35 cents per bushel for both the producer and the buyer portions of the program.

Rice research efforts across the United States received a very welcome boost in 1999 with the beginning of the European Tariff Rate Quota system. In late 1995, the United States and the European Union (EU) reached agreement on certain aspects of trade concessions to be provided by the EU to the US in response to trade barriers created by the accession of Austria, Finland and Sweden to the EU. The

concessions included the grant of tariff rate quotas (TRQs) permitting annual entry of quantities of U.S. milled and brown rice to enter the EU at a reduced duty. The Association for the Allocation of Rice Quotas (AARQ) was formed to hold auctions through which U.S. rice exporters could bid for portions of the quota to import rice into the EU at a reduced duty. The proceeds of the auctions were shared by exporters that were members of AARQ and 22% were paid to The Rice Foundation to be allocated as follows: 10% for administrative and other expenses and 90% were allocated for research. The research funds were shared among the rice states based upon production. Under the agreement, the funds could be sent directly to the state, or held by the Foundation to be directed by each state rice research organization.



Agency Commentary

The Arkansas Rice Research and Promotion Board budget is funded entirely by special revenues collected from an assessment on all rice produced in Arkansas. The assessment rate is \$2.70 per bushel on all rice grown for market in Arkansas.

The Board is requesting Base Level, which includes \$6,980,696 each year of the biennium. A very limited amount of funds is allocated each year for administrative and board related expenses, while most of the request is in categories that will allow funding of programs directly related to the Research and Development objectives of the Board.

Annual collections vary with production, but average between \$4.5 million and \$6 million. The board conducts a research program through the University of Arkansas Division of Agriculture, reviewing projects annually. Research centers on variety development, pest control, fertilization, environmental concerns, and economics to name a few. The board also hears promotion and market development proposals each year, and has consistently selected the USA Rice Council as the entity to represent Arkansas rice in the domestic and global marketplace.

The Arkansas Rice Research and Promotion Board opted to have the funds held by the Foundation to be invested and only be directed by the Board. The EU TRQ program has allowed the Board to allocate over \$5 million for research, all conducted in Arkansas, including endowing the Rice Industry Chair for Variety Development and a gift that helped construct the new University of Arkansas Division of Agriculture Rice Research and Extension Center in Stuttgart. A small amount of funds is still received annually from the program, but due to decreasing duties over time, the program will run its course.

More recently, the U.S. entered into a free trade agreement with Colombia, which currently has an 80% duty on imported rice. A TRQ program, similar to the one described above, was created to administer the program by which importers could bid to export rice to Colombia duty free. Col-Rice was created to administer the program, and the board consists of both Colombian and US rice industry representatives. Duties will hold at 80% for the first seven years of the program, and then decline each year until the duty is 0% in 19 years, or 2031. The funds collected from the auctions are divided among the rice producing states to be used for research for the first 10 years of the program. After that, the funds can be used for research, promotion or market development, though the ARRPB has committed to spend the entire fund on research. The board has already allocated over \$4.5 million to the University of Arkansas for research projects, equipment purchases and for construction of a new Foundation Seed facility. While it is impossible to predict the exact value of the quota rents over the 19 year history of the program, a considerable sum has already been collected. The budget request reflects what has already been collected.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS RICE RESEARCH AND PROMOTION BOARD
FOR THE YEAR ENDED JUNE 30, 2014

Findings

Tariff-rate quota (TRQ) proceeds are the result of specific economic agreements, events, auctions, and processes relating to the export of rice to other countries, as authorized by the federal government. TRQ proceeds generated through exports to Colombia began in fiscal year 2013, and TRQ proceeds associated with exports to certain countries in the European Union originated in 1999. While the specific language of each agreement is slightly different, the TRQ proceeds are eventually distributed to the rice research board of each of the six rice producing states in the U.S. based upon each state's pro rata share of recent rice production.

The Arkansas Rice Research and Promotion Board did not directly receive its TRQ proceeds. Instead, the Board elected to have The Rice Foundation, a not-for-profit corporation in Arlington, Virginia, that is associated with USA Rice Federation, hold and invest its TRQ proceeds until needed for Board-approved research projects. A separate

Recommendations

We recommend the Agency contact the Department of Finance and Administration for assistance with recording all transactions and balances in AASIS and complying with laws and regulations related to the budgeting, investing and disbursing state funds.

Agency Response:

The Arkansas Rice Research and Promotion Board is in contact with appropriate staff at the Department of Finance and Administration, including the service bureau, CAFR, and Office of Budget, to seek assistance with recording all transactions and balances in AASIS in order to comply with laws and regulations related to budgeting, investing and disbursement of TRQ funds.

DIVISION OF LEGISLATIVE AUDIT
 AUDIT OF :
 ARKANSAS RICE RESEARCH AND PROMOTION BOARD
 FOR THE YEAR ENDED JUNE 30, 2014

Findings

account was established and controlled by The Rice Foundation at the Morgan Stanley investment firm, and our review of the account's activity indicates that disbursements were appropriately made only for Board-approved research projects.

This investment account, which consists of cash, money market funds, investments, and accrued interest receivable, appears to be an unappropriated "cash fund," as defined by Ark. Code Ann. § 19-4-801, and was not authorized to operate outside of the State Treasury. The Agency did not comply with Ark. Code Ann. §§ 19-4-802, -805, which require that cash funds be budgeted and proposed expenditures be approved by the General Assembly; transactions be recorded in the state's accounting system; and cash balances be invested in accordance with State Board of Finance policies. Also, support documentation detailing receipts, expenditures, and balances was inadequate. Since transactions were not recorded in AASIS, financial information produced by the accounting system, such as ending balances, revenues, and expenditures, was materially understated for many years. Adjustments have been made to the financial exhibits in this report to include the effect of TRQ activities and balances.

Recommendations

State Contracts Over \$50,000 Awarded To Minority Owned Businesses Fiscal Year 2016

None

Publications

A.C.A. 25-1-201 et seq.

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution	Unbound Black & White Copies Produced During the Last Two Years	Cost of Unbound Copies Produced During the Last Two Years
		Governor	General Assembly				
None	N/A	N	N	0	N/A	0	0.00

Department Appropriation Summary

Historical Data

Agency Request and Executive Recommendation

Appropriation	2015-2016		2016-2017		2016-2017		2017-2018						2018-2019					
	Actual	Pos	Budget	Pos	Authorized	Pos	Base Level	Pos	Agency	Pos	Executive	Pos	Base Level	Pos	Agency	Pos	Executive	Pos
998 Rice Research and Promotion	5,447,421	0	6,980,696	0	6,980,696	0	6,980,696	0	6,980,696	0	6,980,696	0	6,980,696	0	6,980,696	0	6,980,696	0
D33 Tariff Rate Quota Cash	613,177	0	15,000,000	0	0	0	0	0	15,000,000	0	15,000,000	0	0	0	15,000,000	0	15,000,000	0
Total	6,060,598	0	21,980,696	0	6,980,696	0	6,980,696	0	21,980,696	0	21,980,696	0	6,980,696	0	21,980,696	0	21,980,696	0

Funding Sources		%		%		%		%		%		%		%		%	
Fund Balance 4000005	11,306,032	46.1	18,487,228	62.8		7,437,228	40.5	7,437,228	40.5	7,437,228	40.5	11,387,228	51.0	339,302	3.0	339,302	3.0
Special Revenue 4000030	5,599,145	22.8	6,930,696	23.6		6,930,696	37.7	6,930,696	37.7	6,930,696	37.7	6,930,696	31.1	6,930,696	61.5	6,930,696	61.5
Cash Fund 4000045	7,642,649	31.1	4,000,000	13.6		4,000,000	21.8	4,000,000	21.8	4,000,000	21.8	4,000,000	17.9	4,000,000	35.5	4,000,000	35.5
Total Funds	24,547,826	100.0	29,417,924	100.0		18,367,924	100.0	18,367,924	100.0	18,367,924	100.0	22,317,924	100.0	11,269,998	100.0	11,269,998	100.0
Excess Appropriation/(Funding)	(18,487,228)		(7,437,228)			(11,387,228)		3,612,772		3,612,772		(15,337,228)		10,710,698		10,710,698	
Grand Total	6,060,598		21,980,696			6,980,696		21,980,696		21,980,696		6,980,696		21,980,696		21,980,696	

Variance in fund balances is due to unfunded appropriation in Tariff Rate Quota Cash (D33),

Agency Position Usage Report

FY2014 - 2015						FY2015 - 2016						FY2016 - 2017					
Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused
	Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total	
0	0	0	0	0	0.00 %	0	0	0	0	0	0.00 %	0	0	0	0	0	0.00 %

Analysis of Budget Request

Appropriation: 998 - Rice Research and Promotion

Funding Sources: SRP - AR Rice Research and Promotion Fund

The Arkansas Rice Research and Promotion Board was established in 1985 to improve the profitability of growing rice in Arkansas by conducting a program of research, extension and market development.

The Board is funded entirely from special revenue which is collected from assessments on all rice produced in Arkansas. The assessments consist of \$1.35 per bushel of rice grown in Arkansas paid by the producer, and an assessment of \$1.35 per bushel paid by the first point of sale buyer. The funds raised by the producer assessment are reserved for the research program, and the buyer funds are reserved for promotion and market development activities.

The Board requests Base Level appropriation in the amount of \$6,980,696 each year of the biennium.

The Executive Recommendation provides for the Agency Request.

Appropriation Summary

Appropriation: 998 - Rice Research and Promotion

Funding Sources: SRP - AR Rice Research and Promotion Fund

Historical Data

Agency Request and Executive Recommendation

Commitment Item		Historical Data			Agency Request and Executive Recommendation			Agency Request and Executive Recommendation		
		2015-2016 Actual	2016-2017 Budget	2016-2017 Authorized	2017-2018			2018-2019		
					Base Level	Agency	Executive	Base Level	Agency	Executive
Operating Expenses	5020002	4,057	14,200	14,200	14,200	14,200	14,200	14,200	14,200	14,200
Conference & Travel Expenses	5050009	0	0	0	0	0	0	0	0	0
Professional Fees	5060010	0	0	0	0	0	0	0	0	0
Data Processing	5090012	0	0	0	0	0	0	0	0	0
Capital Outlay	5120011	0	0	0	0	0	0	0	0	0
Research/Development	5900031	5,443,364	6,966,496	6,966,496	6,966,496	6,966,496	6,966,496	6,966,496	6,966,496	6,966,496
Total		5,447,421	6,980,696	6,980,696	6,980,696	6,980,696	6,980,696	6,980,696	6,980,696	6,980,696
Funding Sources										
Fund Balance	4000005	287,578	439,302		389,302	389,302	389,302	339,302	339,302	339,302
Special Revenue	4000030	5,599,145	6,930,696		6,930,696	6,930,696	6,930,696	6,930,696	6,930,696	6,930,696
Total Funding		5,886,723	7,369,998		7,319,998	7,319,998	7,319,998	7,269,998	7,269,998	7,269,998
Excess Appropriation/(Funding)		(439,302)	(389,302)		(339,302)	(339,302)	(339,302)	(289,302)	(289,302)	(289,302)
Grand Total		5,447,421	6,980,696		6,980,696	6,980,696	6,980,696	6,980,696	6,980,696	6,980,696

Analysis of Budget Request

Appropriation: D33 - Tariff Rate Quota Cash

Funding Sources: 327 - Rice Board Cash

The Arkansas Rice Research and Promotion Board receives funds from two Tariff Rate Quota programs as part of two trade agreements between the United States and the EU and the United States and Columbia. The funds are designated to be used only for rice research efforts.

The Board requested appropriation for FY17 of \$15,000,000 in order to utilize the funds for rice research in Arkansas.

The Board is requesting continuation of \$15,000,000 in appropriation that was approved in the FY16 June PEER meeting for the FY2017 - FY2019 Biennium.

The Executive Recommendation provides for the Agency Request.

Appropriation Summary

Appropriation: D33 - Tariff Rate Quota Cash

Funding Sources: 327 - Rice Board Cash

Historical Data

Agency Request and Executive Recommendation

Commitment Item		Historical Data			2017-2018			2018-2019		
		2015-2016 Actual	2016-2017 Budget	2016-2017 Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Research & Development	5900031	613,177	15,000,000	0	0	15,000,000	15,000,000	0	15,000,000	15,000,000
Total		613,177	15,000,000	0	0	15,000,000	15,000,000	0	15,000,000	15,000,000
Funding Sources										
Fund Balance	4000005	11,018,454	18,047,926		7,047,926	7,047,926	7,047,926	11,047,926	0	0
Cash Fund	4000045	7,642,649	4,000,000		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Total Funding		18,661,103	22,047,926		11,047,926	11,047,926	11,047,926	15,047,926	4,000,000	4,000,000
Excess Appropriation/(Funding)		(18,047,926)	(7,047,926)		(11,047,926)	3,952,074	3,952,074	(15,047,926)	11,000,000	11,000,000
Grand Total		613,177	15,000,000		0	15,000,000	15,000,000	0	15,000,000	15,000,000

Budget exceeds Authorized Appropriation in Research & Development due to a transfer from the Cash Fund Holding Account. Expenditure of appropriation is contingent on available funding.

Change Level by Appropriation

Appropriation: D33 - Tariff Rate Quota Cash
Funding Sources: 327 - Rice Board Cash

Agency Request

Change Level		2017-2018	Pos	Cumulative	% of BL	2018-2019	Pos	Cumulative	% of BL
BL	Base Level	0	0	0	0.0	0	0	0	0.0
C01	Existing Program	15,000,000	0	15,000,000	100.0	15,000,000	0	15,000,000	100.0

Executive Recommendation

Change Level		2017-2018	Pos	Cumulative	% of BL	2018-2019	Pos	Cumulative	% of BL
BL	Base Level	0	0	0	0.0	0	0	0	0.0
C01	Existing Program	15,000,000	0	15,000,000	100.0	15,000,000	0	15,000,000	100.0

Justification

C01	It is a continuation of \$15,000,000 in appropriation that was approved in the FY16 June PEER meeting for the FY2017 - FY2019 Biennium.
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