

Executive Summary

According to the New Mexico Department of Agriculture (NMDA), organic food sales in New Mexico are currently around \$40 million per year and there are over 150 organic certified operations (farms, processors, handlers, etc.) statewide. In addition, about half of all organic products grown in New Mexico are sold within 100 miles of their origin, which contributes to strengthening local food systems and economies. Nationwide the organic food industry had sales of \$43.3 billion in 2015, and the growth rate from 2014-2015 was 10.8%, which was significantly greater than the overall food market growth of 3.3% over the same period. These recent trends illustrate the economic opportunities in New Mexico in the sector, not to mention the benefits from local organic agriculture to the environment and community social capital and development.

New Mexico has had a state-level organic certification program since the 1990s. For nearly 20 years the program was administered by the New Mexico Organic Commodity Commission (NMOCC) and was funded through State Legislature appropriations. The program was viewed as offering consumer protection, economic development, and a service to the farm sector; achieving full cost recovery of the costs to run the program was not a priority of the NMOCC or the Legislature. In 2010, however, the State Legislature cut the commission's general fund appropriations from \$280,000 to \$25,000. With a significant financial deficit and insufficient administrative and managerial support, in 2011 the program was transitioned to be placed under NMDA authority at the request of both the NMDA and the commission. Since this time, the program has been housed at and administered by NMDA. Funds carried over from NMOCC were used by NMDA to meet the income deficit for about two years, and NMDA has since used funds from its discretionary budget to cover the program's deficit.

In August and October 2016, NMDA convened meetings in Las Cruces, Portales, Albuquerque and Santa Fe to consider the future of the NMDA Organic Certification Program. The aim of the meetings was to discuss potential future funding options, as the program is facing a funding shortfall, having run an average annual deficit of nearly \$100,000 the past four years. NMDA has stated that the revenue gained by the program – which includes payments from organic producers and other operators for application fees and assessment fees – is supposed to cover operating costs but the changes made to the program have never been significant enough to enable this. In practice, therefore, the fee structure has never provided enough revenue to cover expenses. In FY16, for example, certification revenue totaled \$187,466; anticipated operating expenses for FY17 are \$309,738. To address the funding challenges and based on input that NMDA received, the agency has developed a series of five options to consider to enable the program to more fully cover its costs.

In addition to these options that NMDA has already presented, this white paper provides a limited number of other options that are worth consideration. The additional options were developed based upon discussions with several certified organic operators and other program stakeholders in New Mexico as well as a review of other state-managed programs and third-party

certifier programs to look at how they fund and implement organic certification. The purpose of providing these additional options is to give a few other viable possibilities in addition to the five options NMDA has already presented.

It is important to note that any of the options that are designed to achieve full cost recovery would mean a substantial increase in fees that organic operations (farmers, ranchers, processors, etc.) would have to bear. Full cost recovery options are therefore possible, but there is a risk that if the fees are increased too significantly, then operators will start to look elsewhere for certification (to third-party certifiers, for example, who would be able to offer comparative prices) or might be forced out of certification altogether. In thinking through various options, it will be more realistic to consider either options that achieve full cost recovery at a reduced operating budget for the program or options that subsidize the program. Fees will still increase but at a much smaller level than with full cost recovery with the full budget. With a wide range and number of small, medium, and large-scale operations that already participate in the program, it is also important that the options enable all types of operations to remain a part of the program, which will help ensure support from the program across a variety of stakeholders.

The benefits of a growing organic food industry in New Mexico and the importance of a state-wide program to support that industry are clear, though determining the best course of action for how to structure the program in both the short and long run remains a challenge. This paper helps further the discussion for addressing the organic certification program's immediate funding issues. The research into the potential short-term solutions has revealed, however, that there is also a great need to consider the long-term viability of this program beyond the next 1-3 years. As such, it is strongly recommended that the Legislature and/or the NMDA commission a more in-depth study into longer-term options for the program. Such a study should look at pros and cons for a set of options for the program's long-term structure, including consideration of fundamental questions such as: whether or not full cost recovery should be expected; if NMDA should continue to administer the program or if it should be managed again by an independent entity (and the costs and benefits of being affiliated or not affiliated with NMDA); and what the minimal as well as ideal operating costs would be for ensuring a quality program, among others.

I. Background

a. Introduction

In August and October 2016, the New Mexico Department of Agriculture (NMDA) convened meetings in Las Cruces, Portales, Albuquerque and Santa Fe to consider the future of the NMDA Organic Certification Program (the program). The aim of the meetings was to discuss potential future funding options, as the program is facing a funding shortfall, having run an average annual deficit of nearly \$100,000 the past four years. In theory, the revenue gained by the program—which includes payments from organic operations for application fees (for new applicants, renewals, and late fees) and assessment fees—is supposed to cover operating costs. In practice, however, the fee structure was never designed to provide enough funding to cover costs. In FY16, for example, certification revenue totaled \$187,466; anticipated operating expenses for the program in FY17 are \$309,738. To address the funding challenges and based on input that NMDA received, the agency has developed a series of five options to consider to enable the program to more fully cover its costs.

In addition to the options that NMDA has already presented, this white paper provides a limited number of other options that are worth consideration. The additional options were developed based upon discussions with several certified organic operators and other program stakeholders in New Mexico as well as a review of other state-managed programs and third-party certifier programs to look at how they fund and implement organic certification. The purpose of providing these additional options is to give a few other concrete possibilities in addition to the five options NMDA has already presented.

The white paper is organized as follows: the background section includes this introduction, an overview of the state of organics today, as well as the history of the New Mexico Organic Certification Program. The second section of the paper then presents a summary of information gleaned from other programs reviewed and from discussions with various stakeholders. The third section summarizes the five options that NMDA has already put forward and provides the additional options for consideration.

b. State of Organics Today

Based on information from the Organic Trade Association, consumer demand for organic food products has grown by double-digits almost every year since the 1990s. As of 2015, the industry had sales of \$43.3 billion and the growth rate from 2014-2015 was 10.8%, which was significantly greater than the overall food market growth of 3.3% over the same period. Based on a review of the USDA Organic Database, a total of more than 35,000 food operations have organic certification nationwide.

To get a sense of the interest in and history of organic food in New Mexico, one need look no further than the New Mexico Organic Farming Conference, which is held annually and aims to bring together organic growers and other interested parties in the region to explore and learn about organic agriculture in the Southwest. The conference started in 1995 and attendance grows at a rate of about 50 participants every year. This year's conference expects approximately 850 participants from both in and out of state. It is the state's largest agricultural conference.

According to NMDA, organic food sales in New Mexico are currently around \$40 million per year and there are over 150 organic certified operations (farmers, ranchers, processors, handlers, etc.). Moreover, more than 40% of New Mexico's certified organic farmers have been in production less than 10 years, and about half of all organic products grown in New Mexico are sold within 100 miles of their origin, which contributes to strengthening local food systems and economies. Recent research has also found that organic agriculture can increase social capital in communities and promotes rural development by contributing a wide range of economic, social, and environmental benefits. This is especially important as many rural areas struggle to find local and sustainable economic opportunities that can build stronger and more resilient communities.

In summary, in addition to the social and environmental benefits of organic food production, the recent market trends illustrate that there are clearly significant economic opportunities in New Mexico and throughout the country in the organic food industry.

Thus, there is a strong rationale for continuing to support the state's organic farmers, ranchers, and other food operators.

c. History of New Mexico Organic Certification Program

In 1990, the State Legislature created the New Mexico Organic Commodity Commission (NMOCC). The original goals of the commission were: to be an effective advocate for organic production in New Mexico, to make the certification process accessible, and to ensure the truthfulness of organic claims. The commission was established as an independent agency overseen by five governor-appointed members. The first five appointed commissioners recommended that the commissioners be farmers, and a year or two after the commission was established and farm operations were certified, this is what happened. During its initial years the commission saw steady growth while being administered largely by the farmer-led commissioners, who oversaw and made decisions about which farms would be certified. On the national scene, USDA had started to develop the National Organic Program (NOP), but for 10 years the New Mexico program operated independently, while carefully following the generally accepted practices adopted by other certification programs around the country. In 2002 the NMOCC was accredited by the newly-established NOP to provide organic certification to qualified farms, ranches, and businesses in New Mexico.

For nearly 20 years the program was therefore administered by the NMOCC and funded through State Legislature appropriations. The program was viewed as offering consumer protection, economic development, and a service to the farm sector; achieving full cost recovery of the costs to run the program was not a priority of the NMOCC or the Legislature. In 2010, however, the State Legislature cut the commission's general fund appropriations from \$280,000 to \$25,000. With a significant financial deficit and insufficient administrative and managerial support, in 2011 the commission was transitioned through HB87, the Organic Production Act, to be placed under NMDA authority at the request of both the NMDA and the commission. Since this time, the program has been housed at and administered by NMDA. Funds carried over from NMOCC were used by NMDA to meet the income deficit for about two years, and NMDA has since used funds from its discretionary budget to cover the program's operating deficit.

The current fee structure for the New Mexico Program is set up as follows:

- **Application fees:**
 - o First-time applicants: \$250; renewals: \$200; and late fees, which range from \$75-\$500 depending on the number of months after the application deadline that an application is submitted to NMDA
- **Assessment costs:** 0.75% on gross sales for operations whose annual sales are less than \$1 million; and, for operations whose annual gross sales are above \$1,000,000, the assessment fees are a flat fee of \$7,500 plus 0.0075% on any sales greater than \$1 million.

The legislative statute that regulates the certification program also includes requirements related to the fees. The current maximum fees are \$300 for applications and 1% of gross sales. Any changes in the fee structure that go beyond those levels require a change in the statute by the State Legislature.

In FY16, depending on each operation's gross sales, total fees ranged from \$200 (for operations that were renewing certification and had \$0 in sales) to nearly \$20,000 for the largest operation (that had over \$16 million in gross sales). The average fees paid per operation in FY16 totaled \$1,258. Over the past four years, the average revenue for the program through the fee structure has been nearly \$180,000 per year. During this period, total expenses have averaged just over \$275,000 annually, and the program has seen net operating losses between \$68,051 and \$140,583 for an annual average net loss of approximately \$100,000. In considering any future budget for the program, it is important to note that a certain level of costs will be required to meet the standards set by the NOP (which conducts regular audits of certification programs).

Given the current financial situation, in August and October 2016 NMDA organized meetings in which they invited key stakeholders in four locations in New Mexico to attend and discuss the future of the program, especially the fiscal challenges and future options. The August meetings in Albuquerque and Las Cruces were used to solicit initial ideas whereas during the October meetings in Albuquerque, Roswell, and Santa Fe, NMDA presented a series of options for participant feedback. The timing of these meetings, however, was a challenge for farmers as very short notice was given and little information was distributed beforehand. Moreover, August and October are typically very busy months for producers in New Mexico, and several farmers have expressed that they were unable to attend because of the timing of the meetings. It is thus not clear how many organic operations were informed of the meetings and how many attended.

Following the public meetings, in late October the NMDA sent an electronic survey to provide stakeholders the opportunity to vote on each option, with the idea that the survey results would be used to help make a decision. The survey included 33 respondents, 79% of whom stated that they are currently certified through the NMDA Organic Program. In addition, 22 respondents (67%) described their operations as having gross sales less than \$1 million per year, while 6 respondents (18%) described their operations as having gross sales of more than \$1 million per year, and 5 respondents (15%) described having no sales. Survey response was high among certified organic operations of more than \$1 million, as there are less than 10 state-wide. Out of the approximately 140 NMDA-certified operations that have less than \$1 million in sales, only 22 responded to the survey. It is not known how many operations received the electronic survey.

Finally, it is critical to understand that, based on discussions with numerous key stakeholders, there is tremendous support among the organic community in New Mexico for having a state program in place that provides quality organic certification at affordable rates. Farmers, ranchers, and other operators expressed a strong desire for such a program to continue, with concern also being noted at the possibility of significant rate increases. **Overall there is thus a widespread recognition of the value of the program coupled with anxiety over the program’s future and the state’s continuing support of the organic food industry.**

II. Summary of Information from Certification Programs

In the United States, there are 16 states that have organic certification programs through a state Department of Agriculture, including the NMDA-run program in New Mexico. There are reportedly an additional 40 third-party certifiers. Research for this study included discussions with several key stakeholders involved in the New Mexico Program, along with a review of state-led programs in Colorado, Oregon and Texas, as well as two third-party certifiers (Oregon Tilth and California Certified Organic Farmers, or CCOF). In the other states with Department of Agriculture programs, many operations receive certification through third-party certifiers (based on a review of the USDA Organic Database). In Colorado, for example, 218 operations are certified through the state whereas 250 are certified by third-party providers. The Colorado program is currently in the second year of a moratorium on accepting applications for new certifications as the program was struggling to keep up with growing demand while also complying with NOP timeliness requirements. In Oregon, about 100 operations are certified by the state program out of a total of nearly 800 certified operations state-wide. Oregon Tilth is one of the largest certifying agencies in the country and has been certifying operations in Oregon since the early 1980s. The Oregon Department of Agriculture reportedly initiated its program to make certification more accessible to farms in Oregon that had traditionally practiced conventional farming methods. Finally, the Texas Department of Agriculture has certified about 200 out of a total of more than 600 certified operations in the state. This is in contrast to New Mexico, where the vast majority of operations are certified through NMDA (highlighting again the importance of the program to organic operators in New Mexico).

A summary of the key findings from review of the certification programs (including the one in New Mexico) includes:

➤ *There are numerous ways to structure fees for certification*

No two programs have the exact same fee structures, but all programs use some combination of application fees, assessment fees, and/or inspection fees to raise revenue. Application and assessment fees vary quite widely, and inspection costs can be calculated using hourly rates or based on the size of the farm/operation. Annex 1 at the end of the paper provides information on the fee structures for the programs reviewed. Each of the programs reviewed also makes an effort to give potential operations a solid estimate in advance of what the total cost of the inspection will be. In comparison to the other state and third-party certification programs reviewed, the fees that smaller-scale operations pay in New Mexico are lower than in other programs, due to a low application fee and not having additional fees for the program-mandated annual inspection.

➤ *Other states push for cost recovery as they also subsidize their programs*

The organic certification programs in Colorado, Oregon, and Texas are all housed in each state’s Department of Agriculture. While some degree of cost recovery is important and expected for

each of these programs, none of them appear to be recovering the full costs of their operations. While Colorado and Oregon do not have any requirements in place for full cost recovery, the Texas Legislature mandated in 2011 full cost recovery for the Texas program. The introduction of initial fee increases did not lead to covering costs, and fees were increased again in January 2015, though it does not yet seem that the program is at full cost recovery. In this manner then, the state does subsidize the programs in these three states. It also is not entirely clear if the funding for each program comes through the state Department of Agriculture's overall budget or a separate, stand-alone funding stream. Finally, for the programs reviewed in Colorado, Oregon, and Texas, the Department of Agriculture in each state is reported to value and support the state's organic certification program.

- *There is complexity involved in using an hourly fee structure and/or expensing travel as billable at-cost*

While hourly fees are used in some programs, there are complexities involved in their use. First, hourly fees require staff to track their time extremely closely. In addition, in the initial years the use of hourly fees would introduce uncertainty for organic operations since they will be unsure of how long inspections will likely take. This could be especially true for larger operations as well as more complex operations, such as vegetable growers that produce several varieties of vegetables on a small amount of land. This makes estimating the initial time it will take to complete an inspection challenging for both the program (in terms of estimating revenue from inspections) and for farmers/operators (in terms of the costs that will be involved for inspection). Expensing travel time as billable at-cost is also problematic due to variables such as late applicants, the optimal time of year to inspect certain crops/operations, and complexity in arranging inspections among diverse operations with diverse schedules. Travel costs would thus vary year to year.

- *Equity considerations are important, and in New Mexico larger operations have historically covered a larger proportion of the overall fees*

The organic food industry includes small, medium, and larger-scale operations alike. Given equity considerations, it is important for smaller-scale operations to pay a smaller share of the fees, and this has been the case in New Mexico in the past.

- *USDA provides federal cost-share to help offset certification fees.*

To help organic food operations cover some of the certification costs, the USDA has a cost-share program that reimburses 75% of annual certification expenses (application and/or assessment fees) for each organic certificate, up to a maximum of \$750 per certificate per year. This initiative is especially helpful for smaller-scale operations. Many operations in New Mexico seem to use this cost-share program, though the exact percentage is not readily known.

III. Potential Options

There are several potential future funding options for New Mexico's organic certification program. The first set of options explained below are those that NMDA has already presented, whereas the second set of options are the additional options for consideration. It is important to note that any of the options that are designed to achieve full cost recovery would mean a significant increase in fees that organic operations would have to bear. Full cost recovery options are therefore possible, but there is a risk that if the fees are increased too significantly, then

operators will start to look elsewhere for certification (to third-party certifiers, for example, who would be able to offer comparative prices) or might be forced out of certification altogether. If the program were to lose a substantial number of its clients, this would likely only lead to even higher fees to recover the program's minimum operating costs. For example, the NOP stipulates that, to meet compliance standards, the person who does an initial review of an application cannot do the final review or the inspection, which means there must be a minimum number of personnel that work in the program.

The impacts of full cost recovery options on organic operations are therefore uncertain, whereas the benefits of a growing organic food industry in New Mexico and the importance of a state-wide program to support that industry are clear. In this manner, determining an optimal solution is incredibly challenging. The Legislature and NMDA may ultimately determine that there is an inherent value in having a program administered at the state level, whether or not the program can fully recover its costs.

a. Options Presented by NMDA

Based on initial public feedback meetings NMDA developed four possible funding options (1, 2A, 2B, and 3 below) for the future of the NM organic certification program. With additional feedback from stakeholders, a fifth option (labeled option 4 below) was added for consideration as part of the stakeholder survey that was administered in October-November. These five options are presented here, along with a brief summary of the key survey results for each option. As is shown below, there was a wide variety of responses to the options in the survey, even with the limited number of survey participants (33 in total, as noted above).

Option 1: Program remains the same with no modifications, which would require \$125,000 in appropriations

Under this option, revenue would include the following estimates:

- 2015-2016 assessment income \$153,766
- 2015-2016 application fees \$33,700
- Requested appropriation \$125,000

Total income \$312,466

This amount would cover the full operating expenses of \$309,738 and have a net balance of \$2,728. It would require a budget appropriation of \$125,000 by the State Legislature. Based on the survey results, 14 respondents (43.8%) stated this would be the most acceptable option.

Option 2A: Program goes to hourly rate structure and is fully staffed (with 1 Advisor, 3 Certifiers/Inspectors, and an Administrative Assistant at 1/3 time)

Under this option, the application fee would be kept as is (i.e., \$250 for new applications, \$200 for renewals). Assessments on sales would be eliminated, and inspection fees would be charged on an hourly basis for the cost of inspecting farms and other organic food operations. The proposed per hour billable rate would be \$65.19/hour. Travel expenses would not be included in the hourly rate – mileage and per-diem would be added to the cost of inspection and certification.

Under this option, expenses to be recovered total \$284,738 (based on an estimated 4368 billable hours for 3 Inspectors/Certifiers, at \$65.19/hour). Travel is estimated at \$25,000 and billed directly to the operations getting certified, allowing the program to break even to cover the \$309,738 in operating expenses.

Based on the survey results, 4 respondents (12.1%) stated this would be the most acceptable option, while 6 respondents noted it would be the second most acceptable option (18.2%).

Option 2B: Program goes to hourly rate structure with no Advisor position (therefore staffing includes 3 Certifiers/Inspectors and an Administrative Assistant at 1/3 time)

Under this option, the application fee is kept as is, assessments are eliminated, and application review time and inspection fee are based on an hourly rate of \$54.06 per hour. Operating expenses to be recovered are \$236,138 (based on an estimated 4368 billable hours for 3 Inspectors/Certifiers at \$54.06/hour). Travel expenses are also an estimated \$25,000 and billed directly to operations being certified. The program breaks even.

Based on the survey results, 1 respondent (3%) stated this would be the most acceptable option, while 5 respondents noted it would be the second most acceptable option (15.2%), and 18 respondents (54.6%) ranked this option as the least acceptable or second least acceptable.

For Option 2A and 2B, it is important to also include the estimates used in the calculations. These are shown in Table 1 (though it is not clear how small, medium, and large farms, processors, and livestock are being defined). It is worth noting that those certifying programs that bill hourly for inspections all charge more than these hourly rates.

Table 1: Estimates Per Certification Option 2A and 2B

	Hours required	Option 2A estimate	Option 2B estimate
Small farm	19	\$1,239	\$951
Medium farm	29	\$1,891	\$1,452
Large farm	37	\$2,412	\$1,852
Small processor	20	\$1,304	\$1,001
Medium processor	28	\$1,825	\$1,402
Large processor	44	\$2,868	\$2,203
Small livestock	36	\$2,347	\$1,802
Medium livestock	47	\$3,064	\$2,353
Large livestock	79	\$5,150	\$3,955

Option 3: Program remains the same with an increase in application costs

With this option, the assessment rates would stay the same and the application fee would increase to \$900. Mileage and per diem would be added. NMDA notes that the USDA cost-share program would help offset the cost of the increase in fees: for those that participate in the cost-share initiative, the net out-of-pocket expenses for the application fee would be \$225 (as compared to current net out-of-pocket expenses of \$50).

The calculations for this option include:

- 2015-2016 assessment income \$153,766
- 2015-2016 application fees \$129,600
- Total income** \$283,366

Total operating expenses would be \$309,738, less \$25,000 in travel expenses which would leave a minimal net loss of \$1,372.

Based on the survey results, 7 respondents (21.9%) stated this would be the most acceptable option, while 2 respondents noted it would be the second most acceptable option (6.3%), and 17 respondents (55.2%) ranked this option as the least acceptable or second least acceptable.

Option 4: Increase assessment fees and small increase in application fees

For the fourth option, there would be an increase in assessment fees and a small increase in application fees. These increases, however, would still fall within the current legislative statute and therefore would not require a change in the statute. Operations with more than \$1 million in gross sales would have to pay assessment fees of a \$10,000 flat fee plus 0.345% on all sales. Operations with less than \$1 million in gross sales would pay an assessment rate of 1% on all sales. Application fees would rise to \$300 per application.

The calculations for this option include:

- **2015-2016 assessment income:**
 - o >\$1 million in sales: 9 x 10,000 \$90,000
 - o \$34,147,337 x 0.00345 \$117,846
 - o <\$1 million in sales: \$6,073,040 x 0.01 \$60,730
- 2015-2016 application fees (144 x \$300) \$43,200
- Total income** \$311,776

This would cover the \$309,738 operating expenses with a net balance of \$2,038.

Based on the survey results, 5 respondents (15.6%) stated this would be the most acceptable option, while 6 respondents noted it would be the second most acceptable option (18.8%), and 15 respondents (46.9%) ranked this option as the least acceptable or second least acceptable.

Finally, it is worth showing the estimated percentage of the total costs that would be covered by different groups of operations, categorized by size. Table 2 provides this information for options 1, 3 and 4. With Option 1, the fee structure would not change. For Option 3, the vast majority of the increases in fees would be felt by smaller-scale operations, whereas for Option 4 the largest-scale operations would be hardest-hit.

Table 2: Estimated Percentage of Costs Paid by Operation Size, for Options 1, 3, and 4

Approx. Sales	Option 1	Option 3	Option 4
>\$600k	49%	35%	68% (>\$1 million)
\$100k- \$600k	29%	24%	32% (<\$1 million)
\$45k- \$100k	9%	11%	
\$15k- \$45k	4%	7%	
\$0-\$15k	9%	23%	
Total	100%	100%	100%

For options 2A and 2B, it is not possible to provide this type of break-down but given the assumptions in Table 1 above that the calculations are based upon, it would likely mean a much greater percentage of the costs would be borne by smaller-scale producers/operators than is currently the case.

b. Additional Options for Consideration

Based on the results from the survey as well as the information gathered about the New Mexico Program, programs in other states, and third-party certifiers, there is a need to at least consider a limited number of other options. In thinking through various options, it is also important to remember that, for the program to operate at capacity and to fully recover costs, it would require an estimated \$309,750. If these costs were only to be recovered through the fee structure and using the assumption that NMDA used that 144 operations would get certified in FY17, this would mean an average cost of \$2151 per operation (as compared to an average cost of \$1258 per operation in FY16 (with 149 operators and \$187,466 in revenue)). In such a scenario, annual revenue would have to increase by 65% (to go from \$187,466 to \$309,750). Any changes in the fee structure that result in such a large and sudden increase would represent a huge risk for the program, as other certifiers could offer more competitive prices especially for smaller-scale operations. As such, a more realistic full cost recovery model would be at a reduced operating budget that does not include the Advisor position (which is currently vacant and would not be refilled for the foreseeable future, whereas the program should have three certifier positions to respond to NOP standards). Operating expenses without the Advisor position are \$261,138 (based on the position costing \$48,600 per year), which comes to an average of \$1815 per operation. This would still represent an increase of 39% of total revenue.

Even at a reduced operating budget, to have a program that is at full cost recovery means that there would still be fairly significant increases in fees. It is therefore extremely important to make sure that there are a variety of options on the table, including full cost recovery options as well as options that subsidize the program. With a wide range and number of small, medium, and large-scale operations that already participate in the program, it is also important that the options enable all types of operations to remain a part of the program, which will help ensure support from the program across a variety of organic operations. The additional options presented below take all of these points into consideration, and while these options would bring in less revenue in the short term, each option is designed to help ensure that

operations stay in the program, which means the program would benefit from the growth of the participating operations over time.

It is also worth noting that, to date, there are a number of certified organic operations in New Mexico that provide services (for processing for example) but do not make formal sales. These entities do not pay any assessment fees since the assessments are only charged based on sales. Moving forward, NMDA should consider assessment fees for services as well as sales (to do so NMDA would need to clearly define what “services” would include). This type of revenue is not included in the calculations in the options below as it is not possible to estimate what the revenue might be. Furthermore, the additional options presented here also do not include the \$25,000 in travel costs that are included in Option 2A, Option 2B, and Option 3 detailed above. Those travel costs are additional estimates that would be borne by the operations being certified. It is not entirely clear how the \$25,000 was estimated, and billable travel costs would vary each year.

Option 5A: Use a reduced budget and increase application and assessment fees based on a sliding scale

This option would not include the Advisor position, so the operating expenses would be \$261,138. Application fees and assessment fees would increase using a sliding scale based on annual gross sales. Application fees would range from \$400 (for operations with \$0-\$12,000 in sales) to \$500 (for the largest operations). Assessment rates would include: 2% of gross sales for operations with sales less than \$15,000; 1.5% of sales for operations between \$15,000-\$100,000; 1% of sales for operations between \$100,000-\$600,000; 0.85% of sales for operations between \$600,000 and \$1 million. For operations with sales greater than \$1 million, the assessment would be 0.85% for all sales up to \$1 million, and 0.0075% on sales beyond \$1 million. The legislative statute for this option would need to be changed for the application fee and assessment fee.

For smaller-scale operations with limited sales, the USDA cost-share program could help offset the increase in the application fee. With 75% reimbursement, the net out-of-pocket expense would be \$100 for the application. To help smaller-scale operations NMDA could also establish a short-term loan fund to address the challenge of a significant one-time cash outlay.

The revenue for this option comes to \$260,830, based on the following calculations:

Approx. Sales	# Operations	App. Fee	Assess. Fee	App. Revenue	Assess. Revenue	Total Revenue	% costs
>\$1 mil.	6	500	0.85%*	3,000	68,038	71,038	40%
\$600k-\$1 mil.	5	500	0.85%	2,500	31,881	34,381	
\$100k-\$600k	23	500	1%	11,500	64,675	76,175	29%
\$45k-\$100k	22	450	1.5%	9,900	21,419	31,319	12%
\$15k-\$45k	20	450	1.5%	9,000	5,907	14,907	6%
\$0-\$15k	73	400	2%	29,200	3,811	33,011	13%
Total	149			65,100	195,730	260,830	100%

*Assessment fee is 0.85% for sales up to \$1 million, and 0.0075% for sales above \$1 million.

Option 5B: Use a reduced budget and increase application fees based on a sliding scale

This option is similar to 5A in that it would not include the Advisor position, so the operating expenses would be \$261,138. Application fees would increase using a sliding scale based on gross sales. Application fees would range from \$550 (for operations with \$0-\$12,000 in sales) to \$1000 (for operations with greater than \$100,000 in sales). Assessment rates would stay the same as current rates. The legislative statute for this option would need to be changed for the application fee.

The revenue for this option comes to \$261,616 based on the following calculations:

Approx. Sales	# Operations	App. Fee	Assess. Fee	App. Revenue	Assess. Revenue	Total Revenue	% costs
>\$600k	11	1000	Same as current	11,000	90,169	101,169	39%
\$100k-\$600k	23	1000	Same as current	23,000	48,506	71,506	27%
\$45k-\$100k	22	850	Same as current	18,700	10,709	29,409	11%
\$15k-\$45k	20	750	Same as current	15,000	2,953	17,953	7%
\$0-\$15k	73	550	Same as current	40,150	1,429	41,579	16%
Total	149			107,850	153,766	261,616	100%

The USDA cost-share program could be very important for small-scale operations that see an increase in the application fees, as these operations would bear the greatest proportional burden of the fee increases. For this option as well, NMDA could consider a short-term loan fund to help address the cash flow issue for smaller operations.

Option 6A: Use a reduced budget, NMDA covers 25% of budget, and introduce a slight increase in application fees

This option assumes the lower operating cost of \$261,138. It is also similar to the original Option 1 in that it recognizes that the program will not fully recover costs, which is consistent with a number of other state programs. Rather than a \$125,000 appropriation, however, the NMDA would have to cover a portion of the program from discretionary funds from its own budget. According to the NMSU Operating Budget for FY17, NMDA’s FY17 budget is close to \$17 million in unrestricted funding. If NMDA covered 25% of the program (just over \$65,000), then based on the operating expenses of \$261,138, there would still be a deficit of approximately \$10,000, which could be brought in through a slight increase in application fees to \$300. Assessment rates would stay the same.

The calculations would include:

- 2015-2016 assessment income \$153,766
 - Application fees \$43,200 (144 x \$300)
 - NMDA 25% coverage \$65,285
- Total income \$262,251**

Option 6B: Using the full budget, NMDA covers 25% of the budget combined with a greater increase in application fees

This option is similar to Option 6A but uses the full operating cost of \$309,738. It recognizes that the program will not fully recover costs. Rather than a state appropriation, NMDA would have to cover a portion of the program from its own budget. If NMDA covered 25% of the program, then based on the operating expenses of \$309,738, there would still be a balance of \$45,000, which could be brought in through an increase in application fees to \$550. Assessment fees would stay the same.

The calculations would include:

- 2015-2016 assessment income	\$153,766
- Application fees	\$79,200 (144 x \$550)
- NMDA 25% coverage	\$77,500
Total income	\$310,466

Option 7: Phase-in increases over time

A final option would be to introduce gradual increases in application fees or assessment rates over time, such as for a period of three years. In this way, the program would find a way to increase revenue by a certain amount per year so that by the end of three years it is fully paying for itself. There are several ways to gradually increase revenues over time, using some combination of an increase in application fees and assessment rates. This option could also be advantageous in terms of maintaining relatively lower assessment rates especially for larger-scale operations.

Final proposed recommendation

All the options presented by NMDA and the additional options discussed in this paper are short-term measures to try and address the immediate financial challenges of the organic certification program. The research into possible additional options has revealed, however, that there is also a great need to consider the long-term viability of this program beyond the next 1-3 years. As such, it is strongly recommended that the Legislature and/or the NMDA commission a more in-depth study into longer-term options for the program. Such a study should look at pros and cons for a set of options for the program's long-term structure, including consideration of fundamental questions such as: whether or not full cost recovery should be expected; if NMDA should continue to administer the program or if it should be managed again by an independent entity (and the costs and benefits of being affiliated or not affiliated with NMDA); and what the minimal as well as ideal operating costs would be for ensuring a quality program, among others.

Annex 1: Organic Program Fee and Staffing Structure Comparisons (according to information provided by each agency)

	NMDA	CO	OR	TX	CCOF	Oregon Tilth
Estimated operations certified/year	145-150	225-250	145-150 (growing approx. 10/year)	187 operations, 233 certificates, growth about 15%/year	3300	1450 (approx. 200 new/year)
Annual revenue	\$187,466	Not available	Approx. \$200,000	Not available	\$10.6 million	\$5-\$6 million
Application Fee	\$250 new \$200 renew Late fees range \$75-\$500	None	\$250 new \$100 renew	\$400 new	\$325 new	\$75 new applicant
Assessment Fee	0.75% on sales up to \$1 mil.; 0.0075% on sales > \$1 mil.	None	None	None	See table below	See table below
Inspection Fee	None	\$34/hour	\$92/hour	Flat rate: \$1,000 for < 50 acres and 25 inputs; \$1,500 for > 50 acres, plus \$100 per input over the max	\$72.50/hour	Avg. inspection fee for small-scale operation: approximately \$200-400
Travel Costs	None	\$0.25 per mile	\$92/hour	None	\$45/hour	Include in inspection fee at cost
Total costs (not including USDA cost share of 75% up to max of \$750)	Current average: \$1258 per certification	Approx. \$800-\$2500 per certification	\$900-\$2500, with average of \$1200	\$1,000 for less than 50 acres and 25 inputs; \$1,500 for more than 50 acres, plus \$100 per input over the max	Varies but is competitive (and inspections are bundled to keep costs down)	Average certification fee: Approx. \$500-800 (not including inspection costs)
Staffing Model	1 Advisor 3 Certifiers/Inspectors 0.33 Admin. Assistant	1 Manager 1 Certification Specialist 0.2 Admin. Assistant Multi-purpose Inspectors	1 Manager 1 Admin. Specialist 2.5 Certification Specialists 2 inspectors	4 program employees 14 multi-purpose TDA inspectors	NOP-compliant with contracted inspectors throughout the US	53 employees NOP-compliant with contracted inspectors throughout the US

California Certified Organic Farmer (CCOF) Fee structure					
Gross Income from Sale of Certified Products				Crop Fee Percents only	
Income from	Income to	Crop Fee	Process Fee	% LOW	% HIGH
-	10,000	240	725		2.40%
10,001	20,000	340	725	3.40%	1.70%
20,001	50,000	425	725	2.12%	0.85%
50,001	100,000	625	725	1.25%	0.63%
100,001	200,000	725	825	0.72%	0.36%
200,001	300,000	875	875	0.44%	0.29%
300,001	400,000	1050	1050	0.35%	0.26%
400,001	500,000	1300	1300	0.32%	0.26%
500,001	600,000	1800	1800	0.36%	0.30%
600,001	700,000	2025	2025	0.34%	0.29%
700,001	1,000,000	2625	2625	0.37%	0.26%
1,000,001	1,500,000	3850	3850	0.38%	0.26%
1,500,001	2,000,000	4500	4500	0.30%	0.23%
2,000,001	2,500,000	5125	5125	0.26%	0.21%
2,500,001	3,000,000	5700	5700	0.23%	0.19%
3,000,001	3,500,000	6350	6350	0.21%	0.18%
3,500,001	4,000,000	7150	7150	0.20%	0.18%
4,000,001	5,500,000	8550	8550	0.21%	0.16%
5,500,001	10,000,000	12125	12125	0.22%	0.12%
10,000,001	25,000,000	19675	19675	0.20%	0.08%
25,000,001	50,000,000	23625	23625	0.09%	0.05%
50,000,001	75,000,000	27250	27250	0.054%	0.036%
75,000,001	100,000,000	31500	31500	0.042%	0.032%
Greater than	\$150,000,000	42500		0.028%	

Minimum fee for mixed organic and non-organic (all types, all crops) is \$425

Minimum fee for livestock operations with greater than 10 mammals or 200 poultry is \$625

Oregon Tilth Fee structure					
Gross Income from Sale of Certified Products					
Income from	Income to		Assessment Fee	% LOW	% HIGH
-	4,999		299		5.98%
5,000	9,999		334	6.68%	3.34%
10,000	14,999		373	3.73%	2.49%
15,000	24,999		431	2.87%	1.72%
25,000	34,999		508	2.03%	1.45%
35,000	49,999		605	1.73%	1.21%
50,000	64,999		721	1.44%	1.11%
65,000	79,999		836	1.29%	1.05%
80,000	99,999		972	1.22%	0.97%
100,000	124,999		1012	1.01%	0.81%
125,000	149,999		1175	0.94%	0.78%
150,000	174,999		1339	0.89%	0.77%
175,000	199,999		1503	0.86%	0.75%
200,000	224,999		1666	0.83%	0.74%
225,000	249,999		1829	0.81%	0.73%
250,000	299,999		2029	0.81%	0.68%
300,000	399,999		2279	0.76%	0.57%
400,000	499,999		2500	0.63%	0.50%
500,000	2,000,000		2500 plus* .1% on sales b/t 500K and 2M		
Over 2 million			4000 plus* .05% on sales over 2M, maximum fee 10K		