COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE

FY 2008-09 BRIEFING:
DEPARTMENT OF AGRICULTURE

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

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November 7, 2007

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FY 2008-09 JBC BUDGET BRIEFING
DEPARTMENT OF AGRICULTURE

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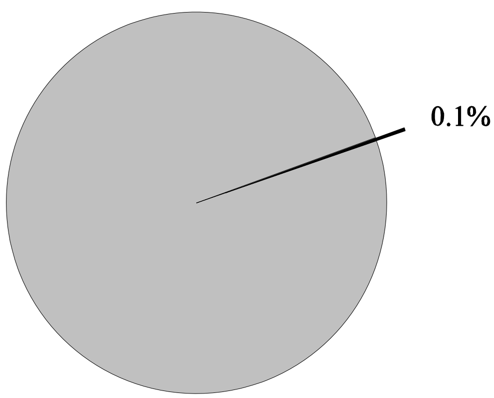
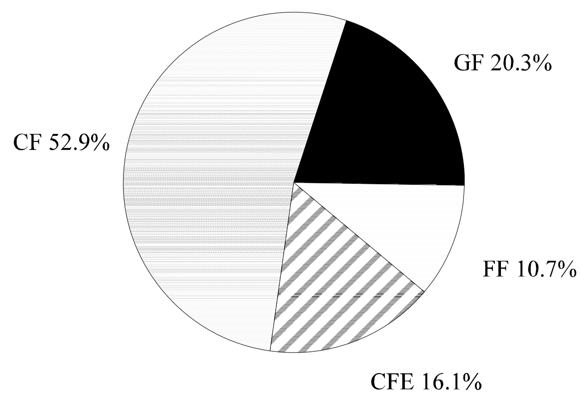
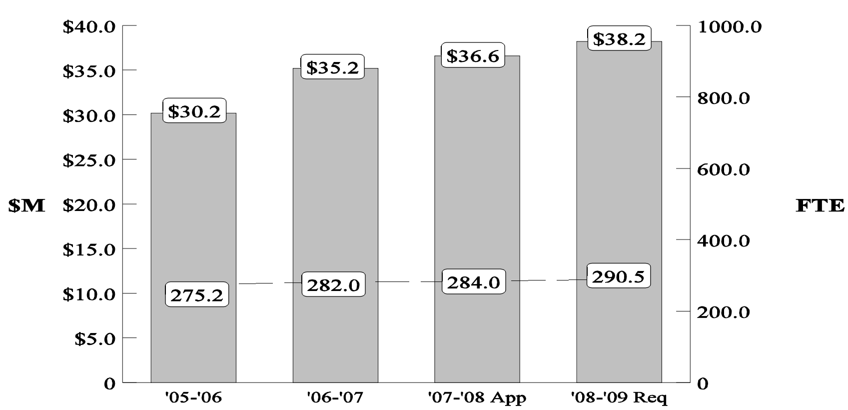
Share of State General Fund FY 2007-08



Funding Source Split FY 2007-08



Budget History



FY 2008-09 JBC BUDGET BRIEFING
DEPARTMENT OF AGRICULTURE
OVERVIEW

Key Responsibilities

- Provide consumer and producer protection through inspection and certification of animal feed, fertilizers, fruits/vegetables, eggs, and meat; precision testing of commercial scales, and regulation of the sale of farm products.
- Protect the state's livestock industry by monitoring livestock herds for a variety of diseases.
- Register and regulate commercial pesticide applicators, inspect for agricultural chemical pollution, and administer the State weed control program.
- Assist the promotion of Colorado agricultural products to domestic and international markets.
- Provide inspection of livestock brand registrations to protect producers from fraud or theft.
- Protect and conserve soil resources from contamination and erosion.
- Administer the Colorado State Fair and fairgrounds through the State Fair Authority .

Factors Driving the Budget

Agricultural Services Division

For FY 2007-08, the Agricultural Services Division is appropriated 32.2 percent of the Department's total budget, however it constitutes 49.8 percent, or $3.7 million of the Department's $7.4 million total General Fund appropriation. Division responsibilities include the inspection and certification of Colorado produce; protecting the economic viability of the state's livestock industry; management of pest control and noxious weeds; and the registration of pesticides. Although not reflected in the Long Bill, this division is organized into Inspection and Consumer Services, Plant Industry, and Animal Industry. Historically, a large majority of the Department's funding requests are generated by programs within this division.

The passage of H.B. 07-1198 (Pommer/Johnson) removed the sunset provision of the Inspection and Consumer Services (ICS) Cash Fund and refinanced seven programs within the Inspection and Consumer Services Division with a mix of General Fund and fees. Prior to 2004, ICS programs received 100 percent General Funding. Due to the State's budget crisis, legislation was enacted which temporarily refinanced these programs away from General Fund to 100 percent cash funding, however on July 1, 2007, these programs were to again be fully financed with General Fund moneys. Within the Agricultural Services Division, H.B. 07-1198 decreases the General Fund expenditures required to finance the ICS programs by $2.1 million, which is offset by a corresponding increase of $2.2 million cash funds for FY 2007-08 moving forward.

Cash Funds and Cash Funds Exempt
The majority of the Department's total funding (69.0 percent, or $25.2 million) is generated through fees collected from inspection and certification services performed by the Agricultural Services Division and the Brand Board, as well as revenue earned from the activities of the State Fair. In addition, 65.5 percent, or $3.9 million of all cash funds exempt expenditures is related to the Brand Board, which is classified as an enterprise, pursuant to Section 20 of Article X of the state constitution (TABOR).

The State Fair
Pursuant to H.B. 06-1384, the State Fair Authority was provided moneys through the Colorado Travel and Tourism Promotion Cash Fund to (1) pay down remaining state Treasury loans; (2) upon repayment of the state Treasury loans, pay-off outstanding debt incurred to build the Events Center in Pueblo; (3) and provide an annual appropriation of $550,000 for administrative expenses, operating costs, and event promotion. As a result of this legislation, the State Fair Authority lost its enterprise status upon receiving more than 10 percent of its annual revenue in grants, pursuant to Section 20 of Article X of the Colorado Constitution (TABOR). Further, the moneys from this legislation decreased the lender-required amount of cash reserves by $1.9 million.

Summary of Major Legislation

✓ **S.B. 07-206 (Schwartz/Rose):** Creates the Biological Pest Control Cash Fund and permits the Agriculture Commission to set and collect fees for the services provided through the Biological Pest Control Program. Appropriates $23,011 cash funds from the Biological Pest Control Cash Fund to the Agricultural Services Division for FY 2007-08.

✓ **H.B. 07-1198 (Pommer/Johnson):** Extends the Commissioner of Agriculture's ability, in conjunction with the members of the Colorado Agriculture Commission, to increase fees related to Inspection and Consumer Services (ICS) programs to fund its programs' direct and indirect costs. Subsidizes ICS programs with General Fund in relation to how much the services provided by each program benefits the common good as compared to a specific industry. Prior to 2004, ICS programs received 100 percent General Funding. However due to the state's budget crisis, S.B. 03-297 was enacted which refinanced these programs away from General Fund to 100 percent cash funding. In 2005, S.B. 05-176 was enacted which extended the ICS Cash Fund with a sunset date of June 30, 2007. After this date, reduced fees established by statute will be collected by the Department of Agriculture and transmitted to the General Fund. This action would significantly reduce revenue generated from the program's current fee structures. House Bill 07-1198 effectively decreases the General Fund expenditure by $2,560,403 and 32.9 FTE and increases expenditures from the ICS Cash Fund by $2,679,755 and 32.9 FTE – which includes $119,352 in indirect cost assessments. In addition, the bill removes the Butcher's Law license exemption and amends the methods of fee collection for both the ICS Division and the Brand Board. The following table outlines the fiscal impact of this bill:

Division	GF	CF	CFE	FF	Total
Agricultural Services	($2,111,807)	$2,231,159	$0	$0	$119,352
FTE	(32.9)	32.9	0.0	0.0	0.0
Commissioner's Office	($448,596)	$329,244	$119,352	$0	$0
FTE	0.0	0.0	0.0	0.0	0.0
Total	($2,560,403)	$2,560,403	$119,352	$0	$119,352
FTE	(32.9)	32.9	0.0	0.0	0.0

✓ **H.B. 06-1274 (Hodge/Entz) Pesticide Private Applicators License.** Makes changes to the regulation of pesticide applicators by allowing the Department to administer and regulate private pesticide applicators within the state, a role the Environmental Protection Agency (EPA) had jurisdiction over. Appropriates $427,816 cash funds, $110,000 federal funds, and 5.8 FTE to the Department of Agriculture for FY 2006-07. Also appropriates $76,051 cash funds exempt and 0.8 FTE to the Department of Law from the funds appropriated to the Department of Agriculture in FY 2006-07.

✓ **H.B. 06-1384 (Buescher/Tapia) Money Benefiting the State Fair.** Changed the allocation of the Unclaimed Property Tourism Promotion Trust Fund interest to provide additional moneys to the state fair through the Colorado Travel and Tourism Promotion Fund. Moneys provided to the Colorado State Fair are prioritized as follows: (1) state Treasury loans to the state fair are to be paid down with remaining funds; (2) upon repayment of the state Treasury loans, any remaining funds are to pay off outstanding debt incurred by the Colorado State Fair Authority to build the events center in Pueblo; (3) upon payment of all debt, $550,000 is provided annually for administrative expenses, operating costs, and event promotion; and, (4) after the third fiscal year (in FY 2009-10) only the $550,000 for administrative, operating, and promotional costs are authorized. Appropriates $3,163,978 cash funds from the Colorado Travel and Tourism Promotion Fund to the Department of Agriculture, Colorado State Fair, for FY 2006-07. Also makes a funding adjustment to the Office of the Governor from this funding source for FY 2006-07.

✓ **H.B. 06-1322 (Buescher/Tapia) Clean Energy Development Fund.** Creates the Agriculture Value-added Cash Fund and, for FY 2006-07, FY 2007-08, and FY 2008-09, transfers $500,000 from the Operational Account of the Severance Tax Trust Fund into this Fund. Appropriates $500,000 cash funds exempt from the Agriculture Value-added Cash Fund to the Department of Natural Resources in FY 2006-07 to promote agricultural energy-related projects and research.

✓ **S.B. 05-176 (Owen/Plant) Department of Agriculture - authority to set fees and penalties.** Re-authorizes the Commissioner of Agriculture, in conjunction with the Colorado

Agricultural Commission, to adjust licensing and testing fees for seven programs related to Inspection and Consumer Services (ICS) in the Agricultural Services Division. Sunsets applicable program fees and the inspection and consumer services cash fund (#16R) on July 1, 2007, and resumes the previous fee structure and corresponding subsidy from the General Fund.

✓ **S.B. 04-009 (Taylor/Vigil) Colorado state fair authority - acceptance of contributions affecting enterprise status.** Repeals the prohibition on the acceptance of contributions by the Colorado state fair authority from non-state entities in any budget year that the authority would qualify as an enterprise under section 20 of article X of the state constitution (TABOR) if acceptance of the contributions affects the authority's enterprise status by causing the authority to receive more than 10 percent of its annual revenues from all Colorado state and local governments combined.

✓ **H.B. 04-1351 (Hoppe/Taylor): Brand Board as an Enterprise.** Designates the state board of stock inspection commissioners ("board") and the division of brand inspection ("division") as an enterprise for purposes of section 20 of article X of the state constitution ("TABOR"), so long as the board retains the authority to issue revenue bonds and the board and the division receive less than 10 percent of their total annual revenues in grants.

✓ **S.B. 03-169 (Teck/Plant): Remove Indirect Cost Caps.** Removes indirect cost recovery caps for the Brand Inspection, Chemigation, and the Mandatory Fruit and Vegetable Inspection programs. Reduces the Department's General Fund appropriation by $495,000. Sunsets effective July 1, 2006, and reinstates the previous indirect cost recovery.

✓ **S.B. 03-297 (Owen/Plant): Cash Fund Ag Commission Activities.** Authorizes the Commissioner of Agriculture to increase fees for seven programs related to Inspection and Consumer Services. Refinances the General Fund subsidy for these programs with revenue generated from these fee increases. Sunsets these fee increases on July 1, 2005, and returns the fees to their previous levels.

Major Funding Changes FY 2006-07 to FY 2007-08

Action (Source)	General Fund	Other Funds (Source)	Total Funds	Total FTE
Increase in Federal Funds (Long Bill)	0	2,000,000 (FF)	**2,000,000**	**0.0**
Adjustment for Centralized Appropriations (Long Bill)	401,840	346,351 (CF, CFE, FF)	**748,191**	**0.0**
Annualized Salary Survey (Long Bill)	118,454	290,053 (CF, CFE, FF)	**408,507**	**0.0**
Brand Board Trucks (Long Bill)	0	148,993 (CFE)	**148,993**	**0.0**
Conservation Field FTE (Long Bill)	126,846	0	**126,846**	**2.0**
Eliminate the Sunset of the Inspection and Consumer Services (ICS) Cash Fund / Refinance Seven ICS Programs (H.B. 07-1198)	(2,560,403)	2,679,755 (CF and CFE)	**119,352**	**0.0**
Lease Purchase Lab Equipment (Long Bill)	85,992	0	**85,992**	**0.0**
State Fair: Loss of Enterprise Status (Includes a funding mix adjustment of $6.2 from CFE to CF as a result of funding from S.B. 06-1384)	0	0 (CF and CFE)	**0**	**0.0**
Sunset of the Inspection and Consumer Services Cash Fund (S.B. 05-176)	$3,898,389	$(4,320,082) (CF, CFE, FF)	**($421,693)**	**0.0**
State Fair: Decrease of Required Cash Reserves (The impact of the funds appropriated by H.B. 06-1384 to pay down debt incurred for the Events Center in Pueblo, decreased the amount of cash reserves required)	0	(1,929,502) (CFE)	**(1,929,502)**	**0.0**

The largest increases to the Department of Agriculture's total appropriation between FY 2006-07 and FY 2007-08 include the refinancing of the Inspection and Consumer Services (ICS) cash fund -- increasing the amount of General Fund, a decrease in funds the State Fair required for bonding, as well as an increase of $2 million in federal moneys for the implementation of the most recent Farm Bill, the National Animal Identification System, microbiological and pesticide data programs, and the Cooperative Agricultural Pest Survey.

FY 2008-09 BUDGET BRIEFING
DEPARTMENT OF AGRICULTURE
DECISION ITEMS

Priority	Division: Description	GF	CF *(source of funds)*	CFE *(source of funds)*	FF	TOTAL	FTE
1	**All Divisions: Operating Lines.** The Department is seeking increases to its operating lines for all of its divisions (except State Fair, Ag Stats, and federal programs) to cover the increasing costs of postage rates, State Fleet per mile rates, DPA printing costs, and for agriculture advocacy.	$54,456	$79,903 *Various cash funds*	$608 *Brand Board*	$3,583	**$138,550**	0.0
2	**Ag Services: Measurement Standards Lab Equipment** Obsolete lab equipment replacement.	34,273	11,424 *ICS Cash Fund*	0	0	**45,697**	0.0
3	**Commissioner's Office: Asset Maintenance** Year 1 of a 4 year request to replace IT.	6,160	12,000 *Various cash funds*	23,466 *Brand Inspection Fund*	0	**41,626**	0.0
4	**Ag Services: Animal Field Tech FTE** 1.0 FTE to serve on the Western Slope helping the State Vet's Office with disease testing and disease control efforts.	57,324	0	0	0	**57,324**	1.0
5	**Special Purpose: Wine Promotion Board Part-time FTE.** 0.5 FTE to support the marketing and promotional activities of the Wine Board as well as provide administrative support.	0	20,719 *Wine Development Fund*	0	0	**20,719**	0.5

FY 2008-09 BUDGET BRIEFING
DEPARTMENT OF AGRICULTURE
DECISION ITEMS

Priority	Division: Description	GF	CF *(source of funds)*	CFE *(source of funds)*	FF	TOTAL	FTE
6	**Brand Board: Replacement Trucks** Replacement of 10 trucks (average mileage 134,437). Brand Board vehicles are not contained within state fleet services.	0	0	139,820 *Brand Inspection Fund*	0	**139,820**	0.0
NP	**Multiuse Network Payments** Adjust billings for the department's use of the multiuse network.	2,536	0	0	0	**2,536**	0.0
NP	**Statewide: CSEAP Program Staffing**	715	1,191 *Various cash funds*	536	22	**2,464**	0.0
NP	**Fleet Reconciliation and Replacement**	5,063	6,908 *Various cash funds*	0	253	**12,224**	0.0
	TOTAL REQUEST	**$160,527**	**$132,145**	**$164,430**	**$3,858**	**$460,960**	**1.5**

FY 2008-09 JBC BUDGET BRIEFING
DEPARTMENT OF AGRICULTURE
OVERVIEW OF NUMBERS PAGES

Requested Changes FY 2007-08 to FY 2008-09

Category	Total	GF	CF	CFE	FF	FTE
FY 2007-08 Appropriation	$36,574,593	$7,413,544	$19,344,598	$5,906,296	$3,910,155	284.0
FY 2008-09 Request	$38,202,700	$7,562,318	$20,006,600	$6,642,697	$3,991,085	290.5
Increase	**$1,628,107**	**$148,774**	**$662,002**	**$736,401**	**$80,930**	**6.5**
Percent Change	**4.5%**	**2.0%**	**3.4%**	**12.5%**	**2.1%**	**2.3%**

Notable FY 2006-07 Budget Changes: Agricultural Services Division

The Department has requested 6 decision items. Of those 6 decision items, 3 decision items and 84.2 percent ($125,320) of the General Fund increase are contained in Agricultural Services division.

General Fund Increase. The General Fund changes are primarily in the Agricultural Services Division:

✓ An increase of $54,456 General Fund for increases to the operating lines (DI #1), with the heaviest concentration in the Agricultural Services Division ($33,723; 61.9 percent).

✓ An increase of $57,324 General Fund and 1.0 FTE for an Animal Field FTE stationed on the Western Slope.

Cash Funds/Cash Funds Exempt Changes. Inspection and Consumer Services Cash Fund:

✓ The significant changes in cash funds are as a result of the refinancing of seven programs within the Inspection and Consumer Services (ICS) with a mix of General Fund and cash funds proportional to how much the program benefits the common good (H.B. 07-1198).

✓ The significant Cash Funds Exempt changes are as a result the Department including $450,000 of continuously appropriated moneys from the Severance Tax Trust Fund for matching grants to conservation districts. Staff is not including these moneys as they are continuously appropriated and are for informational purposes only, but is making mention of this change to account for the large annual variance.

FTE Changes. 5.0 FTE of the 6.5 FTE increase are funded with federal dollars:

✓ 5.0 FTE are funded with moneys associated with federally sponsored moneys.

✓ 1.0 FTE is for a Animal Field Tech (DI #4) and 0.5 FTE for a Wine Promotion.

The following table highlights the overall increases contained in the Department's FY 2007-08 request.

Requested Changes FY 2007-08 to FY 2008-09

Category	GF	CF	CFE	FF	Total	FTE
Annualization and Other	**$ (11,753)**	**$ 529,857**	**$ 571,971**	**$ 77,072**	**$ 1,167,147**	**5.0**
Decision Items	**152,213**	**124,046**	**163,894**	**3,583**	**443,736**	**1.5**
#1. Operating Lines Increase	54,456	79,903	608	3,583	138,550	0.0
#2. Measurements Standards Lab Equipment	34,273	11,424	0	0	45,697	0.0
#3. Asset Maintenance	6,160	12,000	23,466	0	41,626	0.0
#4. Animal Field Tech FTE	57,324	0	0	0	57,324	1.0
#5. Wine Promotion Part-Time FTE	0	20,719	0	0	20,719	0.5
#6. Brand Board Trucks	0	0	139,820	0	139,820	0.0
Statewide Adjustment	**8,314**	**8,099**	**536**	**275**	**17,224**	**0.0**
Total Department Change	**$ 148,774**	**$ 662,002**	**$ 736,401**	**$ 80,930**	**$ 1,628,107**	**6.5**

The large majority of increases to cash funds between FY 2006-07 and FY 2007-08 are related to the refinancing of programs funded by the Inspection and Consumer Services Cash Fund. The large increase in CFE is a result of 5.0 FTE funded by federal moneys for various pest control, microbiological, and animal identification programs.

	FY 2005-06 Actual		FY 2006-07 Actual		FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes

DEPARTMENT OF AGRICULTURE
John Stulp, Commissioner

(1) COMMISSIONER'S OFFICE AND ADMINISTRATIVE SERVICES

Primary Function: Working with agricultural leaders and the public to develop and promote agricultural policies and programs and manage state agricultural resources to achieve successful solutions. The source of cash funds is fees collected by cash funded programs within the Department. The sources of cash funds exempt are indirect cost recoveries and cash fund reserves.

	FY 2005-06 Actual		FY 2006-07 Actual		FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes
Personal Services	1,438,500		1,594,635		1,572,970	1,629,112	
FTE	17.6		18.9		19.7	19.7	
General Fund	0		645,053		858,866	741,710	
FTE	17.6		18.9		19.7	19.7	
Cash Funds	437,672		126,480		134,521	133,790	
Cash Funds Exempt	1,000,828		823,102		579,583	753,612	
Health, Life, and Dental	59,507	a/	322,700	a/	1,233,295	1,324,075	
General Fund	56,007		222,700		334,709	352,703	
Cash Funds	0		0		539,782	589,696	
Cash Funds Exempt	3,500		100,000		326,491	334,972	
Federal Funds	0		0		32,313	46,704	
Short-Term Disability	0	b/	0	b/	18,244	19,864	
General Fund	0		0		4,498	6,673	
Cash Funds	0		0		8,513	8,605	
Cash Funds Exempt	0		0		4,725	3,656	
Federal Funds	0		0		508	930	
SB 04-257 Amortization Equalization Disbursement	0		8,000	c/	166,650	245,369	
General Fund	0		8,000		39,756	82,717	**DI #4**
Cash Funds	0		0		78,592	106,200	**DI #5**
Cash Funds Exempt	0		0		43,611	44,991	
Federal Funds	0		0		4,691	11,461	

	FY 2005-06 Actual		FY 2006-07 Actual		FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes
SB 06-235 Supplemental Amortization							
Equalization Disbursement	0		0		33,853	78,668	
General Fund	0		0		6,162	26,557	**DI #4**
Cash Funds	0		0		17,628	34,034	**DI #5**
Cash Funds Exempt	0		0		9,086	14,408	
Federal Funds	0		0		977	3,669	
Salary Survey and Senior Executive Service	48,007	d/	198,451	d/	537,244	585,230	
General Fund	48,007		118,200		199,302	195,272	
Cash Funds	0		0		221,910	249,717	
Cash Funds Exempt	0		80,251		98,811	112,212	
Federal Funds	0		0		17,221	28,029	
Performance-based Pay Awards	0		0		220,642	235,365	
General Fund	0		0		106,272	79,084	
Cash Funds	0		0		65,589	101,918	
Cash Funds Exempt	0		0		42,213	43,326	
Federal Funds	0		0		6,568	11,037	
Workers' Compensation	203,775		247,904		307,195	235,276	
General Fund	75,989		88,247		89,202	68,318	**DI NP - CSEAP**
Cash Funds	62,986		103,521		148,431	113,681	**DI NP - CSEAP**
Cash Funds Exempt	62,984		53,941		66,842	51,193	**DI NP - CSEAP**
Federal Funds	1,816		2,195		2,720	2,084	**DI NP - CSEAP**
Operating Expenses - GF	97,800		103,552		103,552	117,137	**DI #1**
Legal Services	183,584		228,917		306,127	306,127	
Hours Equivalent	*2,848*		*3,378*		*4,250*	*4,250*	
General Fund	45,888		63,421		57,784	57,784	
Cash Funds	126,525		159,557		233,009	233,009	
Cash Funds Exempt	1,171		5,939		3,431	3,431	
Federal Funds	10,000		0		11,903	11,903	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes
Purchase of Services from Computer Center - GF	2,100	0	941	998	
Multiuse Network Payments - GF	19,547	14,580	16,042	18,578	**DI NP - MNT**
Payment to Risk Management Fund	102,035	257,628	201,706	199,230	
General Fund	14,283	89,666	76,699	75,757	
Cash Funds	54,091	103,465	74,510	73,595	
Cash Funds Exempt	32,865	62,492	48,927	48,326	
Federal Funds	796	2,005	1,570	1,552	
Vehicle Lease Payments	126,467	127,947	182,681	198,235	
General Fund	32,344	36,774	75,657	84,050	**DI #4, NP - Vechicle**
Cash Funds	74,758	75,129	103,240	110,148	**DI NP - Vehicle**
Federal Funds	19,365	16,044	3,784	4,037	**DI NP - Vehicle**
Information Technology Asset Maintenance	95,421	109,638	111,405	153,031	
General Fund	31,038	31,038	35,881	42,041	**DI #3**
Cash Funds	64,383	78,600	69,898	81,898	**DI #3**
Cash Funds Exempt	0		5,626	29,092	**DI #3**
Leased Space	104,032	103,880	122,183	127,264	
General Fund	45,378	47,084	54,824	57,295	
Cash Funds	19,795	18,134	23,006	23,923	
Cash Funds Exempt	38,859	38,662	44,353	46,046	
Capital Complex Leased Space	143,183	147,960	168,199	169,616	
General Fund	111,682	120,695	137,205	138,361	
Cash Funds	31,501	27,265	30,994	31,255	
Communications Services Payments	15,671	14,389	14,358	14,990	
General Fund	6,183	5,678	9,202	9,607	
Cash Funds	9,488	0	0	0	
Cash Funds Exempt	0	8,711	5,156	5,383	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes
Utilities	156,127	124,057	146,318	146,318	
General Fund	41,479	48,192	91,051	91,051	
Cash Funds	89,810	71,445	52,954	52,954	
Cash Funds Exempt	2,043	1,779	2,313	2,313	
Federal Funds	22,795	2,641	0	0	
Agriculture Statistics	75,000	72,736	75,000	75,000	
General Fund	60,000	60,000	60,000	60,000	
Cash Funds	15,000	12,736	15,000	15,000	
Grants - FF	4,523,397	4,589,456	2,707,089	2,707,089	
FTE	10.2	11.2	8.0	13.0	
Indirect Cost Assessment - FF	137,803	155,671	67,717	84,418	
					Request vs. Appropriation
TOTAL - (1) COMMISSIONER'S OFFICE	**7,531,956**	**8,422,101**	**8,313,411**	**8,670,990**	**4.3%**
FTE	**27.8**	**30.1**	**27.7**	**32.7**	**18.1%**
General Fund	687,725	1,702,880	2,357,605	2,305,693	(2.2%)
FTE	17.6	18.9	19.7	19.7	0.0%
Cash Funds	986,009	776,332	1,817,577	1,959,423	7.8%
Cash Funds Exempt	1,142,250	1,174,877	1,281,168	1,492,961	16.5%
Federal Funds	4,715,972	4,768,012	2,857,061	2,912,913	2.0%
FTE	10.2	11.2	8.0	13.0	62.5%

a/ Reverted $767,518 in FY 2005-06 and $684,604 in FY 2006-07.

b/ Reverted $19,173 in FY 2005-06 and $14,969 in FY 2006-07.

c/ Reverted $90,755 in FY 2006-07.

d/ Reverted $387,146 in FY 2005-06 and $210,056 in FY 2006-07.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes
(2) AGRICULTURAL SERVICES DIVISION					

Primary Function: Ensure human, animal, and plant health and safety , consumer protection, and integrity in the marketplace through both the enforcement of laws and the implementation of inspection programs dealing with a variety of agricultural and consumer products and services. The cash funds source is from the Inspection and Consumer Services Cash Fund and the cash fund exempt source is primarily cash fund reserves.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes
Personal Services	8,591,621	9,238,592	9,715,577	10,214,730	
FTE	135.3	137.1	151.4	152.4	
General Fund	2,082,240	2,128,011	3,235,300	3,470,461	**DI #4**
FTE	26.9	27.5	44.6	45.6	**DI #4**
Cash Funds	6,167,526	6,561,810	6,008,218	6,250,724	
FTE	105.4	106.6	103.8	103.8	
Cash Funds Exempt	38,413	200,081	0	0	
Federal Funds	303,442	348,690	472,059	493,545	
FTE	3.0	3.0	3.0	3.0	
Operating Expenses	976,153	1,186,753	1,384,132	1,406,249	
General Fund	151,924	157,083	418,514	347,495	**DI #1, #2, #4**
Cash Funds	779,770	920,256	909,900	999,453	**DI #1, #2**
Federal Funds	44,459	109,414	55,718	59,301	**DI #1**
Noxious Weed Management Grants - CFE	7,150	117	15,000	15,000	
Diseased Livestock Fund - CFE	125	0	25,000	25,000	
Cervidae Disease Revolving Fund - CF	1,400	188	25,000	25,000	
Operating Expenses for Aquaculture - CF	n/a	n/a	25,000 **b/**	25,000	
Lease Purchase Lab Equipment	0	0	85,992	85,992	
General Fund	0	0	39,672	39,672	
Cash Funds	0	0	46,320	46,320	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes
Indirect Cost Assessments	883,461	736,778	503,483	660,752	
Cash Funds	824,787	703,873	478,166	635,427	
Federal Funds	58,674	32,905	25,317	25,325	
					Request vs. Appropriation
TOTAL - (2) AGRICULTURAL SERVICES	**10,459,910**	**11,162,428**	**11,779,184**	**12,457,723**	**5.8%**
FTE	**135.3**	**137.1**	**151.4**	**152.4**	**0.7%**
General Fund	2,234,164	2,285,094	3,693,486	3,857,628	4.4%
FTE	26.9	27.5	44.6	45.6	2.2%
Cash Funds	7,773,483	8,186,127	7,492,604	7,981,924	6.5%
FTE	105.4	106.6	103.8	103.8	(0.0%)
Cash Funds Exempt	45,688	200,198	40,000	40,000	0.0%
Federal Funds	406,575	491,009	553,094	578,171	4.5%
FTE	3.0	3.0	3.0	3.0	0.0%

a/ Reflects a $23,011 increase from the Biological Pest Control Cash Fund, pursuant to S.B. 07-206.

b/ The Aquaculture program and its cash funds spending authority were transferred from the Markets Division in FY 2007-08 to align source funding with programmatic expenditures.

(3) AGRICULTURAL MARKETS DIVISION

Primary Function: Increasing domestic and international agricultural food marketing and processing options. The Cash Fund source is from aquaculture program fees. The Cash Funds Exempt sources are Economic Development transfers from the Governor's Office and the Agriculture Value-Added Cash Fund.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes
Personal Services - GF	371,096	370,386	379,759	393,351	
FTE	4.7	4.5	4.7	4.7	
Operating Expenses	65,552	61,836	80,198	82,577	
General Fund	29,624	29,861	29,861	32,123	**DI #1**
Cash Funds	35,928	31,975	50,337	50,454	**DI #1**
Operating Expenses for Aquaculture - CF	22,867	24,492	0 **a/**	n/a	
Economic Development Grants - CFE	39,400	119,075	45,000	45,000	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation		FY 2008-09 Request	DI/Notes
Ag Value Added Development Board - CFE	53,960	90,430	574,837	**b/**	574,837	
FTE	0.5	0.5	0.5		0.5	
						Request vs. Appropriation
TOTAL - (3) AGRICULTURAL MARKETS	**552,875**	**666,219**	**1,079,794**		**1,095,765**	**1.5%**
FTE	**5.2**	**5.0**	**5.2**		**5.2**	**0.0%**
General Fund	400,720	400,247	409,620		425,474	3.9%
FTE	4.7	4.5	4.7		4.7	0.0%
Cash Funds	58,795	56,467	50,337		50,454	0.2%
Cash Funds Exempt	93,360	209,505	619,837		619,837	0.0%
FTE	0.5	0.5	0.5		0.5	0.0%

a/ The Aquaculture program and its cash funds spending authority were transferred to the Agricultural Services Division in FY 2007-08 to align source funding with programmatic expenditures.
b/ Reflects a $500,000 increase pursuant to H.B. 06-1322.

(4) BRAND BOARD

Primary Function: Conducting livestock inspections and regulating the sale of livestock. The Cash Fund source is from fees for service. Cash Funds Exempt are due to the Brand Board's enterprise status.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes
Brand Inspections - CFE	3,456,047	3,399,037	3,641,057	3,716,397	**DI #1, #6**
FTE	58.5	57.7	66.3	66.3	
Alternative Livestock - CFE	25,535	13,886	95,662	95,662	
Indirect Cost Assessments - CFE	437,672	126,480	134,522	133,790	
					Request vs. Appropriation
TOTAL - (4) BRAND BOARD - CFE	**3,919,254**	**3,539,403**	**3,871,241**	**3,945,849**	**1.9%**
FTE	**58.5**	**57.7**	**66.3**	**66.3**	**0.0%**

	FY 2005-06 Actual		FY 2006-07 Actual		FY 2007-08 Appropriation		FY 2008-09 Request		FY 2008-09 DI/Notes

(5) SPECIAL PURPOSE

Primary Function: Promoting of wines produced in Colorado and other specialized programs. Cash Funds are from the Colorado Wine, Industry Development Fund, the Brand Estray Fund, and the Veterinary Vaccine and Service Fund. The Cash Funds Exempt source is the Brand Estray Fund.

	FY 2005-06 Actual		FY 2006-07 Actual		FY 2007-08 Appropriation		FY 2008-09 Request		DI/Notes
Wine Promotion Board - CF	699,899	**a/**	526,679	**a/**	447,345	**a/**	472,482	**a/**	**DI #1, #5**
FTE	1.0		1.0		1.0		1.5		**DI #5**
Vaccine and Service Fund - CF	232,184		268,583		162,631		162,713		**DI #1**
Brand Estray Fund - CFE	27,834		45,752		94,050		94,050		
Indirect Cost Assessment - CF	0		0		8,588		8,442		

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Request vs. Appropriation
TOTAL - (5) SPECIAL PURPOSE	**959,917**	**841,014**	**712,614**	**737,687**	**3.5%**
FTE	**1.0**	**1.0**	**1.0**	**1.5**	**50.0%**
Cash Funds	932,083	795,262	618,564	643,637	4.1%
FTE	1.0	1.0	1.0	1.5	50.0%
Cash Funds Exempt	27,834	45,752	94,050	94,050	0.0%

a/ Funding is continuously appropriated, pursuant to Section 35-29.5-105, C.R.S.

	FY 2005-06 Actual		FY 2006-07 Actual		FY 2007-08 Appropriation		FY 2008-09 Request		FY 2008-09 DI/Notes

(6) COLORADO STATE FAIR

Primary Function: Administrating the Colorado State Fair. Cash Funds Exempt are from fees collected by the Colorado State Fair under enterprise status. The State Fair lost its enterprise status in FY 06-07 upon receiving more than 10 percent of its annual revenues in grants, pursuant to H.B. 06-1384.

	FY 2005-06 Actual		FY 2006-07 Actual		FY 2007-08 Appropriation		FY 2008-09 Request		Request vs. Appropriation
Program Costs	7,365,518		7,976,409		9,365,516		9,371,162		
FTE	19.4		20.3		26.9		26.9		
Cash Funds	0		7,976,409	**b/**	9,365,516	**c/**	9,371,162	**d/**	
FTE	0.0		20.3		26.9		26.9		
Cash Funds Exempt	7,365,518	**a/**	0		0		0		
FTE	19.4		0.0		0.0		0.0		
TOTAL - (6) Colorado State Fair	**7,365,518**		**7,976,409**		**9,365,516**		**9,371,162**		**0.1%**
FTE	**19.4**		**20.3**		**26.9**		**26.9**		**0.0%**
Cash Funds	0		7,976,409		9,365,516		9,371,162		0.1%
FTE	0.0		20.3		26.9		26.9		0.0%
Cash Funds Exempt	7,365,518		0		0		0		n/a
FTE	19.4		0.0		0.0		0.0		n/a

a/ Reflects a reversion of $733,080.

b/ Reflects a $3,163,978 increase pursuant to H.B. 06-1384 and a reversion of $3,317,761 for bond reserves.

c/ Includes $1,844,524 in cash reserves for bonding requirements

d/ Includes $1,915,539 in cash reserves for bonding requirements

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes

(7) CONSERVATION BOARD

Primary Function: Preserving Colorado's natural resources including reducing soil erosion and flood damage, as well as protecting underground water reserves.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	DI/Notes
Personal Services - GF	242,111	270,781	351,896	367,699	
FTE	3.4	3.5	5.5	5.5	
Operating Expenses - GF	33,200	33,673	59,223	64,109	
Distributions to Soil Conservation Districts - GF	391,714	391,714	391,714	391,714	
Matching Grants to Districts	0	150,000	150,000	600,000	
General Fund	0	150,000	150,000	150,000	
Cash Funds Exempt	0	0 **a/**	0 **b/**	450,000 **c/**	
Salinity Control Grants - FF	1,484,669	2,167,517	500,000	500,000	
					Request vs. Appropriation
TOTAL - (7) CONSERVATION BOARD	**2,151,694**	**3,013,685**	**1,452,833**	**1,923,522**	**32.4%**
FTE	**3.4**	**3.5**	**5.5**	**5.5**	**0.0%**
General Fund	667,025	846,168	952,833	973,522	2.2%
FTE	3.4	3.5	5.5	5.5	0.0%
Cash Funds	0	0	0	0	n/a
FTE	0.0	0.0	0.0	0.0	n/a
Cash Funds Exempt	0	0	0	450,000	
Federal Funds	1,484,669	2,167,517	500,000	500,000	0.0%

a/ This does not include $423,396 of moneys transferred from the Operational Account of the Severence Tax Trust Fund. These moneys are continuously appropriated and are provided for informational purposes only.

b/ This does not include $450,000 continuously appropriated to the Department from the Conservation District Grant Fund from the Operational Account of the Severence Tax Trust Fund, pursuant to section 35-1-106.7 (1) (a), C.R.S.

c/ For purposes of consistency with the submitted budget, $450,000 cash funds exempt are included.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	Request	FY 2008-09 DI/Notes
					Request vs. Appropriation
DEPARTMENT OF AGRICULTURE					
TOTALS	**32,941,124**	**35,621,259**	**36,574,593**	**38,202,698**	**4.5%**
FTE	**250.6**	**254.7**	**284.0**	**290.5**	**2.3%**
General Fund	3,989,634	5,234,389	7,413,544	7,562,317	2.0%
FTE	52.6	54.4	74.5	75.5	1.3%
Cash Funds	9,750,370	17,790,597	19,344,598	20,006,600	3.4%
FTE	106.4	127.9	131.7	132.2	0.4%
Cash Funds Exempt	12,593,904	5,169,735	5,906,296	6,642,697	12.5%
FTE	78.4	58.2	66.8	66.8	0.0%
Federal Funds	6,607,216	7,426,538	3,910,155	3,991,084	2.1%
FTE	13.2	14.2	11.0	16.0	45.5%

FY 2008-09 JBC BUDGET BRIEFING
DEPARTMENT OF AGRICULTURE
FOOTNOTE UPDATE

- Of the five footnotes in the Department of Agriculture 2007 Long Bill appropriation, two (2) were common to all departments statewide and three (3) applied to the Department of Agriculture specifically.

1. **Department of Agriculture, Agricultural Services Division, Personal Services; and Operating Expenses** -- The Department is requested to submit a report to the Joint Budget Committee by November 1, 2007, which summarizes options for reducing personal services and operating expenses related to programs administered by Inspection and Consumer Services. This report should include strategies for extending risk-based time frames, comparisons to programs in other states, statutory changes necessary to implement potential cost savings, and possible consequences of reduced funding and FTE.

   Comments: The Governor vetoed this footnote on May 2, 2007 on the grounds that the footnote violates the separation of powers by attempting to administer the appropriation and constitutes substantive legislation. After the General Assembly overrode all Long Bill vetoes, the Department was directed to comply to the extent that this request can be adhered to without adversely impacting the operation of the delivery of government services, pursuant to the August 16, 2007 letter from the director of the Office of State Planning and Budgeting to the leadership of the General Assembly.

   The November 1, 2007, report submitted by the Department asserts that the reduction of staff would limit the division to perform critical program activities and inspections which help to ensure human, animal, and plant health and safety, consumer protection, and integrity in the marketplace. Further, the report indicates that a reduction in operating expenses would have a detrimental impact on the department as it is reported that the division struggles to make the current operating budget cover its critical activities and inspections and building-related expenses due largely in part to elevated costs of energy and fuel.

   This report marks the third year in which the General Assembly has requested this report summarizing options for reducing personal services and operating expenses for the programs it administers within the ICS Division. In each report, personal services and operational cost reductions were not considered a possibility as such action would result in risk of financial loss to the Colorado agricultural community and consumers as well as possible environmental harm. For all three years, the Department cites that despite the budgeting challenges the division has faced, it has been able to implement operational efficiencies through its "multiple inspector" program where a single FTE will provide a multitude of inspection services guided effectively by a risk-based inspection management system (RBMS) in which the problem businesses are targeted.

Further, other commonalities between the submitted reports indicate that rising energy and fuel costs as well as the increase in the number of retail businesses in Colorado as barriers to the division reducing its personal services and operational costs.

In 2005, the department submitted its most robust study, which included a 14-state survey comparing programmatic funding splits, revenue, staffing, inspections, sampling methodologies, laboratory facilities, and other applicable categories. However in 2006, only a slightly updated report was submitted to the JBC in which the Department's highest priority decision item to more appropriately fund the division's programs was highlighted, but the content of the report was relatively unchanged. As was the case in 2007, in which the report submitted by the Department made no recommendations for reducing personal services and operational expenses, but did announce the restructuring of the ICS Division into "Lab Services" (Biochemistry Laboratory and the Metrology Laboratory) and "Technical Services" (Feed, Fertilizer, Egg, Meat, Food Plan, Farm Products, and Commodity Handler programs). The Department also indicated that it has plans to revamp and retool its risk-based management system (RBMS) with project completion at the end of CY 2008.

2. **Department of Agriculture, Special Purpose, Wine Promotion Board** -- The Department is requested to submit a report to the Joint Budget Committee by November 1, 2007, which summarizes the program's efficacy in "promoting all wines produced or finished by a licensed Colorado winery," pursuant to Section 35-29.5-104 (2), C.R.S. and which summarizes the program's effectiveness in enhancing the market share of Colorado wine.

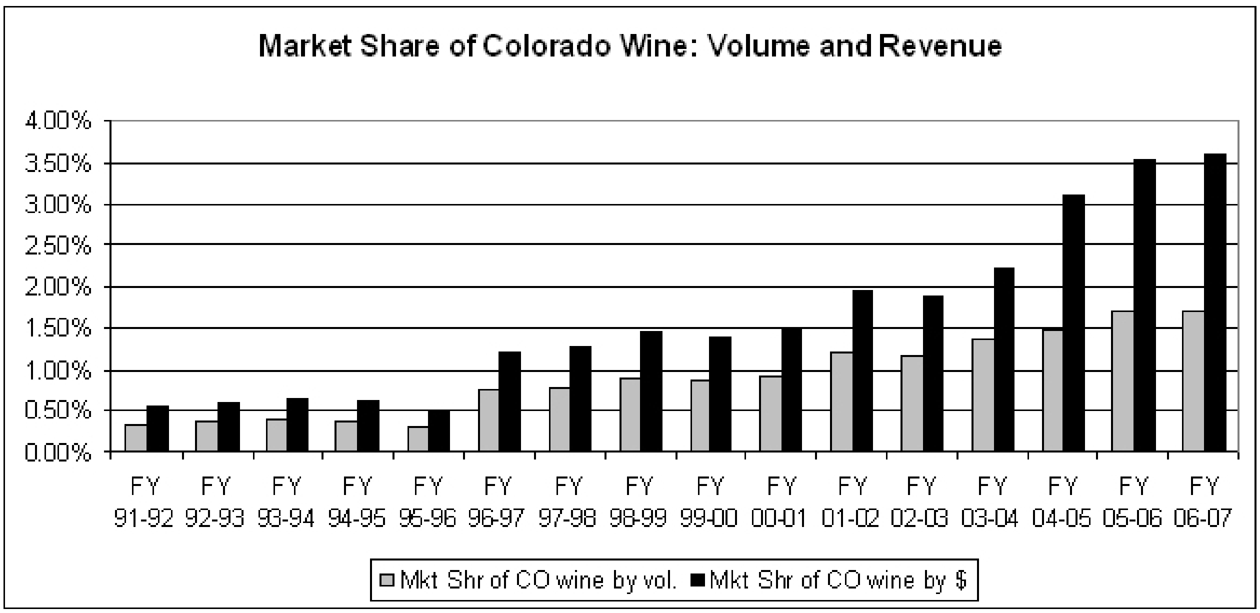
Comments: The Governor vetoed this footnote on May 2, 2007 on the grounds that the footnote violates the separation of powers by attempting to administer the appropriation and constitutes substantive legislation. After the General Assembly overrode all Long Bill vetoes, the Department was directed to comply to the extent that this request can be adhered to without adversely impacting the operation of the delivery of government services, pursuant to the August 16, 2007 letter from the director of the Office of State Planning and Budgeting to the leadership of the General Assembly.

The November 1, 2007, report submitted by the Department is divided into two parts in accordance with the footnote request. The first part provides an analysis of the program's efficacy in promoting all wines produced or finished by a licensed Colorado winery, and the second part includes an analysis of the program's efficacy in enhancing the market share of Colorado wine.

Program Promotion Efficacy. The report gave background why statute includes the phrase "or finished by a licensed Colorado winery", as it was argued in a lawsuit that without this the statute favored wineries using exclusively Colorado grapes or fruit to make wine over those wineries that brought in grapes or fruit from other states. Further the report indicates that the Colorado Wine Industry Development Board (CWIDB) invested heavily in developing, distributing, and website hosting of a brochure and website. The CWIDB distributed this brochure to locations with tourist brochure racks through an agreement with Certified Folder, supplemented by Colorado Activity

Centers, and the Denver Metro Convention and Visitor Bureau, as well as with Eve Brochure Rack Service in Estes Park. Other activities CWIDB conducts to promote Colorado wineries include sponsoring wine festivals and tastings, coordinate media and wine buyer tours to wineries, and public relations campaigns. The CWIDB attempts to validate its efforts by indicating that the production of wine in wine-developing areas such as the Front Range has increased at three times that of the production of the leading production area of the Grand Valley, and twice the rate of production in another more staid wine making locales, like the Western Slope outside the Grand Valley.

Enhancing Market Share of Colorado Wine. The report provided by the CWIDB includes a disclaimer that its role in enhancing the market share of Colorado wine is affected by supply and demand factors as well as by weather. However the report points to the 8-fold increase of gallons produced between 1995 and 2007 as an indicator of how fast the industry has grown. The following chart shows the state's increasing market share of Colorado wine in terms of its percent of total volume consumed and in terms of percent of total revenue generated.



In addition to the increases in market share the state has seen in both volume and in dollars generated, in 2004 the CWIDB has established volumetric goals to measure success and progress in promoting Colorado wines, with a minimum 10 percent increase in production and sales. According to a study conducted by The Colorado State University (CSU), this goal has been achieved and it appears that these results will be sustained for some time.

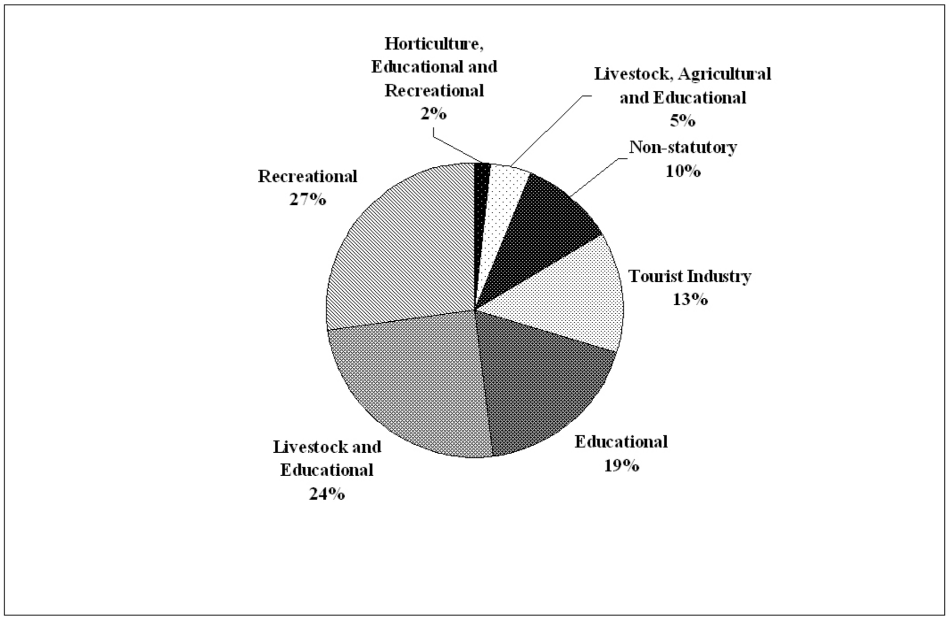
The report also discusses the impact that the wine industry has on Colorado's economy in which a study conducted by The Colorado State University (CSU) showed that the Colorado wine industry contributed approximately $11 million directly to the economy, which when indirect multipliers are added sum to approximately $23 million. The study projects that this numbers will reach $32 million by 2007. The report also discusses the economic contributions the industry has on tourism. Based on 2005 data, approximately 120,000 people visited the state's wineries contributing $20 million to the state's economy. In both the CSU study and the tourism calculations, there is no clarification about how much of these moneys are derived from outside of the state.

3. **Department of Agriculture, State Fair** -- The Department is requested to submit a report to the Joint Budget Committee by November 1, 2007, which summarizes the State Fair's year-to-date and future contracted revenue-generating events and the revenue associated with each event, itemized by the event's association to the State Fair's statutory purposes as outlined in Section 35-65-105 (1), "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." .

Comments: The Governor vetoed this footnote on May 2, 2007 on the grounds that the footnote violates the separation of powers by attempting to administer the appropriation and constitutes substantive legislation. After the General Assembly overrode all Long Bill vetoes, the Department was directed to comply to the extent that this request can be adhered to without adversely impacting the operation of the delivery of government services, pursuant to the August 16, 2007 letter from the director of the Office of State Planning and Budgeting to the leadership of the General Assembly.

The November 1, 2007, report submitted by the Department submitted a report with an overview as well as two sub-reports. The first sub-report includes an analysis showing by month the events hosted, the revenue generated, and the statutory purpose the event aligns with. The second sub-report shows an analysis showing the amount of revenue generated by statutory purpose.

The following pie chart shows the contribution of each type of statutory obligation, by revenue that the State Fair hosts:



4. **All Departments, Totals** -- The General Assembly requests that copies of all reports requested in other footnotes contained in this act be delivered to the Joint Budget Committee and the majority and minority leadership in each house of the General Assembly.

   Comments: The Department is in compliance.

5. **All Departments, Totals** -- Every Department is requested to submit to the Joint Budget Committee information on the number of additional federal and cash funds exempt FTE associated with any federal grants or private donations that are applied for or received during FY 2007-08. The information should include the number of FTE, the associated costs (such as workers' compensation, health and life benefits, need for additional space, etc.) that are related to the additional FTE, the direct and indirect matching requirements associated with the federal grant or donated funds, the duration of the grant, and a brief description of the program and its goals and objectives.

   Comments: The Governor vetoed this footnote on May 2, 2007 on the grounds that the footnote violates the separation of powers by attempting to administer the appropriation, constitutes substantive legislation, and requires substantial dedication of resources and constitutes an unfunded mandate. After the General Assembly overrode all Long Bill vetoes, the Department was directed to comply to the extent that this request can be adhered to without adversely impacting the operation of the delivery of government services, pursuant to the August 16, 2007 letter from the director of the Office of State Planning and Budgeting to the leadership of the General Assembly. The Department did not provide a report.

FY 2008-09 JBC BUDGET BRIEFING
DEPARTMENT OF AGRICULTURE

Colorado State Fair Economic Impact Study

ISSUE:

The Colorado State Fair requires an economic impact study in order to evaluate a sustainable solution to its poor operational performance.

SUMMARY:

- ❑ The State Fair continues to have poor operational performance and based on future revenue and expenditure estimates, the state fair will return to insolubility in FY 2010-11.

- ❑ The State Fair requires an economic impact study be implemented to develop a sustainable solution to the State Fair's economic viability.

- ❑ The last economic impact study was released in December of 2003, prior to the reduction in fair-time length, significant legislation, present day economic variables, and only focused on the State Fair's impact during the then 16-day fair. The proposed study will address the State Fair as a year-round operation and which will factor in the entity's statutory obligations.

RECOMMENDATION:

Staff recommends that the JBC sponsor legislation which would appropriate funding to finance an economic impact study of the Colorado State Fair which would provide the General Assembly with guidance on how to develop more sustainable solutions to maintaining the State Fair's economic viability and to uphold the entity's statutory obligations.

DISCUSSION:

1. **Fair Time and Non-Fair Time.** Fair time refers to when the state fair is in operation over an 11-day period. Non-fair time refers to the remainder of the year. Based on the most recent audited data, FY 2005-06, the vast majority (88.3 percent) of the State Fair's operational revenue is realized during the Fair Time period. However, 39.2 percent of the State Fair's expenses are incurred during the Non-Fair time period. Unfortunately the Fair time period does not generate enough revenue to compensate for this shortfall in the off-season.

2. **Retention of a Marketing Consultant.** In an effort to increase Non-fair time revenue, the State Fair has contracted with SMG Worldwide Entertainment and Conference Venue Management to assist the State Fair in its marketing efforts. It is estimated that $75,000 of

additional revenue will be generated by SMG with new events on the Fair ground during the Non-Fair time period.

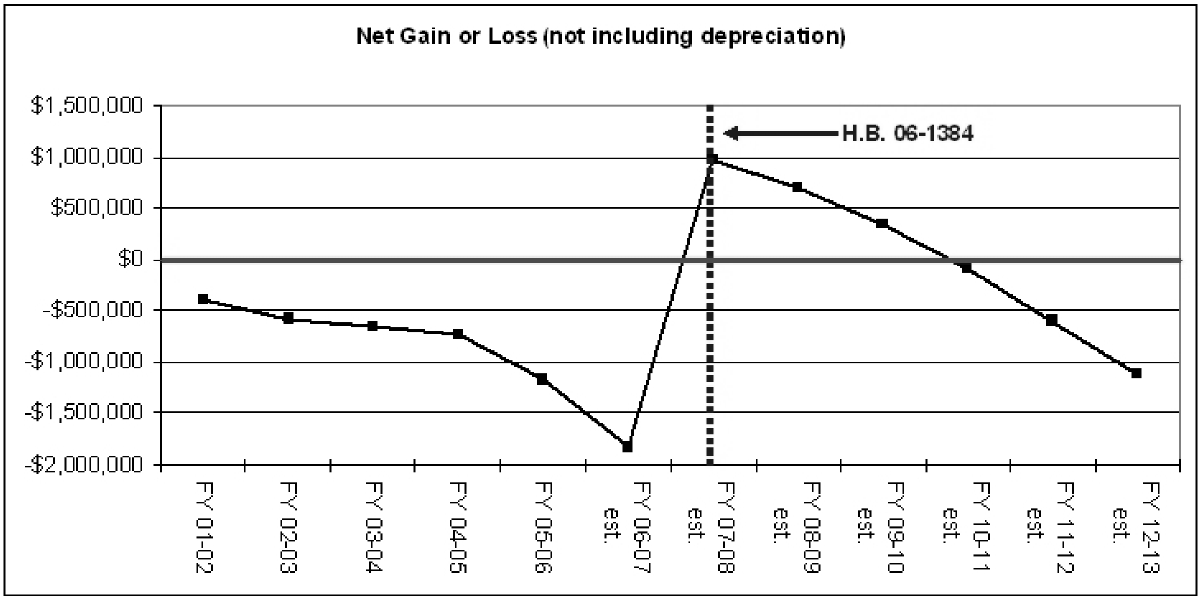
3. **Performance.** The State Fair continues to struggle with operational losses.

a. **Preliminary Results.** Preliminary (unaudited) FY 2006-07 performance data indicate that the State Fair had a net operating loss of $1.8 million, an increase in net loss compared to the previous year by $658,000. The loss is attributed to diminished gate attendance figures and thus decreased concessions, etc., due to inclement weather on what are historically high-attendance days. The following table outlines the State Fair's operational performance over the last five years.

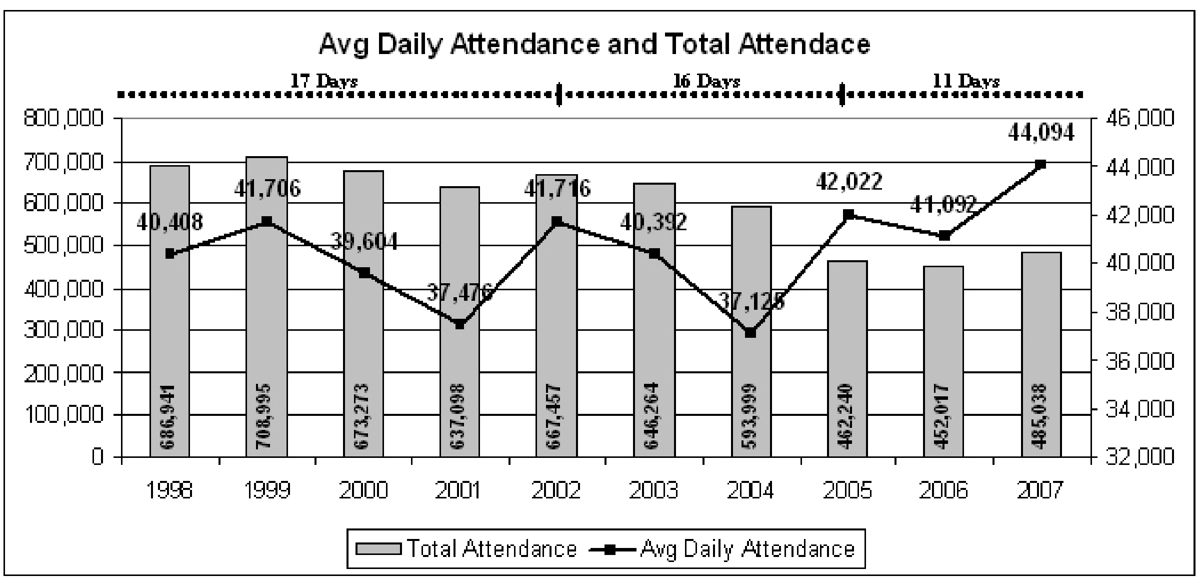
	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07*
Total Operating Revenues	$ 7,367,447	$ 7,314,682	$ 7,360,522	$ 6,766,061	$ 6,899,173
Total Operating Expenses	$ 7,942,217	$ 7,954,533	$ 8,097,833	$ 7,934,056	$ 8,724,818
Net Income (Loss) Less Depreciation	**$ (574,770)**	**$ (639,851)**	**$ (737,311)**	**$(1,167,995)**	**$ (1,825,645)**
Annual Variance	$ (176,944)	$ (65,081)	$ (97,460)	$ (430,684)	$ (657,650)
Annual Variance Pct	44.5%	11.3%	15.2%	58.4%	56.3%

* Reflects estimates for FY 2006-07 that have not been audited.

b. **Operational Loss/Gain Estimates.** From estimates provided by the Fair Authority for out-years, it is evident that the State Fair will require additional subsidization beginning in FY 2010-11. Moneys from H.B. 06-1384 will have paid off the debt obligations, but the failure of the State Fair to develop its revenue sources will prohibit a sustainable operational business model. The following chart shows the estimated operational gains and losses for out years. Note the impact of H.B. 06-1384. Unfortunately the measures implemented by H.B. 06-1384 will not sustain the State Fair's operational viability.



c. **Gate Attendance: Favorable Trend.** Gate attendance figures for the 2007 State Fair indicate that the event hosted on average 3,002 more attendees per day than in 2006 (which was plagued with poor weather), and 2,073 more attendees than in 2005. Given that the State Fair has operated initially over 17 days, then 16 days, and now for 11 days, staff has prepared the following chart to graphically show average daily attendance which offers a like-to-like comparison. As the chart shows, the increase in the per day attendance for the 11-day fair in 2007 reflects the best average daily attendance to date for the last 10 years the Fair has been in operation.



The improvements in gate attendance are attributed to better weather, more popular attractions and musical entertainment, effective promotions, and efficient parking operations.

4. **State Fair Debt Elimination.** H.B. 06-1384 (Buescher/Tapia). This bill changed the allocation of the Unclaimed Property Tourism Promotion Trust Fund interest to provide additional moneys to the State Fair through the Colorado Travel and Tourism Promotion Fund. These moneys will (1) pay state Treasury loans; (2) payoff outstanding debt incurred from building the Pueblo Events Center; (3) provide the State Fair with $550,000 annually for administrative, operating costs, and event promotion. The effect of this legislation will enable the State Fair to be debt free by April 2008.

5. **Barriers to The State Fair's Financial Viability**

   a. **Statutory Obligation.** Pursuant to statute 35-65-105(1), the State Fair's purpose is 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. Unfortunately these endeavors do not generate sufficient revenue to cover all direct and indirect expenses. This places greater responsibility on the State Fair to generate additional revenue in the Non-Fair time to compensate for these statutory obligations, however to date, the State Fair has not be successful in these efforts.

   b. **Distance from State Population Centers.** When the Events Center opened in 1995, it was the largest facility of its type between Albuquerque and Denver. Due to Pueblo's relatively small population of approximately 135,000 residents in the immediate vicinity of the city, that population has been not been sufficient to keep the arena's schedule of events full. In 1997, the building of the World Arena in Colorado Springs ushered in greater competition for lucrative performing arts groups due to its comparable size and seating capacity; however to the disadvantage of the Events Center, the World Arena is more centrally located to a population of nearly 500,000 local residents and is of closer proximity to Denver's population density.

   c. **Pueblo School District 60 Agreement.** In 1998 the State Fair Authority entered into a contractual agreement with Pueblo School District 60, which provided $500,000 toward construction of the Events Center. It stipulates that School District 60 is entitled to use the Events Center for an unlimited number of days every year through 2025 as long as it gives State Fair management six months notice. The current arrangement is costly to the fiscal operations of the non-Fair balance sheet for many reasons, but the biggest is that it has prohibited the State Fair from entering into long-term seasonal agreements with minor league sports franchises and has obstructed interested, revenue-generating performance groups from booking at the Events Center. School District 60 typically uses the Events Center on most weekends during the months of January and February as well as a few weeks in June and December.

6. **Economic Impact Study Required.** In December, 2003, an Economic Impact Study was prepared for the Colorado State Fair Authority by the Colorado State University at Pueblo. The study analyzed and compared the following:

   a. Local and non-local visitors to the fair;
   b. Expenditures by fair visitor and by fair vendors and exhibitors;
   c. The local, daily, and statewide economic impact; and
   d. The local and statewide fiscal impact

   The findings, however focused on the 16 days that the fair was in operation and not where the entity struggles the most, in the Non-Fair time period. Further the study was conducted prior to a number significant changes, including:

   1. Changing the length of the fair from 16 days to 11 days beginning in 2005.

   2. Improvements to infrastructure which enhance the overall rent-ability of the facilities, these improvements include:

      a. Water, sewer, and drainage improvements
      b. New covered horse arena with restroom facilities and showers
      c. New wash racks for the horse show area
      d. New restrooms in front of the Events Center

   3. Further the study was conducted prior to the State Fair contracting with SMG Worldwide Entertainment and Conference Venue Management.

   These changes as well as the overall economic health of the state have changed significantly since the last economic impact study was conducted. The State Fair requires a more current economic impact study in order for a sustainable economic solution to the entity's viability to be developed.

7. **Permanent State Subsidization.** The State Fair is not a viable business as its statutory obligations, its location, and its contractual obligations disable it from maximizing its marketability, pointing to state subsidization as an inevitability. Staff recommends that the JBC sponsor legislation which would appropriate funding to initiate another economic impact study which would evaluate the sustainability of the State Fair and would provide the General Assembly with direction about a more permanent solution to subsidizing the State Fair in accordance with statute.

   The economic impact study should include a similar analysis as conducted in December 2003 (see item 6, points a through d), but is inclusive of the Fair's year-round operations. Further the study should include a survey of all other state fair operations and the best practices employed given each states' respective statutory obligations, including revenue and spending restrictions, if applicable.

FY 2008-09 JBC BUDGET BRIEFING
DEPARTMENT OF AGRICULTURE

Mandatory Fruit and Vegetable Inspection Program Funding

ISSUE:

The General Fund subsidy for the Mandatory Fruit and Vegetable Inspection program should be eliminated and the program be fully funded with fees assessed and collected by the industry it serves.

SUMMARY:

❏ The Mandatory Fruit & Vegetable Inspection program currently receives a $200,000 GF subsidy, pursuant to Section 35-23-114 (2) (a), C.R.S.

❏ The Mandatory Fruit & Vegetable Inspection program only regulates one commodity, potatoes.

❏ A proposed three year phase-out plan is provided to decrease the General Fund subsidy which also includes a proportional increase in the certification fees required to fund the program.

RECOMMENDATION:

Staff recommends that the JBC sponsor legislation to reduce the General Fund obligation to finance the operational cost of mandatory inspections of shipments of potatoes, and progressively increasing the proportion of such cost that is financed from the Mandatory Fruit and Vegetable Inspection Fund. The legislation will seek to implement the refinancing over a 3-year schedule under which the maximum General Fund obligation is reduced by $66,667 per year until the entire cost is paid through certificate fees.

DISCUSSION:

1. **Potatoes Only.** The Mandatory Fruit & Vegetable Inspection program is applicable to only one agricultural product, potatoes, pursuant to Section 35-23-111, C.R.S. State statute used to include other agricultural commodities such as apples, peaches, cantaloupes, green peas, cabbage, water/honeydew/honeyball melons, spinach, onions, pears, and head lettuce, however only potatoes still require mandatory inspection under the guidelines of this program.

2. **State Regulation: Colorado Stands Alone.** Colorado is one of four states under federal regulation and the only one with state control.

3. **Big Business.** The Colorado potato industry ranked third in terms of production value with the crop value estimated at $202 million, behind hay ($571 million) and corn ($480 million), according to the 2007 Colorado Agricultural Statistics publication. In addition, according to Colorado Potato Administrative Committee (CPAC), a federal and state marketing order established in 1941, potatoes remain a top profit-maker for retail food operators. In the U.S., 65 percent of restaurants menuing potatoes (baked, mashed or roasted), of these restaurants, 93 percent said in a recent survey that they are buying more or the same volume of potatoes this year. The color and quality of Colorado potatoes are sought-after. Further it was noted that several Colorado potato varieties can be served skin-on, reducing labor costs removing them, and hence improve operator profitability.

4. **Production Concentration.** There are two growing seasons for potatoes in Colorado: the fall and summer. The vast majority (93.9 percent) of the production of potatoes in the state occurs in the Fall, almost exclusively in the San Luis Valley. Please find below a table exhibiting the state's potato production and total crop value, by growing season and by county.

Growing Season	County	Production (cwt)	Total Production %	Price per Unit	Total Crop Value
Fall	Rio Grande	7,920,000	32.8%	$8.40	$66,528,000
	Alamosa	6,920,000	28.6%	8.40	58,128,000
	Saguache	5,930,000	24.5%	8.40	49,812,000
	Other	1,916,000	7.9%	8.40	16,094,400
	Subtotal	22,686,000	93.9%		190,562,400
Summer	Yuma	1,130,000	4.7%	7.65	8,644,500
	Combined Districts	250,000	1.0%	7.65	1,912,500
	Other	100,000	0.4%	7.65	765,000
	Subtotal	1,480,000	6.1%		11,322,000
Total		**24,166,000**	**100.0%**	**$8.35**	**$201,884,400**

Source: 2007 Agricultural Statistics publication

5. **Program Financing**

a. **Operational Costs Subsidy.** The state presently pays 50% of the operational cost of mandatory inspections of potato shipments over 1,000 pounds, except those destined for commercial processing, up to a maximum of $200,000, with the remainder paid through certificate fees assessed by the Department, pursuant to Section 35-23-114 (3) (a), C.R.S.

b. **Indirect Cost Subsidy.**

i. **Senate Bill 03-169 (Teck/Plant).** During Colorado's fiscal crisis, this bill abolished indirect cost recovery caps related to the Mandatory Fruit and Vegetable Inspection program and two other programs which had indirect cost recovery caps written in statute. This required an increase in programmatic fees in FY 2003-04 by $0.01 per hundredweight of potatoes inspected, an 11.1 percent increase. On June 30, 2006, the removal of the indirect cost recovery cap sunset and thus re-instituted the 5 percent cap.

ii. **Indirect Costs Subsidized by the General Fund.** Based on FY 2007-08 figure setting estimates, staff calculated the indirect costs for the Mandatory Fruit and Vegetable Inspection program to be approximately $253,000 (32.5 FTE at $7,783). However with the 5 percent cap in place, the program is obligated to pay only $70,000 of its $1.4 million operational costs. The program pays approximately 27.6 percent of its indirect costs, the remainder of which must be furnished by the General Fund. Thus, based on current statute, the Mandatory Fruity & Vegetable Inspection program is further subsidized by a $183,000 General Fund subsidy, essentially shifting a great majority of the indirect burden of the program to the General Fund.

6. **Senate Bill 03-270 (Owen/Witwer).** This bill attempted to reduce the General Fund obligation to finance the operational cost of mandatory inspections of shipments of potatoes by progressively increasing the proportions of the cost that is financed from the Mandatory Fruit and Vegetable Inspection Fund. This bill was postponed indefinitely by the Senate Committee on Agriculture, Natural Resources, and Energy (April 3, 2003).

7. **Revenue Limits and Spending Restrictions**

a. **Benefits to Revenue.** Pursuant to Section 24-77-103.6, C.R.S., the state may retain all General Fund revenues in excess of the limitations imposed by Article X, Section 20 (TABOR), for a period between July 1, 2005 and July 1, 2010. During this time period, if the funding source for the Mandatory Fruit & Vegetable Inspection program were to come from revenues derived from collecting fees, this would in turn increase the amount of revenue collected by the state by $200,000 over three years in one-third/two-thirds/one hundred percent iterations, which could in turn grow the amount above the TABOR limit, and thus could benefit health care, education, retirement plans for police and firefighters, and transportation projects. Further, after the TABOR time-out, the Mandatory Fruit and Vegetable Fund is quite stable growing at only a modest amount (2.2 percent over 5 fiscal cycles) would provide a stable cash fund source which would provide little threat to fluctuations which would impact the TABOR revenue limit.

b. **Relieve Pressure on Spending Restrictions.** By changing the funding source from General Fund to cash funds, the Department (and indirectly the state as a whole) would avoid going above the Six-Percent Spending limit, pursuant to H.B. 91-1262 (Arveschoug-Bird).

8. **Program Fee History.** The following table outlines the history of the program from its inception to present. Please note the following conversion:

"Carlot" = Truckload = 45,000 lbs. = 450 hundredweight (cwt)

Enacted Legislation	Programmatic Funding Changes (Fees, Subsidies, etc.)
H.B. 31-431	Created a mandatory fruit and vegetable inspection program. Declared that fees not be more than $3.00 per carlot (0.7 cents, approx. 10 cents in 2007).
S.B. 45-73	Set fees at no more than $5.00 per carlot (1.1 cents per cwt, approx. 12 cents in 2007). Created the Fruit and Vegetable Inspection Fund.
H.B. 51-5	Set fees at no more than $12.00 per carlot (2.7 cents per cwt, approx. 21 cents in 2007)
H.B. 65-1048	Abolished all agricultural cash funds and redirected all collected fees to the General Fund.
H.B. 71-1467	Set fees at no more than 10 cents per cwt
S.B. 73-237	Set fees to cover no more than 50 percent of operational costs. The remainder to be paid by the General Fund.
S.B. 84-208	Set fees to cover 100 percent of operational costs. Appropriated $42,000 CF and 2.0 FTE. Equivalent to $84,279 CF in 2007.
H.B. 85-1232	Requires at least 50 percent of the General Fund, or $400,000, which ever is the lesser amount to cover the operational costs of the program.
S.B. 92-28	Reduced the $400,000 General Fund subsidy to $200,000 and removed the fee cap. Sunset the reduction on July1, 1994, returning the subsidy to $400,000 General Fund.
S.B. 93-77	Removed the July 1, 1994 sunset, maintaining the subsidy at $200,000 General Fund.

Conversion of fee amounts provided by the U.S. Department of Labor, Bureau of Labor Statistics inflation calculator

9. **5-Year Program Fee Analysis.** Program fees have remained flat and have actually decreased. In FY 2006-07, fees were decreased to reduce fund balance accumulated in the Mandatory Fruit & Vegetable Inspection fund and thus decreased the fees required to fund the programs operations.

Fiscal Year	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	5-Year Compare
Fee per cwt	$0.099	$0.110	$0.110	$0.110	$0.095	$0.105*
Variance	n/a	0.011	0.000	0.000	(0.015)	-0.004**
Variance %	n/a	11.1%	0.0%	0.0%	-13.6%	-4.0%**

* 5-year fee average
** Comparing Year 5 (FY 2006-07) to Year 1 (FY 2002-03)

10. **Program Refinancing: Progressive Phase-out.** Staff is recommending that the JBC sponsor legislation to implement a three-year schedule to reduce the $200,000 General Fund subsidy and increase in the revenue generated from a proportional increase in fees. The rationale for this recommendation is as follows:

    a. **Impact to Potato Producers.** By gradually decreasing the General Fund subsidy, producers will gradually assume the operational costs of the program over a three year phase-in period. The table below outlines the estimated fee schedule based on the FY 2006-07 actuals provided by the Department. The fees will modestly increase 5.9 percent in Phase Year 1, 6.0 percent in Phase Year 2, and 5.8 percent in Phase Year 3.

    b. **Fully Cash-Funded by FY 2009-10.** In FY 2010-11, the revenue restrictions that were temporarily suspended, pursuant to the voter approval of Referendum C, will again be in place and as such the program should be fully cash funded prior to the conclusion of this time-out period (end of FY 2009-10) so that the cash revenues that are estimated to be collected are included in the TABOR base.

    c. **Proposed Subsidy Phase-out**

        i. **Assumptions.**

            (1) **Operational Costs.** Based on the total operational costs of the program (personal services plus operating expenses) in FY 2006-07, which was $1,863,659.

            (2) **Hundredweight Inspected.** The total hundredweight inspected by program staff in FY 2006-07: 17,011,752 cwt, was used to develop estimates in the table below.

            (3) **Inflation.** Each year of the three-year phase in period includes a conservative 2.5 percent increase to the FY 2006-07 operational costs to modestly accommodate the effect of inflation on fees.

            (4) **Current Fee Level.** The current fee is 9.5 cents per hundredweight, however the Department has maintained an 11.0 cents per hundredweight fee, thus this is what the Year 1 phase change reflects.

ii. **Proposed Phase-out:**

Item	Phase Year 1 (FY 2008-09)	Phase Year 2 (FY 2009-10)	Phase Year 3 (FY 2010-11)
Cash Funds from Fees	$1,981,917	$2,101,465	$2,222,335
General Fund Subsidy	133,333	66,667	0
Total	$2,115,250	$2,168,132	$2,222,335
Fee Amount per cwt (cents)	**11.65**	**12.35**	**13.06**
Annual Fee Chg (cents)	0.65	0.70	0.71
Annual Fee Chg Pct	5.9%	6.0%	5.8%

d. **Historical Fee Levels.** While the value for the commodity may fluctuate over time, it is clear however that fees were disproportionately higher in the past. Please reference the following table for comparison.

Year	Fee	Cents per Hundredweight (cwt)	2007 Value* Cents per Hundredweight (cwt)
1931	$3.00/carlot	0.7	10.0
1945	$5.00/carlot	1.1	12.0
1951	$12.00/carlot	2.7	21.0
1971	10 cents per cwt	10.0	51.0

* Conversion of fee amounts provided by the U.S. Department of Labor, Bureau of Labor Statistics inflation calculator

11. **Cost of Doing Business.** Staff recognizes the importance of the potato industry in Colorado, however as statute mandates that potatoes be inspected, staff is not convinced that the General Fund moneys that currently subsidize the program are for the "common good", but rather the good for a specific industry. Staff believes that the cost of inspection is a cost of doing business in this state and as such should be funded by the industry the program serves.