

MEMORANDUM

TO: Governor Charlie Crist and Lt. Governor Jeff Kottkamp

FROM: Citizen Review Group Transition Team Members
Shane Platt, Team Leader
Jose Luis Rodriguez
Robert Battaglia

CC: Steve Swindal, Group Leader

RE: Department of Citrus Review

DATE: January 18, 2007

As the Citizen Review Group for the Department of Citrus (“Citrus” or “the Department”) we met on Thursday, December 7, in Lakeland, Florida, with the following representatives from the Department of Citrus and the Citrus Commission:

Citrus Executive Director, Kenneth O. Keck
Citrus Deputy Executive Director for Marketing, Leigh Killeen
Citrus Marketing Director, Mike Yetter
Citrus Deputy Executive Director for Research, Bob Norberg
Citrus Comptroller, Debra Funkhouser
Citrus Commission Board Member, Dr. Robert M. Behr

The purpose of our visit to the Department was to conduct a review of the Department’s operations and obtain answers to the questions which the transition team forwarded to our group.

Accordingly, we respectfully submit this summary memorandum for your review.

Overview of the Department

The Department of Citrus was created in 1935 by the legislature and currently obtains its statutory authority and mandate under section 601.15 of the Florida Statutes. Its mission is to promote the citrus industry in our state, ensure the

proper processing and marketing of citrus products in order to protect the public and to develop marketing programs that protect current markets for Florida Citrus products and create new market expansion opportunities.

Citrus also conducts scientific research on important problems facing the industry such as crop damage caused by environmental factors like frost and hurricanes; as well as citrus plant diseases such as canker and greening. The aim of this research is to develop ways to protect the citrus crop from the deleterious effects those environmental and disease factors can have on the citrus crop and industry, or at least mitigate the damage such problems cause to the citrus crop.

Departmental Structure

The Department is governed by the Citrus Board which consists of twelve members appointed by the Governor (with Senate confirmation), who serve three-year, staggered terms that expire in May of each year. The Department's daily and administrative operations are carried out and supervised by the Executive Director who is appointed by and serves at the pleasure of the Citrus Board.

Of the Citrus Board's twelve members, four of them have terms that will expire in May of 2007, requiring action by the new Governor. The four members whose terms will expire in 2007 are:

Michael L. Carrere, Lykes Brothers, Inc.
William J. Ferrari, Tropicana Products, Inc.
George T. Pantuso, Circle H Citrus / Pantuso, Inc.
Stephen W. Ryan, Collier Investments, Ltd.

The remaining eight Citrus Board members all have terms expiring in May of 2008 and May of 2009 respectively.

The Department expects little or no turnover in the upcoming year. In an effort to reduce waste and streamline the Department, Citrus began reducing staff levels in 2000. Citrus staff levels have gone from approximately 150 employees to this year's current level of ninety (not including OPS positions). This includes the elimination of field offices that were operating in various parts of the country. Most of these reductions in positions occurred through attrition. The Department is further reducing its workforce by another fourteen positions for the 2007-2008 fiscal year. These reductions are due to staff leaving the Department for no specific reasons. The Department does not plan to fill these positions at this time.

The breakdown of current Department employees by class and function for the current and upcoming fiscal year is:

DEPARTMENT OF CITRUS
Breakdown of FTE's by Class

	<u>Career Service</u>	<u>Select Exempt Service</u>	<u>Senior Mgmt. Service</u>	<u>Total</u>	<u>OPS</u>
2006-07					
Research	9	18	0	27	3
Marketing	1	22	1	24	0
Admin.	13	23	3	39	13
Total	23	63	4	90	16
2007-08					
Research	7	17	0	24	3
Marketing	1	17	1	19	0
Admin.	10	20	3	33	13
Total	18	54	4	76	16

*The OPS totals include the 12 Citrus Board Commissioners.

Operations of the Department

The amount of the Department's requested budget has not all been exhausted. Citrus submits a yearly budget to the legislature and Governor for approval. However, factors such as crop volume and citrus tax receipts frequently require downward budget adjustments. For the 2006-2007 fiscal year the budget approval requested was approximately \$67,838,478.00, but due to lower than expected tax receipt collections, which are directly related to the volume of citrus produced, the actual budget expenditures to date have been \$52,000,000. The Department has submitted a proposed budget for the 2007-2008 fiscal year which will request \$600,000 less than the current budget. This reduction in budget is due primarily to the reduction of departmental staff by fourteen positions as well

as the Department's anticipation that citrus production volumes and tax receipts will be lower in the next fiscal year.

There are currently no contracts that would require immediate executive or legislative action. However, there are two contracts which are the major ones for Citrus that will be up for an additional renewal term within the next three years. The Department's public relations contract is due for review and renewal next year and the Department's marketing contract is due for review and renewal for an additional three year period in 2009.

Legislative Priorities

The main concern the Department has is that there will not be enough funds allocated to research programs that can develop ways to mitigate damage to crops caused by disease. To address this concern, Citrus is requesting that the incoming administration support and assist them in their lobbying efforts at the federal level which seek to use the 2007 Farm Act as a vehicle by which federal revenue streams can be created to fund this essential research for the industry.

Additionally, the Department will be asking the legislature during the upcoming session for an appropriation of funds from general revenue which the Department would use for operations, research and marketing programs. If the legislature appropriates the requested funds the Department is confident that it will not have to raise the per box citrus tax on growers, which is the current plan. The requested general revenue budget allocation would assist in reducing the ever increasing citrus tax burden on growers.

Departmental Outlook

The Florida citrus industry has a \$9.1 billion dollar economic impact on the state, employs nearly 90,000 people and its groves cover more than 620,000 acres of Florida. The industry faces tremendous challenges in the coming years. However, the amount of green space and lower operational cost for infrastructure and services for agricultural acres provides for a positive outlook.

Miscellaneous Issues

Unforeseen factors such as hurricanes which have impacted Florida in the past three years, as well as frost damage have affected the production and volume of citrus in our state. This has in turn affected the Department's tax receipts which

have suffered periodic drops. In order for the Department to carry out its legislative mandate and meet its budgetary requirements the Department has sought and obtained gubernatorial authority to periodically borrow trust fund monies to fund its operational mandate.

The Department however, maintains that once the initial impact of the storms, frost, etc. have passed, tax receipts have rebounded and the longest time that it has taken Citrus to repay those trust fund loans has been ninety days and they have been repaid within that time frame in full.

The United States Department of Agriculture (“USDA”) released its third forecast for the 2006-2007 season on December 11, 2006. The USDA increased the state’s orange crop outlook by 5 million boxes to 140 million boxes. The Florida Department of Citrus estimated production at 167.5 million boxes of oranges in July for purposes of setting the box tax for growers.

By statute the Citrus budget is set August 1; however the first USDA citrus crop estimate is not made until October. The Department is considering moving its budget commencement date to October 31, in order for the budget to be in line with the USDA estimate release date. This change, if made, would allow the Department to estimate final boxes of citrus with a higher degree of accuracy.

Conclusions

The Department of Citrus and Citrus Commission have a positive outlook on the future of the citrus industry in Florida. Although the representatives we met with expect the volume of citrus production to decline somewhat (actual forecast estimates of the expected drop in volume could not be provided at this time) due to crop diseases such as canker and greening, and weather factors such as frost and hurricanes; they remain optimistic that the current demand for citrus products will remain stable and the volume of citrus produced will be enough to meet that demand.

*This report was compiled using the briefing materials provided by the Department of Citrus to the transition team and based on the information provided to us during our December 7, 2007, meeting with Citrus officials.