

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	140.75	140.75	134.01	134.01	140.75	134.01	(6.74)	(4.79%)
Personal Services	6,855,799	7,329,156	7,074,414	7,079,424	14,184,955	14,153,838	(31,117)	(0.22%)
Operating Expenses	2,957,157	3,040,519	3,179,702	3,129,966	5,997,676	6,309,668	311,992	5.20%
Equipment & Intangible Assets	7,149	62,689	7,149	7,149	69,838	14,298	(55,540)	(79.53%)
Benefits & Claims	0	0	0	0	0	0	0	n/a
Transfers	75,997	0	75,997	75,997	75,997	151,994	75,997	100.00%
Debt Service	24,842	25,000	24,842	24,842	49,842	49,684	(158)	(0.32%)
Total Costs	\$9,920,944	\$10,457,364	\$10,362,104	\$10,317,378	\$20,378,308	\$20,679,482	\$301,174	1.48%
General Fund	986,083	991,064	1,526,113	1,515,716	1,977,147	3,041,829	1,064,682	53.85%
State Special	7,569,126	7,977,812	7,422,493	7,394,464	15,546,938	14,816,957	(729,981)	(4.70%)
Federal Special	1,365,735	1,488,488	1,413,498	1,407,198	2,854,223	2,820,696	(33,527)	(1.17%)
Total Funds	\$9,920,944	\$10,457,364	\$10,362,104	\$10,317,378	\$20,378,308	\$20,679,482	\$301,174	1.48%

Agency Description

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.

For additional information see the agency profile.

Agency Highlights

Department of Livestock Major Budget Highlights
<ul style="list-style-type: none"> ◆ The Governor’s proposed budget increases by 1.48% from the previous biennium due to statewide present law adjustments and new proposals, primarily to add other funding sources ◆ The Board of Horse Racing assumed a general fund loan of \$628,428, to be repaid over a period of ten years with annual payments of \$62,842 ◆ The executive recommends deleting 8.71 FTE and funding in brands enforcement due to issues with revenues to the primary funding source ◆ Major initiatives in the executive budget are: <ul style="list-style-type: none"> • Funding brucellosis surveillance • Maintaining the animal health system ◆ General fund increases by 53.85% over the biennium primarily due to the brucellosis surveillance program, DSA veterinarian and compliance specialist funding, and animal health system network support fees ◆ The agency did not provide pay plan pay increases during the 2013 biennium
Legislative Action Issues
<ul style="list-style-type: none"> ◆ Major/Agency Wide Issues <ul style="list-style-type: none"> • The per capita fee fund and the animal health fund need to be reviewed for stagnant revenues • The Board of Horseracing is not self-sufficient and required a large general fund loan in the 2013 biennium

Agency Discussion

Agency Personal Services

- The department strives to have salaries for all employees, including new hires, at 90% of the 2006 market survey
- Currently, employees average at 78% of the 2012 market midpoints
- No general pay increases were provided in the 2013 biennium
- Turnover is generally low. Based on a comparison of budgeted to utilized hours, the agency had an overall vacancy savings rate of 8.2% in FY 2012 compared to a legislatively budgeted 4%
- Just over 16% of employees are eligible for retirement in the 2015 biennium

Agency Wide Decision Packages

In the previous biennium, the legislature approved several vehicle purchases across the department. In the 2015 biennium, the executive is proposing to lease vehicles from the state motor pool. The figure below shows the number of leased vehicles requested by division, along with the number of vehicles the legislature provided funding to buy in the 2013 biennium.

Program	Vehicles Purchased			Vehicles Leased		
	FY 2012	FY 2013	FY 2014	FY 2014	FY 2015	FY 2015
Animal Health	1	\$0	\$26,000	1	\$2,487	\$2,420
Brands	0	0	0	4	5,154	9,679
Milk and Egg	<u>2</u>	<u>26,000</u>	<u>26,000</u>	<u>2</u>	<u>2,487</u>	<u>4,840</u>
Total	<u>3</u>	<u>\$26,000</u>	<u>\$52,000</u>	<u>7</u>	<u>\$10,128</u>	<u>\$16,939</u>

Funding

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

Total Department Of Livestock Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$3,041,829	\$0	\$0	\$3,041,829	13.7%
State Special Total	14,816,957	-	1,469,766	16,286,723	73.5%
Federal Special Total	2,820,696	-	-	2,820,696	12.7%
Proprietary Total	-	-	-	-	0.0%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	<u>\$20,679,482</u>	<u>\$0</u>	<u>\$1,469,766</u>	<u>\$22,149,248</u>	
Percent - Total All Sources	93.4%	0.0%	6.6%		

The Department of 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. The executive budget contains a 53.85 % increase in general fund from the 2013 biennium. The increase is mainly attributable to present law adjustments; costs associated with the brucellosis designated surveillance area (DSA), and funding for a DSA veterinarian and compliance specialist. A further discussion is included in the Animal Health Division.

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 match funds for meat and poultry inspection.

State special revenue in the Department of Livestock is derived primarily from taxes and fees assessed to livestock owners on a per capita basis and accounts for 72% of the total budget. Three state special revenue funds comprise over 90% of state special revenues in the department. While two of the funds are used for specific activities, they are both supplemented by the primary funding state special revenue source, the per capita fee fund. Therefore, the fates of each of the accounts are intertwined and must be looked at in total. The following table shows the functions of the department and the related funding sources.

2015 Biennium Funding							
Funding Source	Division						Total
	Central Services	Laboratory	Animal Health	Milk & Egg	Brands	Meat & Poultry	
General Fund	\$165,431	\$579,108	\$1,013,028	\$0	\$5,886	\$1,278,376	\$3,041,829
Per Capita Fee	2,734,121	1,278,613	1,299,735	0	3,382,356	0	8,694,825
Animal Health	0	2,051,319	77,888	686,418	0	11,435	2,827,060
Inspection & Control	0	0	0	0	2,464,432	0	2,464,432
Other State Special	710,542	0	0	120,098	0	0	830,640
Federal	0	0	1,485,340	56,980	0	1,278,376	2,820,696
Total	\$3,610,094	\$3,909,040	\$3,875,991	\$863,496	\$5,852,674	\$2,568,187	\$20,679,482

There are two primary issues with the three dominant state special revenue funds:

- 1) Two of the funds are not sustainable over time with current anticipated revenues and requested expenditures
- 2) The per capita fee is being used to provide supplementary funding for both funds

LFD
ISSUE

Two State Special Funds are not Sustainable

The inspection and control fund and the animal health fund are not sustainable over time. In addition, the executive is proposing reductions in operations in the Brands Enforcement Division and the Diagnostic Laboratory and further supplementary funding from the per capita fund in the 2015 biennium.

Inspection and Control Fund

The inspection and control fund supports brand enforcement functions and derives its revenues from brand recordings and market and local inspections. The following table shows actual expenditures through FY 2012, and appropriated and requested expenditures and projected revenues through the 2015 biennium.

As shown, the fund is structurally imbalanced in FY 2012 and FY 2013, with structural imbalance prevented in subsequent years by a sharp decrease in expenditures from the fund in the proposed FY 2014 budget, and maintenance of reductions in FY 2015. This reduction is due to the combination of two factors:

- o A proposed reduction of 8.71 FTE brands inspectors; and
- o A one-year increase in supplemental funding from the livestock per capita fund in FY 2014

The following shows actual and appropriated funding in the 2013 biennium and proposed funding for the Brands Enforcement Division in the 2015 biennium. As shown, additional funding from the per capita fee would be used to help stabilize the fund in FY 2014, with continued additional support from the per capita fee in subsequent years.

Department of Livestock Inspection and Control Fund				
	Actual	Appropriated	Executive Request	
	FY 2012	FY 2013	FY 2014	FY 2015
Beginning Balance	\$256,353	\$81,645	(\$207,666)	\$753,120
Revenues	1,926,537	1,831,819	1,706,319	1,721,319
Expenditures				
Brands Enforcement	(2,101,245)	(2,121,130)	(745,533)	(1,718,899)
Ending Fund Balance	\$81,645	(\$207,666)	\$753,120	\$755,540
FTE	57.71	57.71	49.00	49.00

LFD ISSUE CONT.	Brands Enforcement Division 2013 and 2015 Biennia							
	State Fiscal Year	Total	General Fund	Percent of Total	Inspection Control	Percent of Total	Livestock Per Capita	Percent of Total
	Actual 2012	\$3,253,883	\$2,943	0.1%	\$2,100,786	64.6%	\$1,150,154	35.3%
	Appropriated 2013	\$3,232,738	2,943	0.1%	2,092,199	64.7%	1,137,596	35.2%
	Proposed 2014	\$2,920,547	2,943	0.1%	745,533	25.5%	2,172,071	74.4%
	Proposed 2015	\$2,932,127	2,943	0.1%	1,718,899	58.6%	1,210,285	41.3%

A further discussion is in the Brands Enforcement Division in this agency’s narrative.

Animal Health Fund

The animal health fund derives revenue from lab testing fees and milk and egg inspection fees. The diagnostic lab and the milk and egg functions are supported by this fund. The department has had challenges balancing expenditures with revenues. The following shows actuals through FY 2012, and appropriated and requested expenditures and projected revenues through the 2015 biennium. Milk and egg fees are driven by industry inspection requirements. The fees for lab activities have not been adjusted since December 2007; therefore, any increase in revenues is dependent upon lab activities. Total revenues are as estimated by LFD staff based on historical data.

Department of Livestock Animal Health Fund				
	Actual FY 2012	Appropriated FY 2013	Executive Request	
			FY 2014	FY 2015
Beginning Balance	\$268,023	\$12,498	(\$77,264)	\$36,087
Revenues*	1,185,927	1,332,021	1,332,021	1,332,021
<u>Expenditures</u>				
Central Services	\$0	\$0	\$0	\$0
Laboratory	1,123,370	1,139,269	974,975	1,076,344
Animal Health	6,934	60,829	38,970	38,918
Milk & Egg	305,222	358,177	341,216	345,202
Brands	0	0	0	0
Meat & Poultry	<u>5,926</u>	<u>5,717</u>	<u>5,718</u>	<u>5,717</u>
Total Expenditures	<u>\$1,441,452</u>	<u>\$1,563,992</u>	<u>\$1,360,879</u>	<u>\$1,466,181</u>
Ending Fund Balance	<u>\$12,498</u>	<u>(\$219,473)</u>	<u>(\$106,122)</u>	<u>(\$98,073)</u>

As shown, the account is projected to be negative at the end of FY 2013 if all appropriations are expended, even with no support provided to the Central Services Division. The executive proposes to reduce expenditures in the 2015 biennium. However, this reduction is not enough to restore a positive fund balance, and the account remains structurally unbalanced.

If this fund is to achieve balance without further supplementary funding from the per capita fee or the general fund, either laboratory fees must be raised or expenditures further curtailed.

A further discussion of this fund, including proposed operational adjustments, is in the narrative for the Diagnostic Laboratory.

Livestock Per Capita Fee Fund

Fund Balance

The livestock per capita fund is the largest state special revenue fund supporting this agency and supports animal health functions in the Animal Health Division and the Diagnostic Laboratory, predator control, the Centralized Services Division, and a portion of the Brand Enforcement Division. Per capita revenue is derived by taxation on the ownership of livestock and interest earnings on the fund balance, with fees set by the Board of Livestock annually. The following table shows the revenues to and actual and proposed expenditures from the fund through the 2015 biennium. Estimated revenues reflect recent increases in revenues adopted by the board.

Department of Livestock Per Capita Fund				
	Actual FY 2012	Appropriated FY 2013	Executive Request	
			FY 2014	FY 2015
Beginning Balance	\$1,097,858	\$871,362	\$913,675	\$291,737
Revenues	\$4,028,207	\$4,268,823	\$4,278,823	\$4,288,823
<u>Expenditures</u>				
Central Services	\$1,680,742	\$1,542,588	\$1,389,141	\$1,344,980
Laboratory	551,252	564,700	689,701	588,912
Animal Health	871,942	973,357	649,848	649,887
Milk & Egg	1,695	0	0	0
Brands	1,149,072	1,145,865	2,172,071	1,210,285
Meat & Poultry	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$4,254,703</u>	<u>\$4,226,510</u>	<u>\$4,900,761</u>	<u>\$3,794,064</u>
Ending Fund Balance	<u>\$871,362</u>	<u>\$913,675</u>	<u>\$291,737</u>	<u>\$786,496</u>

As shown in the table and discussed above, the executive is using this account to float the inspection and control fund and the animal health fund in FY 2014. While the per capita fee fund balance is not jeopardized by this action, the question for the legislature is whether the other two funds should be adjusted to be more sustainable over the long-term.

**LFD
ISSUE**
Brucellosis Control in the Animal Health Division

The executive is requesting \$1.0 million in general fund over the biennium for brucellosis control in the Animal Health Division. In the 2013 biennium this function was appropriated by the legislature on a one-time-only basis using 50% general fund and 50% per capita funds. The executive states that it is requesting 100% general fund because the per capita fee is not sustainable for this purpose.

As shown in the table, the fund would have sufficient resources to cover one-half of this cost over the biennium in FY 2015 without sacrificing structural balance. In FY 2014, only the subsidization of both the laboratory and brands enforcement puts the fund into temporary imbalance.

Option

Fund a portion of the request for funds for brucellosis control with per capita fees.

Revenues

The Board of Livestock annually evaluates a number of factors to determine if and how much the per capita tax rate should change. The change is limited in statute (15-24-922, MCA) to 110% of the average of the past three years less a reasonable nonpayment rate. The board increased the per capita fee in FY 2012 and again in FY 2013. Increased revenues totaled about \$310,400 in FY 2012 and \$271,500 in FY 2013. The executive budget assumes a further increase of about 3.3% in the 2015 biennium, or about \$270,616 in additional revenues above the 2013 biennium.

**LFD
ISSUE**
Alternative Collection Method

As stated, the Board of Livestock is by statute the entity that determines fees, within statutory limitations. However, the legislature could take action if it feels a revenue increase is necessary by seeking an alternative method to collect fees.

Currently, the Department of Revenue releases a survey to registered livestock owners to obtain information regarding animal count. The owner returns the survey to the department and receives an invoice for the per capita amount owed. The Department of Revenue does not actively seek out individuals who owe this fee. Either the livestock owner has to contact the department, or it is noted in an onsite visit to appraise real estate and a survey is sent out.

The current process does not reach all livestock owners, and therefore does not maximize revenues to the department. Revenues could potentially be increased if the process was simplified. The legislature could consider establishing a new collection method, such as via income tax returns, by completing the tax form as part of the routine tax filing process.

Legislative Option

Direct the agency to pursue alternate collection strategies with the Department of Revenue and report to the appropriate legislative interim committee.

**LFD
COMMENT**

Board of Horse Racing (BOHR)

In 2011, the legislature passed SB 16, which required a person conducting simulcast racing through a simulcast parimutual network to enter into a contract with the BOHR.. The BOHR was funded in the 2013 biennium from a statutory appropriation (23-4-105, MCA) from the BOHR operations fund and the BOHR simulcast fund.

The activities of the BOHR were intended to be self-sufficient by entering into simulcast contracts. However, in the first 18 months of operation in the 2013 biennium the board had a projected funding deficit of more than \$600,000. The primary causes of the shortfall include not collecting revenues from contracts and entering into contracts without having revenues to support them.

In March FY 2012, the board received a general fund loan of \$609,638, to be repaid over a period of eight years. By the end of the fiscal year, the board had accumulated additional debt and the final loan was revised to \$628,428, to be repaid over a period of ten years with annual payments of \$62,842. There is no interest paid on loans made from the general fund to other funds.

The board authorized repayment of the loan from advance deposit wagering and fantasy sports revenue. The board receives a portion of revenues (16% of the total funds deposited for the fantasy sports league wagering) from the Montana Lottery. Additionally, 1% of advance deposit wagering handled through the pari-mutuel system is used for repayment of the loan. These funds would have been used by the board for operating expenses. These sources appear to be steady, albeit small amounts, of revenue. The first payment was made at the end of FY 2012.

Currently, the board has hired a simulcast manager that had previously run the program successfully. The executive is proposing to reduce 1.03 FTE and \$68,519 in FY 2014 and \$68,427 in FY 2015 of state special revenue funding associated with board activities in order to align funding to projected revenue. The board anticipates to continue fully functioning during the 2015 biennium. The executive projects \$664,744 over the biennium from the statutory appropriation provided in 23-4-105, MCA.

The board is currently running a positive balance with current revenues.

The most recent audit report can be found at
http://www.leg.mt.gov/css/publications/audit/audit_reports_AgencyAlpha.asp

The report presented to the Legislative Finance Committee can be found at
http://www.leg.mt.gov/content/Publications/fiscal/interim/2012_financemty_Sept/BOHR%20Memo.pdf

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 2015 biennium 5% plan submitted for this agency is in the appendix.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	986,083	986,083	1,972,166	64.83%	9,920,944	9,920,944	19,841,888	95.95%
Statewide PL Adjustments	(13,433)	(11,903)	(25,336)	(0.83%)	378,702	348,295	726,997	3.52%
Other PL Adjustments	27,212	15,487	42,699	1.40%	(13,348)	(24,514)	(37,862)	(0.18%)
New Proposals	526,251	526,049	1,052,300	34.59%	75,806	72,653	148,459	0.72%
Total Budget	\$1,526,113	\$1,515,716	\$3,041,829		\$10,362,104	\$10,317,378	\$20,679,482	