

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



**FY 2015-16 STAFF BUDGET BRIEFING
DEPARTMENT OF AGRICULTURE**

**JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision**

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DEPARTMENT OF AGRICULTURE

Department Overview

The Department of Agriculture has six divisions. A brief description of each division and its associated responsibilities is provided below.

The **Commissioner's and Administrative Services Division** provides administrative and technical support for department divisions and programs, including accounting, budgeting, and human resources functions.

The **Agricultural Services** consists of the following program areas:

- **Animal Industry Division** provides oversight for the prevention and control of livestock diseases, operation of the Rocky Mountain Regional Animal Health Laboratory, implementation of pest control, licensing and inspection of pet care facilities, and investigations animal of cruelty claims.
- **Inspection and Consumer Services Division (ICS)** provides metrology and regulatory laboratory services including content analysis of feeds, fertilizers, groundwater, and pesticides. Additionally, ICS inspects: anhydrous ammonia tanks, eggs, grain warehouses, agricultural commodity handlers and dealers, door-to-door sales companies, custom meat processors, and small and large weighing and measuring devices.
- **Plant Industry Division** is responsible for organic certification, nursery stock inspection, produce inspection, certification of plant and seed exports, seed inspection and certification, commercial and private pesticide applicator testing and licensing, and inspection of pesticide product records and labels.
- **Conservation Services Division** operates: the biological pest control program, noxious weed and weed free forage programs, a groundwater protection program, the chemigation permitting and inspection program, and encourages development of agricultural-based renewable energy projects through grants.

The **Agricultural Markets Division** promotes Colorado's agricultural products and services to domestic and international markets, provides export assistance, and develops value-added business ventures. The Markets Division is also responsible for promoting Colorado's wine industry, administering the Colorado Proud brand, and operating the agricultural products inspection program (including potato inspection).

The **Brand Board** inspects and verifies the ownership of livestock at sale barns, slaughterhouses, and export sites to protect producers and buyers from fraud and theft of

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livestock. The Brand Board also investigates reported livestock theft, maintains brand records, and licenses livestock sale barns, processing plants and alternative livestock farms.

The **Colorado State Fair Authority** is responsible for planning and operating the 11-day state fair in August, as well as various events that occur on the fairgrounds throughout the year.

The **Conservation Board** provides administrative and financial assistance and competitive grants to the 76 state conservation districts. The Conservation Board also works with districts on noxious weed management, groundwater protection, biological pest control, and erosion prevention projects.

Department Budget: Recent Appropriations

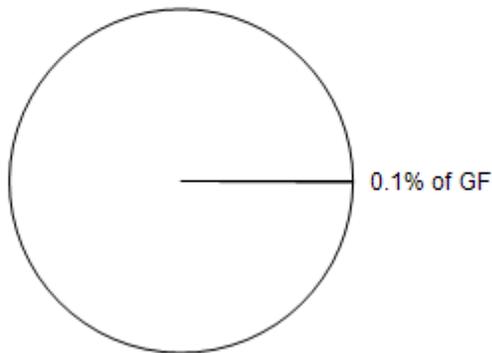
Funding Source	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16 *
General Fund	\$6,863,921	\$7,723,805	\$9,311,389	\$9,661,265
Cash Funds	27,838,161	29,200,366	29,141,578	29,157,802
Reappropriated Funds	1,090,001	1,632,203	1,629,526	1,656,548
Federal Funds	<u>3,887,150</u>	<u>4,113,870</u>	<u>4,101,912</u>	<u>4,161,148</u>
Total Funds	\$39,679,233	\$42,670,244	\$44,184,405	\$44,636,763
Full Time Equiv. Staff	282.4	274.1	274.1	274.1

*Requested appropriation.

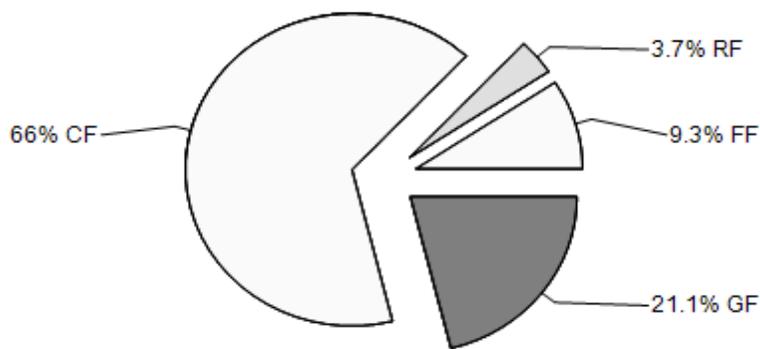
Department Budget: Graphic Overview

All charts are based on the FY 2014-15 appropriations.

Department's Share of Statewide General Fund



Department Funding Sources

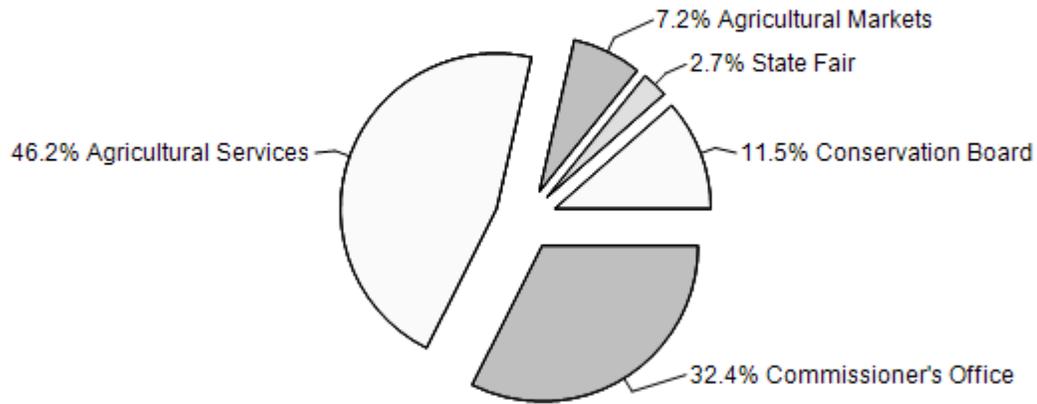


All charts are based on the FY 2014-15 appropriations.

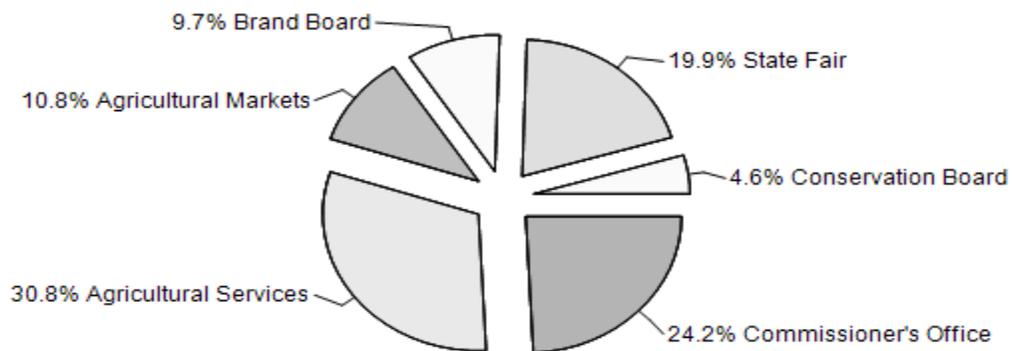
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All charts are based on the FY 2014-15 appropriations.

Distribution of General Fund by Division



Distribution of Total Funds by Division



All charts are based on the FY 2014-15 appropriations.

General Factors Driving the Budget

Funding for the Department in FY 2014-15 consists of 21.1 percent General Fund, 66 percent cash funds, 3.7 percent reappropriated funds, and 9.3 percent federal funds.

Agricultural Services Division

The Agricultural Services Division (ASD) expends appropriations on four program areas: animal industry, plant industry, inspection and consumer services, and conservation services. The ASD accounts for roughly 30.8 percent of the Department's total appropriation in FY 2014-15, including 46.2 percent of the Department's total General Fund appropriation. The following table outlines the Agricultural Services Division's share of the Department's total appropriation from FY 2011-12 actual through the FY 2015-16 request. The majority of the increase in FY 2012-13 represents a change in how federal funds are shown in the Long Bill, not an overall increase in funds.

Agricultural Services Division Funding Since FY 2011-12					
	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request
ASD	\$10,534,569	\$12,116,054	\$12,567,911	\$13,610,946	\$13,969,225
Department Appropriation	\$38,966,641	\$39,679,233	\$42,670,244	\$44,184,405	\$44,636,763
Percent of Department	27.0%	30.5%	29.5%	30.8%	31.3%

Agriculture Management Fund

The Agriculture Management Fund was created by House Bill 08-1399 (Buescher/Isgar) and allows for the transfer of 65.0 percent of the interest earned on the sale of unclaimed securities from the Colorado Travel and Tourism Promotion Fund to the Agriculture Management Fund for agricultural efforts approved by the commissioner. These moneys are spent in various divisions in the Department.

The following table outlines estimated use of moneys in the Agriculture Management Fund in FY 2014-15:

Division	Agriculture Management Fund Estimated Spending FY 2014-15
Commissioner's Office	\$476,132
Animal Industry Division	137,860
Agriculture Markets Division	581,721
Conservation Services Division	275,000
State Fair Authority	500,000
Total	\$1,970,713

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Department General Fund and Cash Fund Appropriations

The Department received reduced General Fund appropriations during the recent economic downturn; however, the FY 2014-15 appropriation exceeded the FY 2007-08 appropriation for the first time since funding cuts were experienced by the Department. The FY 2012-13 General Fund increase reflects adjustments made to Inspection and Consumer Service program fees, changes in State contributions to employee benefits, and the reversal of temporary refinancing of the Agricultural Markets Division. The following table shows the Department's General Fund appropriation from FY 2011-12 through the FY 2015-16 budget request.

Department of Agricultural GF Appropriations Since FY 2011-12					
	FY 2011-12 Appropriation	FY 2012-13 Appropriation	FY 2013-14 Appropriation	FY 2014-15 Appropriation	FY 2015-16 Request
General Fund Appropriation	\$5,164,362	\$6,863,921	\$7,723,805	\$9,311,389	\$9,661,265
Increase/(Decrease) from Previous Year	4.9%	32.9%	12.5%	20.6%	3.8%

The Department's total appropriation is 66 percent cash funds. The cash funds appropriations respond to increases and decreases in workload for products or services associated with specific cash funds within the Department. The three largest cash funds appropriations are the State Fair Cash Fund; Brand Inspection Cash Fund; and the Plant Health, Pest Control, and Environmental Protection Cash Fund. Together these appropriations account for 52.6 percent of the Department's total cash funds appropriation in FY 2014-15.

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Summary: FY 2014-15 Appropriation & FY 2015-16 Request

Department of Agriculture						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2014-15 Appropriation						
HB 14-1336 (Long Bill)	<u>\$44,184,405</u>	<u>\$9,311,389</u>	<u>\$29,141,578</u>	<u>\$1,629,526</u>	<u>\$4,101,912</u>	<u>274.1</u>
TOTAL	\$44,184,405	\$9,311,389	\$29,141,578	\$1,629,526	\$4,101,912	274.1
FY 2015-16 Requested Appropriation						
FY 2014-15 Appropriation	\$44,184,405	9,311,389	\$29,141,578	\$1,629,526	\$4,101,912	274.1
R1 State fair facilities maintenance	300,000	300,000	0	0	0	0.0
NP1 Annual fleet vehicle request	15,775	0	15,775	0	0	0.0
Centrally appropriated line items	238,348	52,436	126,283	0	59,629	0.0
Indirect cost assessment	54,044	0	27,022	27,022	0	0.0
Technical changes	0	0	0	0	0	0.0
Annualize prior year funding	<u>(155,809)</u>	<u>(2,560)</u>	<u>(152,856)</u>	<u>0</u>	<u>(393)</u>	<u>0.0</u>
TOTAL	\$44,636,763	\$9,661,265	\$29,157,802	\$1,656,548	\$4,161,148	274.1
Increase/(Decrease)	\$452,358	\$349,876	\$16,224	\$27,022	\$59,236	0.0
Percentage Change	1.0%	3.8%	0.1%	1.7%	1.4%	0.0%

Issue Descriptions

R1 State fair facilities maintenance: The decision item includes a request for an appropriation of \$300,000 General Fund for FY 2015-16 dedicated to the maintenance and upkeep of the facilities on the State Fairgrounds.

NP1 Annual fleet vehicle request: The request includes an increase in cash fund appropriation of \$15,775 to the vehicle lease payments line item for changes in statewide vehicle costs. *This request item will be addressed in separate staff briefings for the Department of Personnel and Administration.*

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Centrally appropriated line items: The request includes adjustments to centrally appropriated line items for the following: state contributions for health, life, and dental benefits; short-term disability; supplemental state contributions to the Public Employees' Retirement Association (PERA) pension fund; vehicle lease payments; workers' compensation; legal services; administrative law judges; payment to risk management and property funds; and Capitol complex leased space. *This request item will be addressed in separate staff briefings for the Department of Personnel and Administration.*

Indirect Cost Assessment: The request includes adjustments to the indirect cost assessments for the Commissioner's Office Personal Services line item and the Agriculture Services Division indirect cost assessment line item.

Technical changes: The request includes base adjustments with a net zero impact on appropriations.

Annualize prior year funding: The request includes adjustments to prior year funding actions.

Issue: Colorado State Fairgrounds Maintenance and Operations

This issue brief provides a summary of the maintenance and operations of the Colorado State Fairgrounds, as well as an overview of revenue sources and associated operating expenses. The Department has requested additional General Funds for the Colorado State Fair Authority (Authority).

SUMMARY:

- The Department is requesting \$300,000 in ongoing General Fund appropriation to the Authority to support fairgrounds facilities maintenance expenses. This request would be a 3.5 percent increase in appropriations for the Authority.
- The Department of Agriculture has oversight of the Colorado State Fair (Fair), which has struggled to generate a profit since it was transferred to the Department as a Type 1 agency pursuant to H.B. 97-1342 (Grampsas/Lacy).
- The Authority receives a General Fund appropriation of \$250,000 for 4-H and FFA program support and the State Fair Cash Fund receives an annual transfer of 25.0 percent of the interest from state sales of unclaimed securities, approximately \$900,000 per year.
- Colorado State Fair Foundation (CSFF) was established in 2011 to help cover 4-H and FFA program costs and contribute to dormitory renovations. The CSFF recorded total spending in the calendar years of 2012 and 2013 of more than \$121,000, with an estimated additional total spending of \$353,000 in 2014 and 2015.

RECOMMENDATION:

Staff recommends that any funding of this request be authorized in a new line item in order to provide spending authority transparency. Additionally, staff recommends that the Department provide responses to the following during the Department's hearing with the Committee;

- What were the final financial figures for the 2014 Fair event? What was the Fair's profitability?
- Are there any updates to the costs or priority of the Authority's maintenance projects?

DISCUSSION:

History of the Colorado State Fair

The Colorado State Fair has been in operation since 1872, before Colorado was a state. The Fair's statutory charge was added to the Colorado Revised Statutes in 1917, and currently reads:

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There is hereby established the Colorado state fair and industrial exposition which shall be held annually at Pueblo, Colorado, for the display of livestock and agricultural, horticultural, industrial, mining, water conservation, tourist industry, recreational, educational, and scientific facilities, processes, and products of the state of Colorado. (Section 35-65-105, C.R.S.)

The Fair has operated every year except 1917, when the grounds were used as a training facility for the National Guard during World War I. From 1983 to 1997, the Colorado State Fair Authority was designated as a corporate body and political subdivision of Colorado and was not subject to administrative direction by the State. In 1997, the State Fair Authority was abolished, recreated, and transferred to the Department of Agriculture.

The Fair operates 11 days each summer and rents out its facilities for events throughout the year. In 2011, the Department of Agriculture conducted an economic and fiscal impact study on the Colorado State Fairgrounds. This study found that the year-round operation of the fairgrounds provides the equivalent of 374 full-time jobs and over \$33 million of economic activity per year. The Department anticipates conducting a follow-up study to assess any changes in the economic and fiscal impacts of the Fair.

State Fairground Facilities

The State Fairgrounds reside on approximately 100 acres with over 50 separate buildings and facilities. The year-round use of these facilities is critical to the Authority because off-season rentals generate approximately \$700,000 in revenue annually. While there are some exceptions, most notably the Event Center that opened in 1995, most of these facilities are over 50 years old and require maintenance and upkeep. Many of the buildings need only minimal maintenance; however, some of the more frequently used facilities require significant repairs.

The 4-H and FFA dormitories were built in 1983 and underwent renovations with funds provided by the Authority and the CSFF in the last year. These renovations addressed the dormitories' restrooms, flooring, and furniture, allowing the Authority to utilize these facilities year-round. 4-H and FFA are youth education and development programs, designed to target rural youth and promote agricultural leadership. Colorado State University Extension administers the state's 4-H program, while the local chapters of the FFA are chartered in public schools with agriculture education programs. Data comparing pre- and post-renovation usage of the dormitories are currently being collected.

There are a total of 450 stables available at the fairgrounds. The 200 stone stables were built in 1938 and the wood stables were built in 1968. The stone stables have been recently rehabilitated using State Historical Funds and are part of the State's Historic Register. This rehabilitation included replacing stable roofs, flooring, and water lines to ensure the buildings could be rented to participants of livestock and horse show events held at the fairgrounds.

The 250 wood stables have received only minimal maintenance since their construction and suffer from wear; there were at least ten horse escapes during the 11-day Fair this year. Stable doors are broken, latches are rusted, and the flooring needs to be repaved. The wash racks used

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for the horses have poor drainage and pose a significant health risk to the animals because standing water attracts disease carrying insects. At this year's Fair, the Authority had to providing additional larvacide sprays to ensure that an outbreak of Vesicular Stomatitis in the state did not impact its events.

In addition to the horse show area, the Authority has identified the livestock pavilion as an important venue, as it is frequently used for livestock events. The pavilion is in a state of general disrepair, with ceiling holes and crumbling insulation. The Authority, utilizing an emergency grant from the Department of Agriculture, had to repair the building's doors to bring them up to code in order to prevent the closing of the building prior to this year's Fair. The use of emergency funding to address critical projects is not ideal and does not allow the Authority to effectively budget for their maintenance and upkeep needs.

Maintenance Project Prioritization and Costs

The refurbishment of the horse show area is the Authority's first priority. This work will include the replacement of stall doors and latches, repaving of stalls and the event area, and painting. The cost of this work is estimated at \$180,000. The second prioritized project would be to address the ceiling of the livestock pavilion, the cost of which is currently unknown. The requested funding would also be used for pavement repair throughout the fairgrounds, maintaining and patching building roofs, refinishing and painting building interiors, and maintenance of restrooms and ticket booths.

The Authority roughly estimates that the short-term cost of repairs and maintenance may be between \$1-1.5 million, while the five year costs may be roughly \$3-4 million. It will work to obtain quotes for the needed repairs and will solicit any potential sponsors to assist in cost-sharing for these projects.

The Authority reports that an optimal annual maintenance budget would be \$450,000 to \$500,000, yet they were only able to budget about \$170,000 in FY2013-14 for operating expenses that include maintenance. However, the Authority has been able to leverage sponsorships and in-kind assistance in fairgrounds maintenance. In the past four years, the Authority has averaged \$407,000 in assistance. In 2014, the Authority estimates it will receive \$425,000 in sponsorships and in-kind assistance. At this level, the Authority is leveraging almost \$2.65 for each dollar it spends in operating expenses. It is anticipated that this level of non-state support will remain constant or increase over the coming years, allowing the Authority to leverage additional funding for its maintenance needs.

Revenue and Expenditure

Statutory and State Funding of the Colorado State Fair

The following bills have made substantive changes to State funding for Colorado State Fair operations, beginning with the transfer of the Colorado State Fair Authority to the Department of Agriculture:

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- House Bill 97-1342 (Grampsas/Lacy) transferred the Colorado State Fair Authority and its functions to the Department of Agriculture as a Type 1 agency, it also did the following:
 - Restructured and created a new Colorado State Fair Authority to include ten Governor appointed members and the Commissioner of Agriculture;
 - Allowed the Colorado State Fair Authority to hire a Fair manager to oversee all activities of the Fair;
 - Established the State Fair Authority as an enterprise pursuant to Article X, Section 20 of the Colorado Constitution; and
 - Appropriated \$3.1 million to repay outstanding Fair debts.

- Senate Bill 04-256 (Taylor/White) appropriated 10.0 percent of the interest on sales of unclaimed securities from the travel and tourism fund to the Fair. Subsequently, H.B. 06-1384 (Buescher/Tapia) authorized travel and tourism trust fund transfers to repay state treasury loans, event center debt, and finally a \$550,000 operating transfer annually.

- House Bill 08-1399 (Buescher/Isgar) increased the transfer from interest on sales of unclaimed securities from 10.0 to 25.0 percent, while eliminating the annual transfer for operating expenses, and directed it to the State Fair Cash Fund, after the Fair's debt was repaid.

These revenues are credited to the State Fair Cash Fund. The Department of Agriculture provides funding to support Fair operations from the Agriculture Management Fund; it is estimated that the Department will provide \$500,000 in FY 2014-15. The annual interest transfer to the State Fair Cash Fund, from the sales of unclaimed securities, is approximately \$900,000.

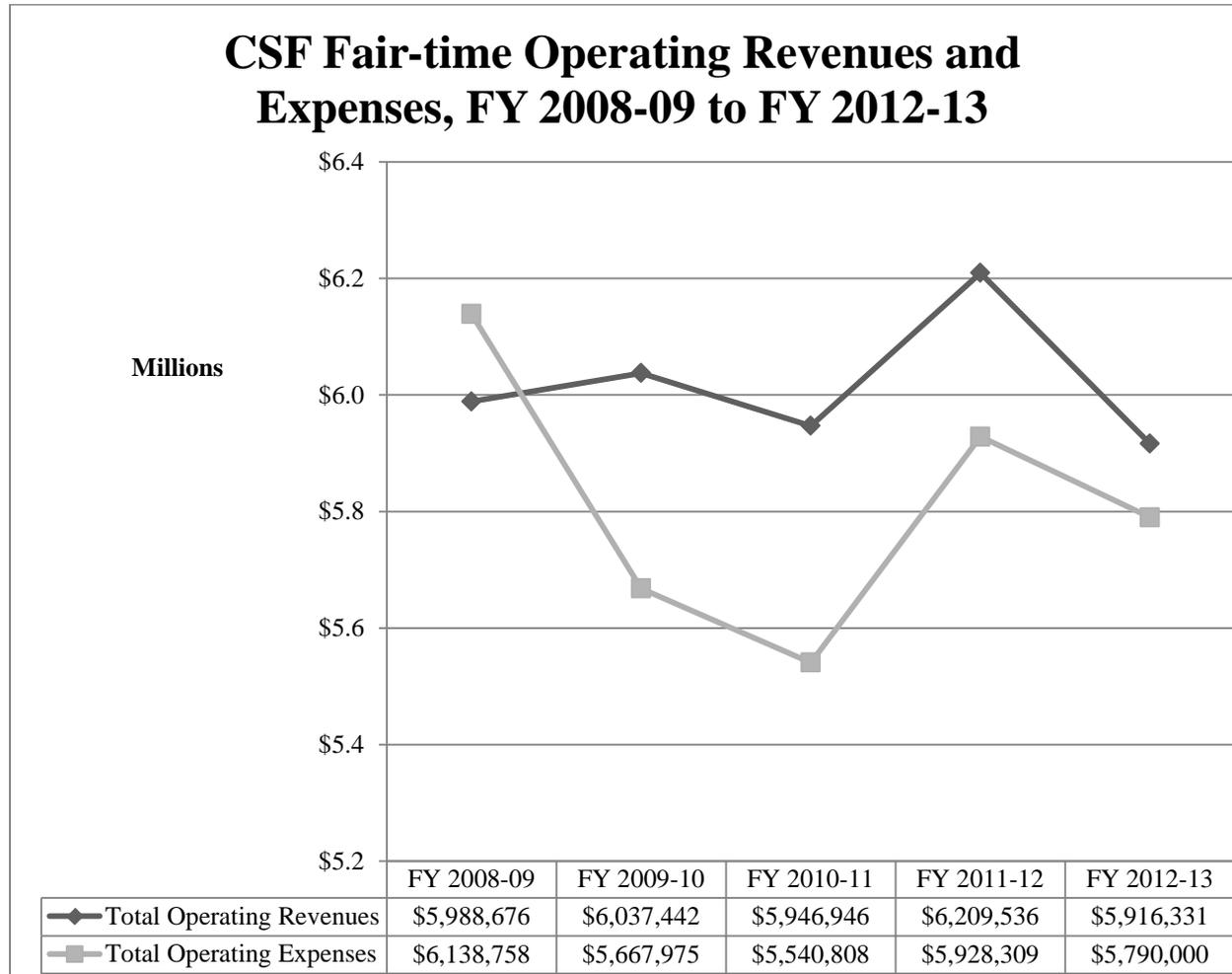
Non-State Fair Revenue Sources

In addition to the transfer pursuant to H.B. 08-1399, the Authority generates revenue from operations and rentals of fairground facilities. In FY 2013-14, gross revenue totaled approximately \$8.4 million. The largest source of operating revenue for the Authority was proceeds from commercial exhibitors, followed by revenue from commercial and in-kind sponsorship. These sources accounted for approximately 36.1 percent of Fair revenue. Gate admissions were the third largest contributor and accounted for approximately 10.5 percent of revenues.

Attendance is also critical for vendor sales, carnival sales, and grandstand sales, which indirectly increase revenues for the fair through sales commissions. The Fair has modernized its ticketing system and has actively pursued technological tools to improve vending and concession sales. The Authority has seen an increase in attendance at the Fair in the past couple of years, which should contribute to an operating revenue increase. The 2014 Fair saw a 5 percent increase in attendance.

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The chart below shows revenues and expense incurred by the Authority during fair-time operations:



In addition to the annual fair, the fairgrounds host events during the offseason. From 2011 to 2013, a total of 53 events were held that required the utilization of the fairgrounds’ stables. In 2012, the Authority began a two year contract to host a National Reined Cow Horse Association (NRCHA) event. This event had gross receipts of \$23,760 in 2012 and \$28,055 in 2013. The event was considered a success and the Authority has since reached an agreement with the NRCHA to continue hosting the event for an additional two years. Anticipated revenue from this even is approximately \$27,000. In addition to the fairground’s livestock and horse facilities, the Event Center hosts sporting events, concerts, and other revenue generating events.

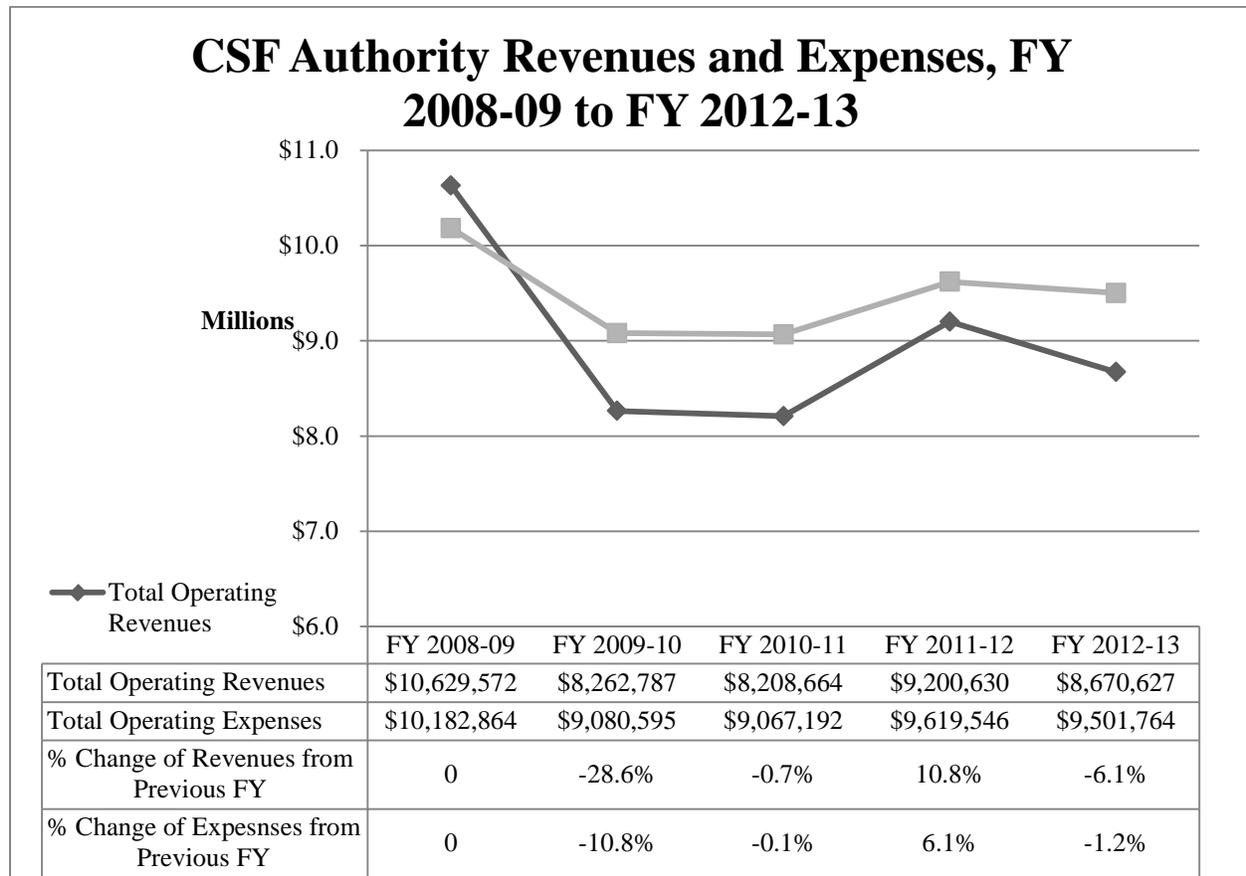
An additional \$275,000 from the City of Pueblo and Pueblo County is anticipated in FY 2014-15. The CSFF, established in 2011 as a 501(c)(3) to raise funds for the Fair’s 4-H and FFA programs, has contributed over \$121,000 to date. The following table shows the revenue from these sources for the past three years:

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Revenue from Non-State Sources				
	2012 Actual	2013 Actual	2014 Enacted	2015 Projected
City of Pueblo	\$265,000	\$200,000	\$100,000	\$125,000
Pueblo County	175,000	175,000	175,000	175,000
Colorado State Fair Foundation	4,750	116,565	179,092	174,100
Total	\$444,750	\$491,565	\$454,092	\$474,100

Overall Revenue and Expenditure Trends

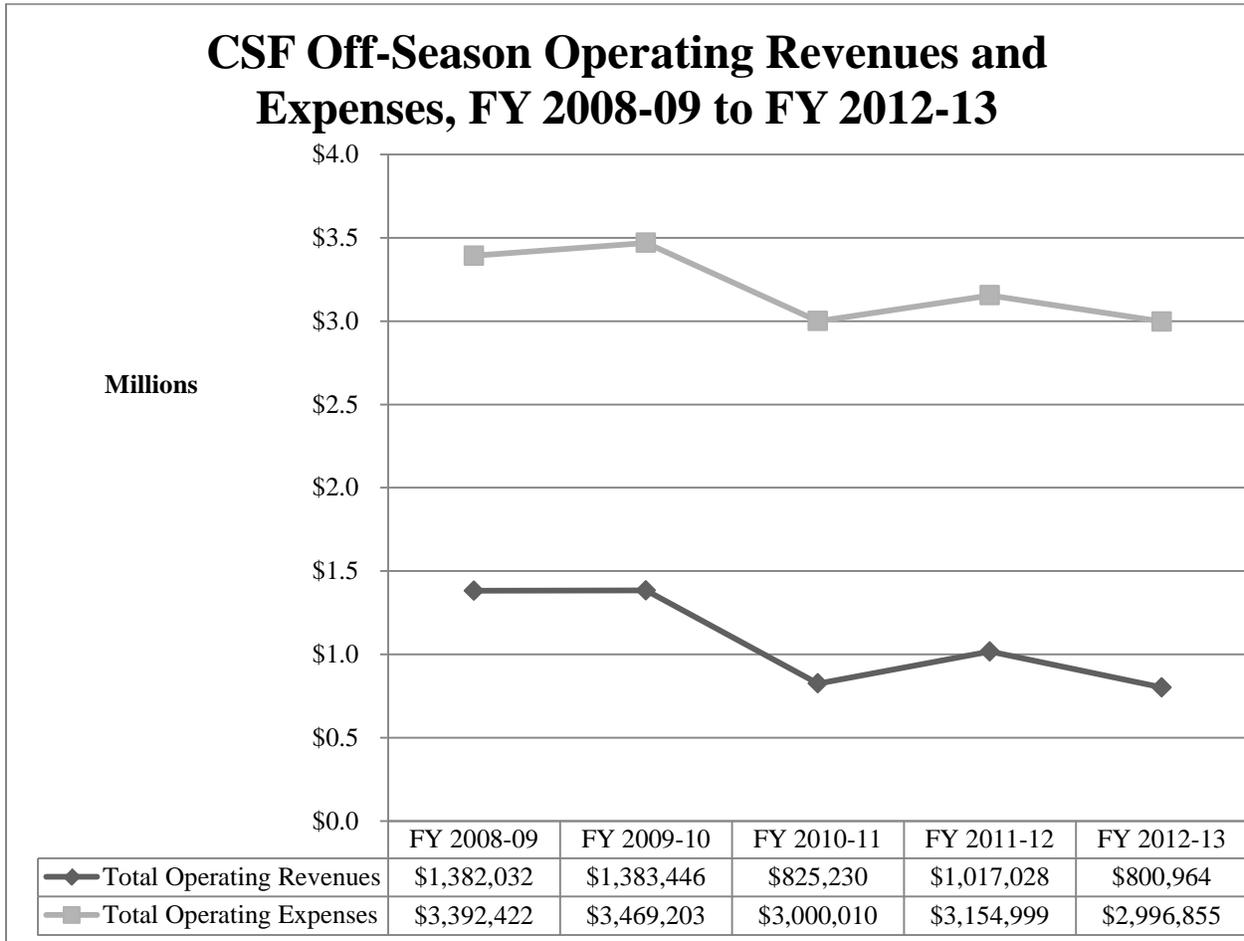
The Authority’s expenditures historically have outpaced its revenues, resulting in a net operating deficit four out of the past five years. This operating deficit negatively impacts the Authority’s ability to properly maintain its aging infrastructure. The chart below shows annual operating revenue compared to annual operating expenses for the past five years of available audit data:



The nearly 29% decrease in revenues from FY 2008-09 to FY 2009-10 is attributable to provisions in H.B. 08-1399, which transferred \$2.8 million in 2009 to repay the outstanding Fair debt. The Department has been able to reduce operating expenses by 6.7 percent over the five

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years presented, showing the Authority is developing and implementing operating strategies to improve efficiencies. However, over the same period of time operating revenues decreased by 18.4 percent, suggesting the Fair faces challenges beyond simply reducing operating expenses. This deficit can be attributed to the year-round operation of the fairgrounds and the fixed costs, such as utilities, associated with managing the property. The chart below shows off-season operating revenue and expenses:



Issue: Industrial Hemp Production in Colorado

This issue brief provides a summary of the difficulties facing the implementation of industrial hemp cultivation and production in Colorado.

SUMMARY:

- Senate Bill 13-241 (Industrial Hemp Growers Registration) repealed and replaced the Industrial Hemp Remediation Pilot Program in the Department of Public Health with the Industrial Hemp Regulatory Program run by the Department of Agriculture (Department).
- There is a large amount of uncertainty regarding the economic viability of domestic industrial hemp cultivation and production because the size of the U.S. market for hemp-based products can only be estimated. Industrial associations estimate the total retail value of hemp sold in the U.S. to be at least \$581 million.
- Even though the State of Colorado has legalized the cultivation and production of industrial hemp, any farmer seeking to plant and harvest industrial hemp must first be granted a permit by the U.S. Drug Enforcement Administration (DEA). The DEA does not grant these permits often.
- The federal Agriculture Act of 2014 (Farm Bill) eased the restrictions on research and development of industrial hemp.
- Colorado has approximately 1,812 acres registered in the Industrial Hemp Program; however, less than half of that area has been planted.

RECOMMENDATION:

Staff recommends that the Department provide responses to the following during the Department hearing with the Committee:

1. What is the anticipated programmatic growth over the next five years?
2. How does the Department plan to handle programmatic growth and the accompanying administrative cost increase?

DISCUSSION:

Historical and Current Status of Industrial Hemp in US

Industrial hemp production in the United States has been effectively dormant since the 1950s. Until the mid-19th century, hemp was widely grown and commonly used by the textile and paper industries. However, the introduction of harvesting technology in the late-19th century made the use of cotton for textiles more commercially competitive than hemp. Domestic production of

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cotton for textiles replaced domestic hemp production, resulting in the demand for hemp’s coarse natural fibers being met by an increase in imports. The Marihuana Tax Act of 1937 further limited the domestic cultivation of industrial hemp by defining the plant as a narcotic. During World War II, there was a brief resurgence in hemp production, encouraged by the USDA, to help supply basic material for the war effort. The Controlled Substances Act of 1970 made it illegal to grow hemp without a permit from the DEA. (21 U.S.C., § 801 et seq.)

The barriers to domestic hemp production have forced those businesses that utilized hemp fibers, oils, and seeds, as well as other hemp products, to import those materials. The table below shows the customs value of selected U.S. hemp product imports, both raw and processed, from 2010 to 2013. In 2013, these imports were worth approximately \$37.1 million, which represents a roughly 80.7 percent increase from 2012. The data show a large increase from 2012 to 2013 in the importation of hemp seeds and oil, while there is a large decrease in the importation of hemp fiber, fabric, and yarn. According to the Hemp Industries Association (HIA), a non-profit trade group, the total retail value of hemp products sold in the U.S. in 2013 exceeded \$581 million.

Value of Selected U.S. Hemp Product Imports (\$)						
Harmonized Tariff Schedule (HTS)	Description	2010	2011	2012	2013	% Change 2012-2013
		in 1,000 Dollars				
1207990220/ 1207990320*	Hemp seeds, whether or not broken	\$5,125	\$6,553	\$13,035	\$26,942	106.7%
1515908010	Hemp oil and their fractions	1,833	1,146	1,098	2,264	106.2
2306900130	Hemp seed oilcake & other solid residues	2,369	2,947	4,388	6,279	43.1
5302	True hemp, raw/processed but not spun	94	181	157	78	(50.4)
5308200000	True hemp yarn	296	580	497	482	(3.0)
5311004010	True hemp woven fibers	1,180	1,364	1,362	1,057	(22.4)
	Total	\$10,897	\$12,771	\$20,537	\$37,102	80.7%

Source: United States International Trade Commission, DataWeb. <http://dataweb.usitc.gov/>

* The HTS code 1207990220 corresponds to the years 2010 and 2011. The HTS code 1207990320 corresponds to the years 2012 and 2013.

Cultivating Hemp in Colorado

There are several barriers to the successful cultivation and commercial processing of industrial hemp, including: Federal laws and regulations, access to proper processing facilities, and the existence of suitable hemp strains for Colorado’s climate and soil. The most formidable of these barriers are the restrictions placed on industrial hemp production by Federal laws and regulations. As described above, the cultivation of industrial hemp is strictly regulated by the DEA. The importation of non-sterilized hemp seeds is heavily restricted, with the DEA seizing

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or preventing attempted shipments into the country, as well as shipments across state lines. These restrictions are a particularly potent barrier for domestic production of industrial hemp, as the industry is starting from scratch and access to in-state resources is limited.

The lack of a wide spread in-state hemp processing infrastructure poses a difficulty to commercializing industrial hemp. Investors are reluctant to spend the necessary capital to build a processing infrastructure because there is not a steady and adequate supply of industrial hemp. However, without proper processing facilities farmers are reluctant to accept the investment risks of planting hemp. This lack of industrial infrastructure, coupled with stringent Federal regulation, creates a conservative market environment towards industrial hemp investment. While the Department reports that 1,812 acres have been registered for industrial hemp cultivation, it also reports that less than half of that area has been planted.

The dormancy of the industrial hemp market in the U.S. for the past half-century has resulted in a dearth of expertise and knowledge about the cultivation of hemp. Farmers are reliant on whatever seeds they can acquire, but those seeds may not be suitable for Colorado's climate and soil. Identifying the correct strains of hemp for cultivation in Colorado is one of the goals of the research and development (R&D) portion of the Department's industrial hemp program. R&D in industrial hemp will also identify best cultivation practices, hemp processing techniques, and additional uses for the raw materials derived from processing hemp, all of which can contribute to the establishment of a viable commercial market in the state. The Department anticipates program growth even with the current barriers, especially in the area of research and development, as seeds are accumulated from harvests and are made available in-state.

The Department has obtained a DEA permit to import hemp seeds, which have been provided to in-state institutions of higher education for research and development. The long-term goal for these seeds and the research is to develop a seed certification program to provide verified and quality seeds to Colorado farmers. However, in order to address the current lack of seeds available to farmers, most of this year's industrial hemp harvest will be used to provide seed for next year's planting. The Department cannot specifically quantify the future seed availability in-state and, as a result, cannot estimate with a high degree of certainty the growth rate of the industrial hemp market.

Statutory Funding of the Industrial Hemp Program

The Industrial Hemp Registration Program is funded through registration fees, inspection fees, and fines. Commercial registration fees are set at \$200 plus \$1.00 per acre. R&D registration fees are set at \$100 plus \$5.00 per acre. The Department has instituted a \$35 per hour fee for field sampling and inspection done by Department employees. If a registrant is discovered to have committed a statutory violation, the Department may assess a fine of no more than \$2,500. The proceeds from these fees and fines are placed in the Industrial Hemp Registration Program Cash Fund, which is subject to annual appropriation by the General Assembly.

Industrial Hemp Registration Program			
	# of Applications	Acres	Registration fees collected
Commercial	121	1552	\$25,752
R&D	138	260	\$15,100
Total	259	1812	\$40,852

The Department reports that the funds currently available are not sufficient to cover the direct and indirect costs of the program. In FY 2013-14, S.B. 13-241 was signed into law and provided the program with a one-time appropriation of \$21,205 in General Fund to cover personal services, committee meetings, and legal services expenses. Ensuring the program is compliant with Federal regulations and guidelines generates significant administrative costs, beyond what was anticipated. The unexpected growth in the cultivation of hemp for its cannabidiol (medicinal) component added more acres and registrants than expected.

The Department reports that the actual cost of the program in its first year was \$129,000. As the table above shows, the fees collected from registrants covers less than one-third of the administrative costs of the program. The Department reports that the fee rate for field sampling and inspection is sufficient for the program to recover its laboratory costs. The Department has not taken any official action to raise the registration fees.

The Industrial Hemp Research Grant Cash Fund was created by S.B. 14-184 and stipulates that the fund can receive up to \$10 million dollars from the Marijuana Tax Cash Fund on and after July 1, 2015. These funds could be used by the Department to establish, manage, and expand industrial hemp research and development. However, the Department does not expect any transfer of these funds because any funds that have been, or will be, collected by the Marijuana Tax Cash Fund have already been earmarked for other purposes.

Federal Industrial Hemp Statute and Guidance

The 2014 Farm Bill included an amendment that eased the federal restrictions on industrial hemp research. According to 7 U.S.C., § 5940 et seq., “an institution of higher education...or a state department of agriculture may grow or cultivate industrial hemp,” as long as it is done for research purposes and is legal under state law. Federal statute requires that any R&D program and its sites be "certified by, and registered with," the state's department of agriculture. Furthermore, federal statute defines industrial hemp as the plant *Cannabis sativa* L. that has a

delta-9 tetrahydrocannabinol (THC) concentration of less than or equal to 0.3 percent on a dry weight basis. Colorado's industrial hemp statute and R&D program meet these federal requirements.

Federal guidance on banking poses limitations on the state's industrial hemp program. The federal Department of Justice and the Department of the Treasury recently issued guidance on bank involvement with Cannabis operations; however, the guidance merely "clarifies how financial institutions can provide services to marijuana-related businesses consistent with" their responsibility to uphold their Bank Secrecy Act obligations. Industrial hemp's status in relation to the Controlled Substance Act makes it illegal to produce and distribute under federal law, with the limited exceptions discussed in the previous paragraph, because it is included in the federal definition of Cannabis. The guidance does not free financial institutions from the risks involved with doing business with Cannabis producers, which makes many financial institutions reluctant to provide services to growers of industrial hemp.

Industrial Hemp in Other States

There are currently 19 states that have laws to provide for industrial hemp research or for production as allowed by the 2014 Farm Bill. Of these, eight states — including Colorado — have sponsored resolutions and have laws to promote the growth and marketing of industrial hemp. Many of these state policies mirror the federal statutes in regards to research and development. However, the more aggressive states also seek to promote the commercialization of industrial hemp by excluding industrial hemp from the state's definition of controlled substances and by establishing a defense to criminal prosecution for cultivation. Other states take a more cautious approach by passing legislation allowing commercial production of hemp only when the federal government allows for the differentiation between hemp and marijuana in relation to the Controlled Substance Act.

Issue: Long Bill Line Item Format Change

This issue brief provides a summary of a staff initiated request to make changes to the Agriculture Services Division line item of the Department of Agriculture's section of the Long Bill.

SUMMARY:

- The line item does not accurately represent the Department's divisional organization.
- The line item is currently bottom line funded but should be line item funded to provide greater transparency of divisional spending authority.

RECOMMENDATION:

Staff recommends that during figure setting the Committee cease bottom line funding the Agriculture Services Division line item and update that section of the Long Bill to more accurately reflect the divisional organization of the Department.

DISCUSSION:

Divisional Spending Authority Transparency

The current structure of the Agriculture Services Division line item of the Department's section of the Long Bill lacks spending authority transparency and does not accurately reflect the divisional organization of the Department. Bottom line funding this line item allows for spending authority flexibility among the divisions, but obscures each division's specific spending authority. This change will also make the funding of this line item consistent with the other line items in the Department's section of the Long Bill. Displaying the funding per line item detail will add clarity to the spending authority for each division.

Additionally, there is not a statutorily created "Agricultural Services Division" in the Department of Agriculture. Each of the Department's divisions is created in statute, pursuant to Section 35-1-108, C.R.S. Updating this line item to accurately identify the Department's divisions adds clarity to the Department's appropriations and the intent of that funding. Staff will work with the Department to ensure that the changes to the Long Bill accurately represent the structure of and appropriations to its divisions.

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Appendix A: Number Pages

	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
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DEPARTMENT OF AGRICULTURE
John Salazar, Commissioner

(1) COMMISSIONER'S OFFICE AND ADMINISTRATIVE SERVICES

This division provides administrative and technical support for department divisions and programs, including accounting budgeting, and human resources. Cash funds are from various fees and the reappropriated funds are from departmental and statewide indirect cost recoveries. Federal funds are from federal grants for agricultural purposes.

Personal Services	<u>1,259,167</u>	<u>1,088,468</u>	<u>1,506,222</u>	<u>1,601,893</u>
FTE	15.3	17.5	16.7	16.7
General Fund	233,586	178,741	240,404	305,571
Cash Funds	0	0	7,859	8,057
Reappropriated Funds	955,219	909,727	1,146,605	1,173,627
Federal Funds	70,362	0	111,354	114,638
Health, Life, and Dental	<u>1,402,366</u>	<u>2,054,944</u>	<u>2,013,527</u>	<u>1,995,696</u>
General Fund	428,370	518,245	726,809	656,593
Cash Funds	973,996	1,441,357	1,236,999	1,253,686
Federal Funds	0	95,342	49,719	85,417
Short-term Disability	<u>16,995</u>	<u>29,150</u>	<u>34,576</u>	<u>35,488</u>
General Fund	5,387	7,785	13,367	13,883
Cash Funds	11,608	19,022	19,386	19,694
Federal Funds	0	2,343	1,823	1,911
S.B. 04-257 Amortization Equalization Disbursement	<u>341,451</u>	<u>630,509</u>	<u>690,983</u>	<u>709,705</u>
General Fund	131,582	168,695	267,267	277,853
Cash Funds	209,869	411,377	387,344	393,626
Federal Funds	0	50,437	36,372	38,226

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	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
S.B. 06-235 Supplemental Amortization Equalization					
Disbursement	<u>292,894</u>	<u>568,674</u>	<u>647,769</u>	<u>685,511</u>	
General Fund	112,538	151,758	250,536	268,381	
Cash Funds	180,356	371,382	363,135	380,207	
Federal Funds	0	45,534	34,098	36,923	
Salary Survey	<u>0</u>	<u>549,150</u>	<u>465,516</u>	<u>176,518</u>	
General Fund	0	165,804	179,967	69,052	
Cash Funds	0	346,136	261,001	97,963	
Federal Funds	0	37,210	24,548	9,503	
Merit Pay	<u>0</u>	<u>249,959</u>	<u>180,780</u>	<u>172,276</u>	
General Fund	0	74,821	77,582	73,028	
Cash Funds	0	157,462	94,936	89,587	
Federal Funds	0	17,676	8,262	9,661	
Workers' Compensation	<u>165,703</u>	<u>161,359</u>	<u>195,784</u>	<u>214,521</u>	
General Fund	3,135	3,135	3,135	7,819	
Cash Funds	162,568	158,224	192,649	206,702	
Operating Expenses	<u>116,902</u>	<u>241,982</u>	<u>242,932</u>	<u>242,932</u>	
General Fund	116,634	0	0	0	
Cash Funds	268	0	0	0	
Reappropriated Funds	0	241,982	241,982	241,982	
Federal Funds	0	0	950	950	

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	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
Legal Services	<u>311,817</u>	<u>380,713</u>	<u>460,694</u>	<u>439,755</u>	
General Fund	114,912	150,027	148,412	148,412	
Cash Funds	192,655	226,436	297,282	276,343	
Federal Funds	4,250	4,250	15,000	15,000	
Administrative Law Judge Services	<u>3,468</u>	<u>4,446</u>	<u>1,272</u>	<u>6,706</u>	
Cash Funds	3,468	4,446	1,272	6,706	
Purchase of Services from Computer Center	<u>623,116</u>	<u>921,093</u>	<u>0</u>	<u>0</u>	
General Fund	458,292	632,600	0	0	
Cash Funds	164,824	288,493	0	0	
Colorado State Network	<u>208,016</u>	<u>157,528</u>	<u>0</u>	<u>0</u>	
General Fund	81,302	61,569	0	0	
Cash Funds	126,714	95,959	0	0	
Management and Administration of OIT	<u>17,784</u>	<u>0</u>	<u>0</u>	<u>0</u>	
General Fund	13,767	0	0	0	
Cash Funds	4,017	0	0	0	
Payment to Risk Management and Property Funds	<u>162,091</u>	<u>147,063</u>	<u>156,601</u>	<u>126,011</u>	
General Fund	28,742	24,870	24,870	21,811	
Cash Funds	133,349	122,193	131,731	104,200	
Vehicle Lease Payments	<u>192,990</u>	<u>217,822</u>	<u>256,862</u>	<u>272,637</u> *	
General Fund	54,257	87,930	128,641	128,641	
Cash Funds	112,262	103,503	124,428	140,203	
Federal Funds	26,471	26,389	3,793	3,793	

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	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
Information Technology Asset Maintenance	<u>151,780</u>	<u>153,031</u>	<u>153,031</u>	<u>153,031</u>	
General Fund	42,041	42,041	42,041	42,041	
Cash Funds	109,739	110,990	110,990	110,990	
Leased Space	<u>119,281</u>	<u>121,311</u>	<u>13,914</u>	<u>13,914</u>	
General Fund	39,214	39,209	0	0	
Cash Funds	80,067	82,102	13,914	13,914	
Capitol Complex Leased Space	<u>169,713</u>	<u>213,608</u>	<u>0</u>	<u>0</u>	
General Fund	117,995	149,603	0	0	
Cash Funds	51,718	64,005	0	0	
Communication Services Payments	<u>12,505</u>	<u>16,049</u>	<u>0</u>	<u>0</u>	
General Fund	3,127	4,009	0	0	
Cash Funds	9,378	12,040	0	0	
COFRS Modernization	<u>57,758</u>	<u>66,270</u>	<u>72,971</u>	<u>72,971</u>	
General Fund	8,526	9,783	9,783	9,783	
Cash Funds	49,232	56,487	56,487	56,487	
Federal Funds	0	0	6,701	6,701	
Payments to OIT	<u>0</u>	<u>0</u>	<u>1,179,919</u>	<u>1,057,286</u>	
General Fund	0	0	854,546	804,546	
Cash Funds	0	0	325,373	252,740	
Information Technology Security	<u>0</u>	<u>10,721</u>	<u>0</u>	<u>0</u>	
General Fund	0	7,306	0	0	
Cash Funds	0	3,415	0	0	

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Utilities	<u>138,752</u>	<u>161,939</u>	<u>161,939</u>	<u>161,939</u>	
General Fund	91,050	50,000	50,000	50,000	
Cash Funds	47,702	0	0	0	
Reappropriated Funds	0	111,939	111,939	111,939	
Agricultural Statistics	<u>11,317</u>	<u>0</u>	<u>15,000</u>	<u>15,000</u>	
Cash Funds	11,317	0	15,000	15,000	
Agriculture Management Fund	<u>2,525,898</u>	<u>1,976,283</u>	<u>2,048,914</u>	<u>2,048,914</u>	
FTE	2.3	1.4	2.0	2.0	
Cash Funds	2,525,898	1,976,283	2,048,914	2,048,914	
Indirect Cost Assessment	<u>18,300</u>	<u>195,377</u>	<u>203,114</u>	<u>203,114</u>	
Cash Funds	18,300	195,377	197,014	197,014	
Federal Funds	0	0	6,100	6,100	
TOTAL - (1) Commissioner's Office and Administrative Services	8,320,064	10,317,449	10,702,320	10,405,818	(2.8%)
<i>FTE</i>	<u>17.6</u>	<u>18.9</u>	<u>18.7</u>	<u>18.7</u>	<u>0.0%</u>
General Fund	2,084,457	2,527,931	3,017,360	2,877,414	(4.6%)
Cash Funds	5,179,305	6,246,689	5,885,714	5,672,033	(3.6%)
Reappropriated Funds	955,219	1,263,648	1,500,526	1,527,548	1.8%
Federal Funds	101,083	279,181	298,720	328,823	10.1%

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(2) AGRICULTURAL SERVICES DIVISION

The division is divided into four distinct programs: (1) Inspection and Consumer Services; (2) Plant Industry; (3) Animal Industry; and (4) Fruit and Vegetable Inspections.

Animal Industry	<u>2,338,813</u>	<u>2,396,282</u>	<u>2,283,450</u>	<u>2,359,869</u>
FTE	27.1	27.6	25.5	25.5
General Fund	1,426,428	1,419,967	1,489,648	1,553,164
Cash Funds	527,511	528,569	540,835	630,202
Federal Funds	384,874	447,746	252,967	176,503
 Vaccine and Service Fund	 <u>374,757</u>	 <u>279,868</u>	 <u>324,320</u>	 <u>324,320</u>
FTE	1.3	0.4	1.0	1.0
Cash Funds	374,757	279,868	324,320	324,320
 Plant Industry	 <u>3,469,963</u>	 <u>3,102,272</u>	 <u>3,938,664</u>	 <u>4,013,655</u>
FTE	39.1	40.3	36.5	36.5
General Fund	345,460	350,550	362,689	623,724
Cash Funds	2,280,659	1,977,644	2,346,532	2,594,803
Federal Funds	843,844	774,078	1,229,443	795,128
 Inspection and Consumer Services	 <u>3,736,205</u>	 <u>3,593,726</u>	 <u>3,551,482</u>	 <u>3,643,139</u>
FTE	41.1	43.4	44.6	44.6
General Fund	972,110	1,055,240	1,009,582	1,172,298
Cash Funds	2,217,443	2,118,499	2,204,033	2,072,680
Reappropriated Funds	0	0	84,000	84,000
Federal Funds	546,652	419,987	253,867	314,161

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Conservation Services	<u>3,122,298</u>	<u>2,253,662</u>	<u>2,502,423</u>	<u>2,547,613</u>	
FTE	16.3	14.5	15.3	15.3	
General Fund	686,767	639,983	1,440,180	1,103,877	
Cash Funds	593,029	569,864	631,425	621,638	
Federal Funds	1,842,502	1,043,815	430,818	822,098	
Lease Purchase Lab Equipment	<u>1,196</u>	<u>0</u>	<u>99,360</u>	<u>99,360</u>	
General Fund	0	0	0	0	
Cash Funds	1,196	0	99,360	99,360	
Indirect Cost Assessment	<u>578,597</u>	<u>734,806</u>	<u>911,247</u>	<u>938,269</u>	
Cash Funds	427,372	589,625	701,617	645,755	
Federal Funds	151,225	145,181	209,630	292,514	
TOTAL - (2) Agricultural Services Division	13,621,829	12,360,616	13,610,946	13,926,225	2.3%
FTE	<u>124.9</u>	<u>126.2</u>	<u>122.9</u>	<u>122.9</u>	(0.0%)
General Fund	3,430,765	3,465,740	4,302,099	4,453,063	3.5%
Cash Funds	6,421,967	6,064,069	6,848,122	6,988,758	2.1%
Reappropriated Funds	0	0	84,000	84,000	0.0%
Federal Funds	3,769,097	2,830,807	2,376,725	2,400,404	1.0%

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	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
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(3) AGRICULTURAL MARKETS DIVISION

This division provides marketing assistance and related support to Colorado agricultural-based businesses competing in local, national, and international arenas. The reappropriated funds are from a transfer from the Economic Development Commission, in the Office of the Governor.

(A) Agricultural Markets

Program Costs	<u>1,191,167</u>	<u>1,099,103</u>	<u>1,438,944</u>	<u>1,461,819</u>	
FTE	6.5	7.4	5.4	5.4	
General Fund	446,217	446,232	469,152	489,079	
Cash Funds	21,449	0	50,454	50,454	
Federal Funds	723,501	652,871	919,338	922,286	
Economic Development Grants	<u>30,811</u>	<u>55,342</u>	<u>45,000</u>	<u>45,000</u>	
Reappropriated Funds	0	0	45,000	45,000	
Federal Funds	30,811	55,342	0	0	
Agricultural Development Board	<u>124,182</u>	<u>197,818</u>	<u>500,000</u>	<u>500,000</u>	
FTE	0.0	0.0	0.0	0.0	
Cash Funds	124,182	197,818	500,000	500,000	
Wine Promotion Board	<u>609,110</u>	<u>604,662</u>	<u>569,613</u>	<u>572,493</u>	
FTE	1.1	1.5	1.5	1.5	
Cash Funds	609,110	604,662	569,613	572,493	
Indirect Cost Assessment	<u>12,842</u>	<u>35,058</u>	<u>14,270</u>	<u>14,270</u>	
Cash Funds	9,150	29,928	10,000	10,000	
Federal Funds	3,692	5,130	4,270	4,270	
SUBTOTAL - (A) Agricultural Markets	1,968,112	1,991,983	2,567,827	2,593,582	1.0%
FTE	<u>7.6</u>	<u>8.9</u>	<u>6.9</u>	<u>6.9</u>	<u>0.0%</u>
General Fund	446,217	446,232	469,152	489,079	4.2%
Cash Funds	763,891	832,408	1,130,067	1,132,947	0.3%
Reappropriated Funds	0	0	45,000	45,000	0.0%
Federal Funds	758,004	713,343	923,608	926,556	0.3%

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	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
(B) Agricultural Products Inspection					
Program Costs	<u>2,020,241</u>	<u>1,863,439</u>	<u>2,095,927</u>	<u>2,142,213</u>	
FTE	37.1	30.1	34.5	34.5	
General Fund	200,000	200,000	200,000	200,000	
Cash Funds	1,820,241	1,663,439	1,895,927	1,942,213	
Reappropriated Funds	0	0	0	0	
Federal Funds	0	0	0	0	
Indirect Cost Assessment	<u>111,000</u>	<u>92,539</u>	<u>93,895</u>	<u>93,895</u>	
Cash Funds	111,000	92,539	93,895	93,895	
SUBTOTAL - (B) Agricultural Products Inspection	2,131,241	1,955,978	2,189,822	2,236,108	2.1%
<i>FTE</i>	<u>37.1</u>	<u>30.1</u>	<u>34.5</u>	<u>34.5</u>	<u>0.0%</u>
General Fund	200,000	200,000	200,000	200,000	0.0%
Cash Funds	1,931,241	1,755,978	1,989,822	2,036,108	2.3%
Reappropriated Funds	0	0	0	0	0.0%
Federal Funds	0	0	0	0	0.0%
TOTAL - (3) Agricultural Markets Division	4,099,353	3,947,961	4,757,649	4,829,690	1.5%
<i>FTE</i>	<u>44.7</u>	<u>39.0</u>	<u>41.4</u>	<u>41.4</u>	<u>(0.0%)</u>
General Fund	646,217	646,232	669,152	689,079	3.0%
Cash Funds	2,695,132	2,588,386	3,119,889	3,169,055	1.6%
Reappropriated Funds	0	0	45,000	45,000	0.0%
Federal Funds	758,004	713,343	923,608	926,556	0.3%

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	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
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(4) BRAND BOARD

The Brand Board is responsible for inspecting cattle, horse, and alternative livestock brands to verify ownership at the time of sale, transport, or slaughter, and constitutes an enterprise for the purposes of Section 20 of Article X of the Colorado Constitution.

Brand Inspection	<u>3,807,662</u>	<u>3,905,478</u>	<u>4,061,546</u>	<u>4,032,313</u>	
FTE	57.9	55.1	59.0	59.0	
General Fund	0	0	0	0	
Cash Funds	3,807,662	3,905,478	4,061,546	4,032,313	
Reappropriated Funds	0	0	0	0	
Federal Funds	0	0	0	0	
Alternative Livestock	<u>8,769</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	
Cash Funds	8,769	15,000	15,000	15,000	
Brand Estray Fund	<u>30,432</u>	<u>68,016</u>	<u>40,000</u>	<u>40,000</u>	
Cash Funds	30,432	68,016	40,000	40,000	
Indirect Cost Assessment	<u>136,838</u>	<u>168,019</u>	<u>164,731</u>	<u>164,731</u>	
Cash Funds	136,838	168,019	164,731	164,731	

TOTAL - (4) Brand Board	3,983,701	4,156,513	4,281,277	4,252,044	(0.7%)
FTE	<u>57.9</u>	<u>55.1</u>	<u>59.0</u>	<u>59.0</u>	0.0%
General Fund	0	0	0	0	0.0%
Cash Funds	3,983,701	4,156,513	4,281,277	4,252,044	(0.7%)
Reappropriated Funds	0	0	0	0	0.0%
Federal Funds	0	0	0	0	0.0%

JBC Staff Budget Briefing: FY 2015-16
Staff Working Document - Does Not Represent Committee Decision

	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
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(5) COLORADO STATE FAIR

This division administers the State Fair under the guidance of the State Fair Authority. Cash funds are from the fees collected by the State Fair during its 11-day event, and from non-fair events held at the State Fairgrounds in Pueblo, Colorado.

Program Costs	<u>7,519,741</u>	<u>7,412,903</u>	<u>8,443,307</u>	<u>8,512,643</u>	
FTE	25.2	24.4	26.9	26.9	
General Fund	0	0	0	0	
Cash Funds	7,519,741	7,412,903	8,443,307	8,512,643	
Reappropriated Funds	0	0	0	0	
Federal Funds	0	0	0	0	
FFA and 4H Funding	<u>0</u>	<u>0</u>	<u>250,000</u>	<u>550,000</u>	*
General Fund	0	0	250,000	550,000	
Indirect Cost Assessment	<u>87,837</u>	<u>107,602</u>	<u>113,269</u>	<u>113,269</u>	
Cash Funds	87,837	107,602	113,269	113,269	

TOTAL - (5) Colorado State Fair	7,607,578	7,520,505	8,806,576	9,175,912	4.2%
FTE	<u>25.2</u>	<u>24.4</u>	<u>26.9</u>	<u>26.9</u>	0.0%
General Fund	0	0	250,000	550,000	120.0%
Cash Funds	7,607,578	7,520,505	8,556,576	8,625,912	0.8%
Reappropriated Funds	0	0	0	0	0.0%
Federal Funds	0	0	0	0	0.0%

JBC Staff Budget Briefing: FY 2015-16
Staff Working Document - Does Not Represent Committee Decision

	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
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(6) CONSERVATION BOARD

This division works to preserve Colorado's natural resources including reducing soil erosion and flood damage, as well as protecting underground water reserves.

Program Costs	<u>438,820</u>	<u>439,008</u>	<u>456,064</u>	<u>474,995</u>	
FTE	5.4	5.6	5.2	5.2	
General Fund	438,820	439,008	456,064	474,995	
Reappropriated Funds	0	0	0	0	
Distribution to Soil Conservation Districts	<u>191,714</u>	<u>391,714</u>	<u>391,714</u>	<u>391,714</u>	
General Fund	191,714	391,714	391,714	391,714	
Matching Grants to Districts	<u>318,996</u>	<u>444,222</u>	<u>675,000</u>	<u>675,000</u>	
General Fund	0	225,000	225,000	225,000	
Cash Funds	318,996	219,222	450,000	450,000	
Salinity Control Grants	<u>817,655</u>	<u>1,021,926</u>	<u>502,859</u>	<u>505,365</u>	
FTE	0.0	1.8	0.0	0.0	
Federal Funds	817,655	1,021,926	502,859	505,365	
TOTAL - (6) Conservation Board	1,767,185	2,296,870	2,025,637	2,047,074	1.1%
FTE	<u>5.4</u>	<u>7.4</u>	<u>5.2</u>	<u>5.2</u>	<u>0.0%</u>
General Fund	630,534	1,055,722	1,072,778	1,091,709	1.8%
Cash Funds	318,996	219,222	450,000	450,000	0.0%
Reappropriated Funds	0	0	0	0	0.0%
Federal Funds	817,655	1,021,926	502,859	505,365	0.5%
TOTAL - Department of Agriculture	39,399,710	40,599,914	44,184,405	44,636,763	1.0%
FTE	<u>275.7</u>	<u>271.0</u>	<u>274.1</u>	<u>274.1</u>	<u>(0.0%)</u>
General Fund	6,791,973	7,695,625	9,311,389	9,661,265	3.8%
Cash Funds	26,206,679	26,795,384	29,141,578	29,157,802	0.1%
Reappropriated Funds	955,219	1,263,648	1,629,526	1,656,548	1.7%
Federal Funds	5,445,839	4,845,257	4,101,912	4,161,148	1.4%

Appendix B: **Recent Legislation Affecting Department Budget**

2013 Session Bills

H.B. 13-1234: (Office Consolidation) Authorizes the entry into lease-purchase agreements by the Department for a period of up to 20 years and expands the allowable deposits to the Agriculture Management Cash Fund to include proceeds from the sale of a building that currently houses the Department’s Inspection and Consumer Services Division.

S.B. 13-174: (Food Systems Advisory Council) Continues the Food Advisory Council until September 1, 2018, increases the council membership from 13 to 15 governor-appointed members, and requires that funds in the Food Systems Advisory Council Cash Fund be continuously appropriated.

S.B. 13-223: (Noxious Weed Advisory Committee) Continues the Noxious Weed Advisory Committee until September 1, 2023 and adds two non-voting members.

S.B. 13-241: (Industrial Hemp Committee) Establishes a registration program in the Department for people cultivating industrial hemp commercially or for research and development purposes.

2014 Session Bills

H.B. 14-1300: (State Fair) Transferred \$300,000 General Fund from the Controlled Maintenance Trust Fund to the Colorado State Fair Authority Cash Fund.

H.B. 14-1336: (Long Bill) General appropriations act for FY 2014-15.

Appendix C: Update on Long Bill Footnotes & Requests for Information

Long Bill Footnotes

None.

Requests for Information

None.

Appendix D: Indirect Cost Assessment Methodology

Description of Indirect Cost Assessment Methodology

The Department of Agriculture indirect cost assessment methodology is calculated based on three components: an “*Indirect Cost Pool*”, an “*Indirect Cost Base*”, and an “*Indirect Cost Rate*”.

The *Indirect Cost Pool* is based on the estimated personal services, operating, and utility line items for the requested budget year in the Commissioner’s and Administrative Services Office. For FY 2015-16, the Department’s *Indirect Cost Pool* as requested is \$1,527,548. **Table 1** outlines which line items are included in the department’s *Indirect Cost Pool*.

Table 1		
Department of Agriculture Indirect Cost Pool		
Division	Line Item	FY 2015-16 Request
Executive Director’s Office	Personal Services	\$1,173,627
	Operating	241,982
	Utilities	<u>111,939</u>
FY 2015 -16 Indirect Cost Pool		\$1,527,548

The *Indirect Cost Base* is set equal to the *Indirect Cost Pool*. The *Indirect Cost Rate* is set estimation purposes at 11.0 percent for most cash fund in the department. However, there are statutory indirect cost caps for the following cash funds: Brand Inspection (3.6 percent), Brand Estray (3.6 percent), Alternative Livestock (3.6 percent), and Agriculture Products Inspection (5 percent). The Agriculture Value-Added Fund and the State Fair Fund *Indirect Cost Rate* is set at 1.5 percent because these funds use few Department resources. **Table 2** summarizes the Department’s *Indirect Cost Base* by division.

Table 2	
Department of Agriculture Indirect Cost Base	
Division	Base
Commissioner’s Office	203,114
Agricultural Services	938,269
Agricultural Markets	108,165
Brand Board	164,731
State Fair	<u>113,269</u>
Total FY 2013-14 Request	\$1,527,548

JBC Staff Budget Briefing: FY 2015-16
Staff Working Document – Does Not Represent Committee Decision

FY 2014-15 Indirect Cost Assessment Request

For FY 2014-15 the Department has requested \$1,527,548 for indirect cost assessments. This amount is equal to the *Indirect Cost Pool*. **Table 3** shows the FY 2014-15 Department indirect cost assessment based on the November 1 request for each division.

Table 3			
Department Indirect Cost Assessment Request			
Division	Total	CF	FF
Commissioner’s Office	203,114	197,014	6,100
Agricultural Services	938,269	645,755	292,514
Agricultural Markets	108,165	103,895	4,270
Brand Board	164,731	164,731	0
State Fair	<u>113,269</u>	<u>113,269</u>	0
Total FY 2015-16 Request	\$1,527,548	\$1,224,664	\$302,884
FY 2014-15 Indirect Cost Assessment	1,500,526	1,280,526	220,000
Difference (FY 16 - FY 15)	\$27,022	(\$55,862)	\$82,884

Appendix E: SMART Act Annual Performance Report

Pursuant to Section 2-7-205 (1) (b), C.R.S., the Department of Agriculture is required to publish an Annual Performance Report by November 1 of each year. This report is to include a summary of the Department's performance plan and most recent performance evaluation. The report dated October 31, 2014 is attached for consideration by the Joint Budget Committee in prioritizing the Department's budget requests.

Strategic Policy Initiatives

The Department of Agriculture has identified several strategic policy initiatives for FY 2014-15 and beyond. For this evaluation report, the Department selected a few initiatives that best capture some of the Department's strategic and operational priorities and reflect the overall direction as identified by Department leadership. The initiatives also provide context for much of the day-to-day work, which is highlighted in the measures section of the report. Additional detail for these, and other, strategic policy initiatives is available in the Department's Performance Plan, which may be accessed [here](#).

E-License Project – Complete the Department's E-License project

Enabling our customers to apply or renew and pay for their licenses, registrations, and inspections through an online application will enhance customer service and improve operational efficiencies. Beginning December 2014, users of seven programs will be able to conduct their business through CDA's new E-License portal. Combined, the seven programs represent about 23,000 applicants and 25 percent of the paper forms CDA receives annually for renewal. Additional programs will roll out in FY 2014-15 and FY 2015-16. The goal is for 90 percent of all registrations and 100 percent of all inspections to be completed utilizing the E-License system.

Energy Efficiency – Enhance energy efficiency opportunities for Colorado agricultural producers

CDA and the Colorado Energy Office (CEO) completed a pilot project in August 2014 to design a statewide program for the next three years to implement energy efficiency measures with dairies and irrigators, as well as renewable energy at dairies. The goal of the collaboration is to deliver a more efficient energy audit and energy conservation measure implementation process for Colorado's dairies and powered irrigators.

Livestock Producers – Foster growth and market opportunities for Colorado's livestock producers

CDA continues to work towards the goal of maintaining Colorado's disease-free status. Central to maintaining the ability for Colorado livestock and products to move freely through interstate and international channels is maintaining a disease-free status. At present, Colorado has sustained its disease-free status for livestock brucellosis, tuberculosis, pseudorabies in swine, and Salmonella pullorum in poultry. Other novel disease control and eradication efforts have also been successfully applied to other diseases that do not have official disease control program status. Disease-free status is maintained through enhancing the animal disease traceability system to better trace back diseased animals and to prevent and control significant livestock diseases.

Office Consolidation – Complete the Department's Office Consolidation

CDA completed Phase I of its office consolidation in FY 2013-14 – moving the Commissioner's Office, Animal Health, Brand Inspection, Conservation services, Markets, and Plant Industry Divisions to a single office complex in the Interlocken Business Park in Broomfield, CO. Phase II relocates the Inspection and



Department of Agriculture Annual Performance Report

Consumer Services Division as well as the Biochemistry, Metrology, and Rocky Mountain Regional Animal Health laboratories to the Interlocken facility by no later than July 1, 2017. Completing the office consolidation is key to driving operational efficiencies and enhancing staff collaboration.

Potato Market Access – Capitalize on the new agreement with Mexico that expanded market access for fresh potatoes

After only 21 days of market access to all of Mexico, a decision by Mexican courts in June 2014 restricted imports of fresh potatoes from the U.S. to only the 26 km free trade zone. Nonetheless, Colorado has captured increased market share and shipments from July 1, 2014 to September 22, 2014 were 87 percent higher than for the same period in 2013. The goal is to increase shipments for FY 2014-15 by 20 percent. CDA’s Markets Division continues to support Colorado’s potato growers and shippers to increase shipments to Mexico through participation in trade shows and the facilitation of buyer-seller networking opportunities.

Operational Measures

Major Program Area – Animal Health

Process - Disease traceability facilitates the veterinary inspection of livestock, and the cataloging of disease data

Measure	FY12 Actual	FY13 Actual	FY14 Actual	1-Year Goal	3-Year Goal
Percentage of animal disease traceability performance exercises conducted that meet USDA traceability standards	New measure for FY13	100%	100%	100%	100%
Percentage of disease traceability investigations determining the location of the diseased animal(s) within one business day	New measure for FY14	New measure for FY14	37.5%	95.0%	95.0%
Percentage of disease traceability investigations determining the movement of diseased animals within seven business days	New measure for FY14	New measure for FY14	62.5%	95.0%	95.0%

Results of the 16 exercises conducted by the Division in FY 2013-14 are comparable or better than results achieved by other similar livestock-rich states. In many instances, USDA provided an ear tag number as the only means for locating the animal(s) or the exercises involved animals from 5-7 years ago for which information is not available from the Division’s animal health information management database (USA Herds). Still, the Division completed the exercises and expects that performance results will improve in FY 2014-15 as additional years information is uploaded to the USA Herds database.

Major Program Area – Brand Inspection

Process - Inspectors inspect livestock to ensure that the person in control of the animal(s) either owns or is authorized to be in control of the animal(s)

Measure	FY12 Actual	FY13 Actual	FY14 Actual	1-Year Goal	3-Year Goal
Percentage of inspections conducted in compliance with statute and regulations	100%	100%	100%	100%	100%
Number of inspections resulting in a disputed legal action	0	0	0	5	5

Inspections completed by the Brands Division have resulted in no disputed legal actions in recent years. The goal is to not exceed five legal actions in any one year.

Major Program Area – Colorado State Fair

Process - Identify when facilities are underutilized, develop target listing of potential renters, and contract with individuals and organizations to raise non-Fair revenues

Measure	FY12 Actual	FY13 Actual	FY14 Actual	1-Year Goal	3-Year Goal
Percentage utilization rate of the State Fair facilities	51.0%	48.0%	51.0%	60.0%	70.0%
Non-Fair revenues	\$734,000	\$685,789	\$742,255	\$750,000	\$822,000

Major Program Area – Conservation Services

Process - Program provides consultation, field support and grant funds to develop and implement eradication plan of noxious weeds

Measure	FY12 Actual	FY13 Actual	FY14 Actual	1-Year Goal	3-Year Goal
Percentage of List A sites that meet annual elimination objective	85.0%	85.0%	85.0%	100%	100%
Percentage of List A sites that visited within one week of being reported to document plant population and begin verification process	New measure for FY13	100%	100%	100%	100%

Major Program Area – Inspection and Consumer Services

Process – Inspectors conduct testing of weighing and measuring devices utilizing official standards approved by the Division’s Metrology Laboratory

Measure	FY12 Actual	FY13 Actual	FY14 Actual	1-Year Goal	3-Year Goal
Percentage of business with a scale inspection interval that exceeded 12 months	New measure for FY13	10.0%	6.3%	0%	0%



Department of Agriculture Annual Performance Report

Major Program Area – Markets Division

Process – Inspectors inspect product samples for determination of size and quality standards, and provide Certificates of Inspection

Measure	FY12 Actual	FY13 Actual	FY14 Actual	1-Year Goal	3-Year Goal
Percentage of inspection requests responded to within two hours	100%	100%	100%	100%	100%
Percentage of inspection requests responded to within 30 minutes	98.0%	97.0%	97.0%	90.0%	90.0%
Number of shipments for which the shipping point inspection is reversed by an appeal at the destination market due to permanent defects	0	0	0	5	5
Volume (cwt.) of shipments for which inspections are reversed at the receiving point	0	0	0	2,000	2,000

A target response rate to inspection requests responded to within 30 minutes of between 90 to 95 percent serves as a leading indicator for optimal staffing levels. No inspections completed by the Markets Division have been reversed at the receiving point in recent years and goal is to not exceed five reversals in any given year and for the total weight not to exceed 2,000 hundredweight.

Major Program Area – Plant Industry

Process – Inspectors review samples of shipments of plant products to ensure they are free of harmful pests and plant diseases, and provide certification for exporters

Measure	FY12 Actual	FY13 Actual	FY14 Actual	1-Year Goal	3-Year Goal
Percentage of Federal and State phytosanitary certificates issued within one day of request when the inspection, test, or other required information is complete	100%	100%	100%	100%	100%
Percentage of Federal and State phytosanitary certificates issued with no errors	99.0%	99.25%	99.0%	99.0%	99.0%