

Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	17,057,058	17,020,557	(36,501)	(0.21)%
Operating Expenses	7,278,997	8,006,147	727,150	9.99%
Equipment & Intangible Assets	42,100	26,000	(16,100)	(38.24)%
Transfers	1,080,962	768,962	(312,000)	(28.86)%
Debt Service	39,934	39,934	0	0.00%
Total Expenditures	\$25,499,051	\$25,861,600	\$362,549	1.42%
General Fund	5,360,429	5,252,196	(108,233)	(2.02)%
State/Other Special Rev. Funds	16,312,764	16,901,430	588,666	3.61%
Federal Spec. Rev. Funds	3,825,858	3,707,974	(117,884)	(3.08)%
Total Funds	\$25,499,051	\$25,861,600	\$362,549	1.42%
Total Ongoing	\$1,179,731	\$25,846,600	\$24,666,869	2,090.89%
Total OTO	\$24,319,320	\$15,000	(\$24,304,320)	(99.94)%

Mission Statement

To control and eradicate animal diseases, prevent the transmission of animal diseases to humans, and to protect the livestock industry from theft and predatory animals.

There is additional, more detailed information about the department in the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_c/5603-00agency-profile.pdf

Agency Highlights

Department of Livestock Major Budget Highlights
<ul style="list-style-type: none"> • Overall expenditure reductions due to rebasing requests across the agency <ul style="list-style-type: none"> ◦ Lower equipment due to reductions in the Diagnostic Laboratory ◦ Lower transfers due to rebasing requests in the Brand Enforcement Division
Legislative Action Issues
<ul style="list-style-type: none"> • Ongoing fiscal management issues may warrant further legislative attention • Executive request to restore FY 2017 level funding contains additional items beyond restoration

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	2.00	2.00	2.00	136.62	136.62
Personal Services	7,819,188	8,450,045	8,607,013	8,498,248	8,522,309
Operating Expenses	3,221,570	3,538,323	3,740,674	4,068,205	3,937,942
Equipment & Intangible Assets	14,395	29,100	13,000	13,000	13,000
Transfers	437,322	567,481	513,481	384,481	384,481
Debt Service	13,835	19,967	19,967	19,967	19,967
Total Expenditures	\$11,506,310	\$12,604,916	\$12,894,135	\$12,983,901	\$12,877,699
General Fund	2,390,005	2,638,645	2,721,784	2,623,661	2,628,535
State/Other Special Rev. Funds	7,374,560	8,129,223	8,183,541	8,513,459	8,387,971
Federal Spec. Rev. Funds	1,741,745	1,837,048	1,988,810	1,846,781	1,861,193
Total Funds	\$11,506,310	\$12,604,916	\$12,894,135	\$12,983,901	\$12,877,699
Total Ongoing	\$307,327	\$445,497	\$734,234	\$12,968,901	\$12,877,699
Total OTO	\$11,198,983	\$12,159,419	\$12,159,901	\$15,000	\$0

Agency Discussion

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2019 biennium 5% plan submitted for this agency is in the appendix.

Livestock has created a 5% reduction plan that eliminates \$121,000 in general fund and \$26,571 in state special revenue. The plan specifically:

- Places the Meat and Poultry Inspection Division in Animal Health, eliminating two supervisors
- Reduces overall operating costs
- Reduces a lab tech from 1.0 FTE to 0.5 FTE
- Reduces a brand recorder from 1.0 FTE to 0.5 FTE

Ongoing Fiscal Management Issues

The Legislative Audit Division completed a financial audit of Livestock in April of 2016. This audit raised continuing questions regarding the finances of Livestock. Specifically, the issues raised were:

- Using the per capita fee improperly and against state law
- Incorrectly recording deferred brand revenues
- Improperly recording the value of stray animals in Livestock's custody

Livestock did not concur with the improper use of the per capita fees finding. The money in question was used to pay a settlement with the former executive officer, which the Legislative Audit Report stated is not in line with the purpose of the fee – enforcement of livestock laws. Livestock maintained that, “while it may be true the settlement is not a result of enforcing livestock laws....a settlement was the best way for the board and their executive officer to amicably agree to a separation...” (Letter to Legislative Auditor from J. Lehfeldt and M. Honeycutt, April 14, 2016),

The incorrect recording of deferred brand revenues finding was the fourth time in a row this topic appeared on a Legislative Audit Report. Each time, Livestock has corrected the specific issue in question. The 2016 Legislative Audit report notes that

the Legislative Audit Division has placed special emphasis on deferred revenue questions since 2006 and have addressed recommendations to Livestock since that time.

The improper recording of animal value was concurred with by Livestock. However, Livestock stated during the Legislative Audit Committee meeting that the Department of Administration had recommended alternative ways of recording the animal value. The Legislative Audit Division will review Livestock's remedies during the periodic financial review.

**LFD
COMMENT**

The legislature has made multiple attempts since 2011 requesting Livestock address ongoing financial and operational concerns. These have included:

- 2011 Session - The Joint Natural Resources and Transportation subcommittee asked Livestock to reassess and balance their budget. Livestock stated they stood behind their budget. In response, the legislature required via HB 2 language and HB 610 that Livestock raise fees to meet appropriations
- 2015 Session – The Joint Natural Resources and Transportation subcommittee changed the Livestock starting point to zero, requesting Livestock build their budget anew. Livestock used the FY 2014 actuals, but reminded the committee that additional money from general fund would be needed to keep the diagnostic lab open. The legislature increased the appropriation, but placed an OTO (one time only) designation on almost the entire Department of Livestock appropriation

The 2015 legislature's OTO created a de facto zero-based budget situation where Livestock can build their budget piece by piece. There are few traditional options left for the legislature to encourage the agency to address their own situation. If the legislature remains concerned with aspects of the budget, they may choose to direct changes through the appropriations process, rather than simply encourage the agency to address their own situation.

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting process.

Figure 1

FY 2017 Appropriation Transactions - Department of Livestock						
	Leg Approp	Allocations	Program Transfers	2017 Base	% Change from Legislative Approp	% Change from Approp + Allocations
01 Centralized Services Division						
Personal Services	\$77,931	\$60,405		\$138,336	77.5%	0.0%
Operating Expenses	17,096			17,096	100.0%	0.0%
Program Total	95,027	60,405		155,432	63.6%	0.0%
03 Diagnostic Laboratory Division						
Personal Services		75,436		75,436	100.0%	0.0%
Program Total		75,436		75,436	100.0%	
04 Animal Health Division						
61000		52,427		52,427	100.0%	0.0%
Program Total		52,427		52,427	100.0%	
05 Milk & Egg Program						
Personal Services	52,812	27,488		80,300	100.0%	0.0%
Program Total	52,812	27,488		80,300	100.0%	0.0%
06 Brands Enforcement Division						
Personal Services		189,896		189,896	100.0%	0.0%
Program Total		189,896		189,896	100.0%	0.0%
10 Meat/Poultry Inspection						
Personal Services		180,743		180,743	100.0%	0.0%
Program Total		180,743		180,743	100.0%	0.0%
Grand Total	\$147,839	\$586,395		\$734,234	396.6%	0.0%
Leg Approp = Legislative Appropriations						
Allocations = include Contingency Base & Pay Plan						

There were no significant changes to the base budget adopted by the executive, aside from the adoption of the pay plan and contingency base allocations approved by the 2015 Legislature.

**LFD
ISSUE**

Executive Request to Restore FY 2017 Level Contains Items Beyond Restoration

Due to the actions of the 2015 legislature, most of the Livestock budget had a one-time-only designation placed on it. The executive has requested a single, agency-wide decision package that would restore the one-time-only

appropriations from FY 2017 into a new base. However, the decision package adds more funding to the base than just restoring funding to the FY 2017 level. If the legislature were to accept DP 1 - Restore Department of Livestock Base as it is proposed, it would add \$1.1 million above the FY 2017 appropriation, including:

- \$222,103 in general fund
- \$855,510 in state special revenue
- \$34,881 in federal special revenue

This request includes additional funding for the diagnostic lab and personal services adjustments. However, because DP 1 is a single block of funding it is difficult to directly connect the FY 2017 appropriation to the amount requested.

The legislature has a number of different options for discussing the Livestock budget including:

1. Deliberating using DP 1 as presented by the executive
2. Deliberating using DP 1 but without the amounts above the restoration of the base
3. Directing Livestock to rebuild the budget request from zero using smaller increments than presented in DP 1

Funding

The following table shows proposed agency funding by source of authority. Funding for each program is discussed in detail in the individual program narratives.

Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	5,252,196	0	0	0	5,252,196	20.31 %
State Special Total	16,886,430	15,000	0	0	16,901,430	65.35 %
Federal Special Total	3,707,974	0	0	0	3,707,974	14.34 %
Proprietary Total	0	0	0	0	0	0.00 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	\$25,846,600	\$15,000	\$0	\$0	\$25,861,600	
Percent - Total All Sources	99.94 %	0.06 %	0.00 %	0.00 %		

Livestock is funded with general fund, state special revenue, and federal special revenue. General fund provides support for some administrative functions, the diagnostic lab, and meat and poultry inspections. Federal special revenue comes from the bison operations cooperative agreement, the Greater Yellowstone Interagency Brucellosis Committee grant for contracted research, and from the U.S. Department of Agriculture in matching funds for meat and poultry inspection.

State special revenue in Livestock is derived primarily from a fee assessed to livestock owners. This fee is done on a per animal basis, hence the name “per capita”. The two other major state special funds are brands inspection – from registration and inspection of brands – and animal health – from fees in the diagnostic lab. These three state special revenue funds comprise over 90% of state special revenue in Livestock. While brands inspection and animal health fund specific activities, they are both supplemented by the per capita fee. Therefore, all of the funds are intertwined and must be looked at in total.

LFD COMMENT

Per capita funding is the primary source of funding for Livestock. It is payable on most of the livestock within the state – including cattle, horses, swine, poultry, bees, ostriches, llamas, and bison. However, it differs from many other taxes and fees.

1. Per capita is self-reported by owners and producers without an audit or enforcement mechanism. Most taxes such as personal income, property, or production taxes have multiple verifications and controls in place to insure that the amount of tax paid is the amount owed. If there is suspected underpayment, audits and enforcement may be used. Per capita has no mechanism to verify that a person has the animals they report. This situation would be

- akin to having no property records and having owners self-report how much land they own. Thus, underpayment may be a problem of unknown magnitude.
2. Per capita only impacts particular livestock. Statute assesses fees on any non-bird, bee, or swine, over the age of 9 months. Thus, calves and lambs are excluded from the assessment. This significantly changes the amount and value of assessed animals.
 3. Per capita is an acyclical assessment, which does not follow or contradict the normal economic cycles. Rather, per capita fees track on the ownership of livestock and to some extent those commodity prices. The pace of economic growth may or may not impact the income.

Statutory Authority

Livestock has two statutory appropriations for the use of state special revenue. The first is for Livestock Loss Board claims. Each fiscal year, \$200,000 is transferred from the general fund to the livestock loss mitigation restricted account. This money is used to make payments for livestock losses due to wolves and grizzly bears. Over the past three fiscal years, Livestock has expended an average of \$122,808 per year. The second is for predator control. Each fiscal year \$350,000 is transferred from the Per Capita account to the predatory animal account. These monies are available to Livestock for the destruction and control of predatory animals. This statutory appropriation sunsets at the end of FY 2017. Over the past three fiscal years, Livestock has expended an average of \$350,000 per year.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	188,740	188,740	377,480	7.19 %	734,234	734,234	1,468,468	5.68 %
SWPL Adjustments	(93,153)	(90,570)	(183,723)	(3.50)%	(533,632)	(558,002)	(1,091,634)	(4.22)%
PL Adjustments	2,649,074	2,651,355	5,300,429	100.92 %	12,792,512	12,825,591	25,618,103	99.06 %
New Proposals	(121,000)	(120,990)	(241,990)	(4.61)%	(9,213)	(124,124)	(133,337)	(0.52)%
Total Budget	\$2,623,661	\$2,628,535	\$5,252,196		\$12,983,901	\$12,877,699	\$25,861,600	