



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #143

Animal Slaughter Fee and Meat Safety Inspections (Agriculture, Trade and Consumer Protection)

[LFB 2009-11 Budget Summary: Page 91, #12]

CURRENT LAW

The Department of Agriculture, Trade and Consumer Protection (DATCP) is generally required to inspect facilities where animals are slaughtered for human consumption, except for facilities subject to federal inspection or facilities that perform custom slaughters for animal owners who intend to consume the meat within their household. DATCP also inspects: (a) animals before and after slaughter to ensure they are suitable for human consumption; and (b) meat processing activities following slaughter. Slaughter establishments subject to DATCP inspection are required to be licensed annually, with fees set at \$200. Annual licenses are \$80 for slaughterers or processors that provide custom slaughtering services. These services are generally for customers who own the animals being slaughtered and processed, and will not resell the meat. Custom slaughter establishments are generally not subject to inspection requirements as stringent as those for licensees that sell meat products.

GOVERNOR

Establish the following per-animal fees for each animal slaughtered for commercial sale for human consumption: (a) 14¢ for cattle; (b) 14¢ for swine; (c) 10¢ for calves; and (d) 1¢ for poultry. Require establishments to submit quarterly reports on the number of animals slaughtered during the quarter, and require establishments to pay fees based on the number of each type of animal reported. Specify surcharges for payments submitted late and for reports that understate the number of animals slaughtered. Authorize DATCP to modify the per-animal fees by administrative rule.

Create a program revenue appropriation in the food safety program for licensing of slaughter establishments and inspection of animals and carcasses at those establishments.

Provide \$310,900 PR in 2009-10 and \$371,500 PR in 2010-11 with 3.5 positions. Also, amend DATCP's inspection, testing and enforcement program revenue continuing appropriation under the animal health services program to receive all slaughter fees, less those appropriated in the new food safety appropriation. Provide expenditure authority of \$230,000 PR in 2009-10 and \$310,000 PR in 2010-11 with 4.0 animal health positions. Additionally, reestimate federal funding for meat and poultry inspection by \$184,000 FED in 2009-10 and by \$245,300 FED in 2010-11, and add 3.5 positions.

DISCUSSION POINTS

1. The intent of this provision is to provide additional staffing for DATCP to meet responsibilities for inspection of meat processing and other livestock facilities. The U.S. Department of Agriculture (USDA) requires that state inspection programs be at least equal to federal requirements for meat inspection in establishments in which meat is processed for human consumption.

2. Additional staffing would also allow small slaughtering and processing establishments to take advantage of provisions in the 2008 Farm Bill. The bill authorizes states to certify meats for interstate shipment, provided that meats are from establishments that are subject to a state inspection program with standards at least as stringent as federal guidelines for meat inspection. Also, establishments must consistently employ fewer than 25 persons to qualify for state certification under this provision. The Farm Bill includes a provision that the federal government reimburse states at 60% of the eligible costs of conducting inspections at these small facilities that comply with federal requirements. (DATCP currently receives funds from the federal government, at a 50% cost-share, for most other meat inspection responsibilities.) The federal government is still promulgating rules for this program, and it will not likely begin until 2010 or later. Further, it is not clear when the higher federal cost-share may be collected.

3. Although federal law does not apply to intrastate processing and sale of meat, federal law specifies that the federal government cooperate with states in the formation of state inspection programs. Wisconsin's meat licensing program requires annual licenses for establishments that slaughter meat or poultry for human consumption or that process meat products. For the 2008-09 license year that expires June 30, Wisconsin has 284 licensed meat establishments that slaughter, process or both, and 58 custom-exempt meat establishments, which DATCP generally does not inspect. Nationally, DATCP reports there are approximately 2,000 official state-inspected meat establishments, with Wisconsin having more such establishments than any other state.

4. In addition to state-inspected establishments, Wisconsin has approximately 100 federally inspected slaughter facilities that do not fall under DATCP's jurisdiction. However, these establishments would be subject to the slaughter fee under the bill.

5. DATCP is required to have an inspector present at facilities at all times animals are slaughtered. DATCP reports that all of the 284 state-inspected establishments process meat, and approximately 100 establishments slaughter animals on the premises. A slaughter inspection consists of both ante-mortem (pre-slaughter) and post-mortem inspections to ensure an animal is

disease-free and suitable for human consumption. DATCP reports the slaughter facilities typically slaughter one day per week, and the Department has not encountered difficulty in scheduling inspectors to be on hand as required during slaughtering activities. The Department reports it performed ante- and post-mortem inspections on approximately 340,000 animals in 2006-07.

6. However, the Department reports it has insufficient staffing to inspect processing activities that take place in the state-inspected establishments. An audit released by the USDA in January, 2008, found that DATCP "did not provide daily inspection coverage in each establishment on days products are produced that require inspection." DATCP took interim steps to comply with the audit findings, such as limiting time that establishments could process meat. This was intended to allow the Department to schedule times when inspectors could be on hand. Officials estimate the Department is currently meeting approximately 65 to 70% of daily processing visits. DATCP believes that additional staffing will be necessary to meet federal requirements, especially as more state-inspected establishments may seek to process meat for interstate sale as authorized by the 2008 Farm Bill.

7. In addition to inspection of meat processing, DATCP reports that additional resources are needed to monitor the health of animal populations entering Wisconsin through markets and other sales. Wisconsin has had no significant encounters with most serious animal diseases, aside from chronic wasting disease (CWD) in deer. However, DATCP officials report Wisconsin animal populations could be susceptible to other infections by contact with wild animals or by being commingled with infected animals imported from other states. For example, Michigan and Minnesota have domestic and wild animal populations infected with bovine tuberculosis.

8. DATCP reports that USDA's veterinary staff assigned to the state includes five veterinarians and two inspectors. These field personnel are occasionally transferred to other states to respond to serious disease outbreaks. Wisconsin's animal health field staff consists of eight inspectors, four compliance specialists and five veterinarians. DATCP reports these positions are insufficient to inspect all operating animal truckers, dealers and markets with DATCP's desired frequency of every three years. Wisconsin also has the third-most deer farms of any state, which are considered at risk of exposure to CWD.

9. DATCP's centralized animal health staff, which consists of 19.0 positions, including eight veterinarians and 11 administrative staff. Among other program duties DATCP central office staff review certificates of veterinary inspection, which are required to be submitted to the Department when animals enter the state. DATCP reports it receives hundreds of such certificates daily, and reviewing the certificates is important to identifying potential disease issues that could lead to follow-up by field staff.

10. The administration intends to use fee revenues to provide 3.5 PR meat inspector positions and to thereby match an additional 3.5 FED inspectors. Additional federal revenues are expected to be available from monies USDA makes available for most state meat inspection programs that are at least equal to federal requirements. Remaining PR amounts are to maintain a federally required data and tracking system. Approximately \$125,000 annually is shifted from GPR to PR under the bill for this purpose. DATCP states the 7.0 positions would be meat inspectors performing field inspections.

11. Of the 4.0 animal health positions, 3.0 positions would be inspectors, who would inspect livestock facilities and records, as well as educate regulated entities to promote compliance. The remaining position would be a compliance specialist, who would primarily lead investigation and enforcement activities. DATCP states these positions are intended to increase the Department's surveillance for the following diseases: (a) brucellosis, a bacterial infection that affects calving of cattle, bison and deer; (b) pseudorabies, a disease commonly associated with swine; and (c) bovine tuberculosis. Wisconsin is currently certified free of these diseases by the USDA. However, in addition to the presence of tuberculosis in Michigan and Minnesota, feral swine in the state tested positive for pseudorabies in 2007.

12. Authorized positions and expenditures for DATCP's meat inspection program are shown in Table 1. The figures represent authority granted in three appropriations: (a) general program operations, funded by GPR; (b) federal meat safety funding; and (c) program revenue, for which base authority primarily represents charges to businesses for overtime and special meat inspection services.

TABLE 1
DATCP Meat and Poultry Inspection Program

<u>Fund Source</u>	<u>Base Authority</u>	<u>Base Positions</u>	<u>AB 75 2009-10</u>	<u>AB 75 2010-11</u>	<u>Positions</u>
GPR	\$3,454,200	43.12	\$3,338,700	\$3,338,700	43.12
PR	50,500	0.0	360,900	421,500	3.50
FED	<u>3,864,000</u>	<u>43.62</u>	<u>4,537,200</u>	<u>4,598,500</u>	<u>46.87</u>
Total	\$7,368,700	86.74	\$8,236,800	\$8,358,700	93.49

13. Of the base positions shown above, 56.0 are inspectors, all of which are split approximately evenly between GPR and FED. Remaining positions are assigned to other compliance, supervision, or administration and support. Under the bill, DATCP would have 63.0 inspector positions, including: (a) 28.0 GPR; (b) 3.5 PR; and (c) 31.5 FED.

14. Table 2 shows authorized positions and expenditures in DATCP's animal health program.

TABLE 2
DATCP Animal Health and Safety Program

<u>Fund Source</u>	<u>Base Authority</u>	<u>Base Positions</u>	<u>AB 75 2009-10</u>	<u>AB 75 2010-11</u>	<u>Positions</u>
GPR	\$3,050,400	24.75	\$3,016,900	\$3,016,000	24.75
PR	877,000	8.25	1,053,100	1,133,100	12.25
FED	<u>3,177,600</u>	<u>3.00</u>	<u>2,363,500</u>	<u>2,257,200</u>	<u>3.00</u>
Total	\$7,105,000	36.00	\$6,433,500	\$6,406,300	40.00

15. The base positions shown in Table 2 include 17 field staff funded as follows: (a) 7.0 GPR and 1.0 PR inspectors; (b) 1.0 GPR and 3.0 PR compliance specialists; and (c) 5.0 GPR veterinarians.

16. Table 3 shows the most recent estimates for the number of total animals slaughtered in Wisconsin that would be subject to the proposed fee. Slaughter figures for state-inspected facilities are reported by DATCP, while total slaughter figures are reported by the Wisconsin Agricultural Statistics Service (WASS). Federal figures are estimated as the difference in the two sets.

TABLE 3

Estimated Animals Slaughtered in Wisconsin

<u>Animal</u>	<u>Fee</u>	<u>State Facilities</u>		<u>Federal Facilities</u>		<u>Total Slaughtered</u>	<u>Annual Revenues</u>
		<u>Slaughter</u>	<u>Revenues</u>	<u>Slaughter</u>	<u>Revenues</u>		
Cattle	14¢	44,000	\$6,200	1,677,400	\$234,800	1,721,400	\$241,000
Swine	14¢	61,700	8,700	559,300	78,300	621,000	87,000
Calves	10¢	300	<100	119,700	11,900	120,000	12,000
Chickens	1¢	94,700	900	34,905,300	349,100	35,000,000	350,000
Turkeys	1¢	4,300	<100	5,995,700	59,900	6,000,000	60,000
Total Fees			\$16,000		\$734,000		\$750,000

17. Wisconsin and its neighboring states generally have similar mechanisms for funding animal health and meat inspection programs. The states mostly use general fund appropriations, but Wisconsin and other states assess fees for licensing of certain establishments such as animal markets and animal dealers. Wisconsin and other states also require license fees for specialty farms such as deer and fish farms. DATCP reports that several states use other types of fees to fund animal health and inspection programs. One mechanism is a brand inspection, which assesses a per-animal fee each time an animal transfers ownership. Other types of assessments include charges on a per-animal basis for animals moving through designated animal markets or for animals headed directly to slaughter. Therefore, one could argue the fee charged for animal slaughter would be new to Wisconsin, but assessing a per-animal fee on producers or processors is a method used in other states.

18. Opponents argue that this fee would make Wisconsin producers and processors less competitive relative to other states because Wisconsin's neighboring states do not impose a similar per-animal fee payable on slaughters. DATCP contends that the slaughter fee is the most administratively feasible mechanism for assessing and collecting a per-animal fee. Under the bill, all slaughter facilities would be required to report quarterly slaughter figures and submit payments on that basis. Under funding mechanisms used by some other states, DATCP contends there would be additional rules or legislation required to document movements and collect fees, as well as an additional administrative apparatus to collect the fee.

19. Opponents of the slaughter fee also argue that the fees would be paid disproportionately by facilities that would not receive the services the fee would provide.

Specifically, it is likely that perhaps 97% or more would come from federally inspected facilities given current slaughter estimates, but that inspectors added would be monitoring activities in state-inspected facilities.

20. One could argue that additional meat inspection and animal health staff could be funded by all meat slaughterers and processors. All producers, processors and distributors risk economic harm in the event of a disease emergency, either by Wisconsin herds contracting an infectious disease such as bovine tuberculosis or Wisconsin-produced meat causing human illness such as E. coli. DATCP contends that if a disease were to break out in Wisconsin cattle, swine, or poultry, consumer demand for the associated meat product would fall, and the entire industry would be affected. Other state animal health programs have also incurred significant costs in tracing and containing outbreaks. These costs, in part, have contributed to states later enacting various fees and assessments to fund eradication efforts. As such, it could be argued that the entire industry should share in supporting the costs of programs to ensure the health of animals and the wholesomeness of Wisconsin meat products.

21. As shown in previous tables, the state has generally funded its share of the meat inspection and animal health programs with GPR. Opponents of the slaughter assessment argue that because of the general public benefits from a safe food supply, it is most appropriate to continue funding food safety programs with GPR. Additionally, one could argue that zoonotic diseases such as bovine tuberculosis, which can be transmitted from animals to humans, present a health risk to the general public. This could also warrant the use of GPR in funding additional animal health staff.

22. The Committee could consider a different assessment of a slaughter fee than the mechanism proposed by the Governor. As most fee revenues would likely be paid by federally inspected facilities, the Committee could consider halving the per-animal amount paid by any federally inspected facility. Under this alternative, a federally inspected facility would pay: (a) 7¢ for cattle; (b) 7¢ for swine; (c) 5¢ for calves; and (d) 0.5¢ for poultry. This alternative would approximately halve the revenues received from federally inspected facilities, which would be estimated at \$367,000 annually. Therefore, the Committee could consider reducing the staff recommended by the Governor by half, which would provide 1.75 PR meat inspectors and 2.0 PR animal health positions (Alternative 4).

23. Another means of spreading the incidence of the slaughter fee would be to expand the animals against which the fee would be assessed. The Committee could consider establishing the following fees (Alternative 3):

TABLE 4**Additional Animal Slaughter Fees and Revenues**

<u>Animal</u>	<u>Fee</u>	<u>State Facilities</u>		<u>Federal Facilities</u>		<u>Total Slaughtered</u>	<u>Annual Revenues</u>	
		<u>Slaughter</u>	<u>Revenues</u>	<u>Slaughter</u>	<u>Revenues</u>			
Bison	14¢	1,300	\$200	500	\$70	1,800	\$270	
Elk/Deer	10¢	700	70	1,500	150	2,200	200	
Sheep/Lambs	10¢	11,600	1,200	1,400	180	13,000	1,300	
Goats	10¢	0	0	8,000	800	8,000	800	
Ostriches	5¢	0	0	600	30	600	30	
Emus	5¢	0	0	200	10	200	10	
Rabbits	1¢	0	0	16,000	160	16,000	160	
Ducks	1¢	0	0	5,000,000	50,000	5,000,000	50,000	
Geese	1¢	0	0	3,000	30	3,000	30	
Pheasants	1¢	172,000	1,720	1,178,000	11,780	1,350,000	13,500	
Quail	1¢	0	0	50,000	500	50,000	<u>500</u>	
Totals								\$66,800

24. Figures from slaughters in state facilities are 2007-08 totals reported by DATCP. However, reliable slaughter estimates for federal facilities were not available. The estimated total slaughter figures in Table 4 are based on reported slaughter figures by WASS (sheep and lambs only) and on estimates of sold animals as reported in the 2007 USDA Census of Agriculture. Slaughter figures for federally inspected facilities are extrapolated from these data sets. It should be noted that numbers sold do not necessarily reflect animals that were slaughtered. Additionally, the figures reported also may have changed substantially since 2007. For example, a facility that slaughtered and processed an estimated 20,000 ducks per day closed in 2008. Thus, revenues may be significantly lower than depicted in the table.

25. One could argue that applying a slaughter fee to additional animals would be fairer to all producers and processors of meat products. Diseases may be carried by multiple species, and applying the fee to additional animals could more equitably apportion the costs of inspecting to the producers and processors of these animals. However, federal facilities would be expected to pay the majority of fee revenues, as is the case under the bill.

26. Additionally, the Committee could consider delaying the effective date of the fee to allow businesses subject to the fee to plan for its implementation and adjust operations as necessary. Under the bill, the slaughter fee would take effect upon passage of the bill. Thus, if the bill were to take effect in July, slaughter establishments would report animals slaughtered and pay fees on those animals on October 31, 2009, for slaughters occurring between the effective date and September 30. The Committee could consider delaying the effective date of the fee to slaughters taking place on or after January 1, 2010, and delete \$355,900 PR and \$92,000 FED in 2009-10 (Alternative 2). With a January 1, 2010, effective date, revenues in 2009-10 would be estimated at \$187,500 rather than \$750,000 under the bill, as there would be only one quarterly payment in April, 2010.

27. The Committee could consider other means of mitigating the impact of the fee.

Alternative funding sources could be considered for all or a portion of the positions recommended by the Governor. For example, 2007 Act 20, transferred: (a) \$250,000 in 2007-08 and \$100,000 in 2008-09 from the agrichemical cleanup program (ACCP) fund to DATCP's food regulation PR appropriation; and (b) \$125,000 in each year of the 2007-09 biennium from the ACCP fund to DATCP's animal health inspection, testing and enforcement appropriation. The ACCP also provides approximately \$250,000 annually to the UW-Extension for support of the discovery farms program.

28. The agricultural chemical management (ACM) fund collects fees paid on feed, fertilizer and pesticide products for DATCP regulation and administration of related agrichemical programs as well as for "agriculture in the classroom" and grazing grants. It could be argued that the ACM and ACCP funds do not have a direct link to animal health issues, and payers of the agrichemical fees may oppose other uses of the funds as improper. However, one could argue that use of the segregated funds, similar to some of the current uses, would broadly benefit the state agriculture industry, and are justified on this basis.

29. The connection to slaughter fee revenues may be viewed as less direct for the animal health staff under the bill. Animal health staff would primarily be inspecting animal dealers, markets and truckers. Therefore, one option could be to provide \$230,000 in 2009-10 and \$310,000 in 2010-11 with 4.0 animal health positions from the ACCP or ACM funds rather than the slaughter fee (Alternative 5). The Committee could also consider specifying any SEG transfer as one-time (Alternative 6).

30. The Committee could consider authorizing a slaughter fee, but deleting the fee amounts under the bill. Instead, the Committee could require DATCP to set fees by administrative rule. The rule promulgation process would allow for comment by the meat industry, slaughter firms and consumer groups. However, if a more proactive role for those affected by the fee proposal was desired, DATCP could be directed to consult with industries and groups affected by the rule. (Alternative 7) No revenues would be expected in 2009-10 as the rule is developed. Further, if this alternative were adopted in addition to Alternative 5 (shift animal health costs to SEG), lower revenues, and fee amounts, would be needed. Additionally, the Committee could specify that DATCP has authority to promulgate an emergency rule without the finding of an emergency (Alternative 7.a). However, use of the emergency rule process would likely reduce the input of facilities and individuals affected by the rule.

31. The Committee could consider clarifying the application of the fee to poultry. Under the bill, poultry is not defined, nor is it defined in Chapter 95, the chapter in which the slaughter fee would be codified. However, Chapter 97 of the statutes defines poultry as "any domesticated fowl, including but not limited to chickens, turkeys, geese, ducks or guineas, but shall not include commercially produced game birds." DATCP indicates it intended for the 1¢ assessment on poultry to apply only to turkeys and chickens. The Committee could consider specifying that poultry under the assessment would be defined as: (a) under Chapter 97, which would apply the 1¢ assessment to additional bird species (Alternative 9.a); or (b) only chickens and turkeys (Alternative 9.b).

ALTERNATIVES

1. Adopt the Governor's recommendation to establish the following per-animal fees for

each animal slaughtered at an establishment subject to inspection by DATCP: (a) 14¢ for cattle; (b) 14¢ for swine; (c) 10¢ for calves; and (d) 1¢ for poultry. Require establishments to submit quarterly reports on the number of animals slaughtered during the quarter, and require establishments to pay fees based on the number of each type of animal reported. Specify surcharges for payments submitted late and for reports that understate the number of animals slaughtered. Authorize DATCP to modify the per-animal fees by rule.

Create a program revenue annual appropriation in the food safety program for licensing of slaughter establishments and inspection of animals and carcasses at those establishments. Provide \$310,900 PR in 2009-10 and \$371,500 PR in 2010-11 with 3.5 positions. Amend DATCP's inspection, testing and enforcement program revenue continuing appropriation under the animal health services program to receive all slaughter fees, less those appropriated in the new food safety PR appropriation. Provide expenditure authority of \$230,000 PR in 2009-10 and \$310,000 PR in 2010-11 with 4.0 positions. Reestimate federal funding for meat and poultry inspection by \$184,000 FED in 2009-10 and by \$245,300 FED in 2010-11, and add 3.5 positions.

2. Adopt the Governor's recommendation, but specify that the fee first apply to animals slaughtered January 1, 2010. Delete \$355,900 PR and \$92,000 FED in 2009-10 to reflect the lower revenue amount.

ALT 2	Change to Bill	
	Revenue	Funding
PR	-\$562,500	-\$355,900
FED	<u>- 92,000</u>	<u>- 92,000</u>
Total	-\$654,500	-\$447,900

3. Adopt the Governor's recommendation. In addition, establish the following fees: (a) 14¢ for each bison; (b) 10¢ for each elk, deer, sheep, lamb or goat; (c) 5¢ for each ostrich or emu; and (d) 1¢ for each rabbit, duck, goose, pheasant or quail.

ALT 3	Change to Bill
	Revenue
PR	\$66,800

4. Adopt the Governor's recommendation, except specify that a federally inspected facility would pay the following fees for each type of animal slaughtered: (a) 7¢ for cattle; (b) 7¢ for swine; (c) 5¢ for calves; and (d) 0.5¢ for poultry. Additionally, estimate revenues at \$383,000 annually. Delete: (a) \$105,500 PR in 2009-10 and \$185,700 PR in 2010-11 from the meat inspection appropriation; and (b) \$115,000 PR in 2009-10 and \$155,000 PR in 2010-11 from the animal health appropriation. In addition, delete 1.75 meat inspectors and 2.0 animal health positions. Reestimate federal revenues at \$92,000 in 2009-10 and \$122,700 in 2010-11 and delete 1.75 FED positions.

ALT 4	Change to Bill		
	Revenue	Funding	Positions
PR	-\$734,000	-\$611,200	- 3.75
FED	<u>- 214,600</u>	<u>- 214,600</u>	<u>- 1.75</u>
Total	-\$948,600	-\$825,800	- 5.50

5. Convert \$230,000 in 2009-10 and \$310,000 in 2010-11 with 4.0 animal health positions from PR to one of the following:

- a. The ACM fund; or
- b. The ACCP fund.

ALT 5	Change to Bill	
	Funding	Positions
SEG	\$540,000	4.00
PR	<u>- 540,000</u>	<u>- 4.00</u>
Total	\$0	0.00

6. Adopt Alternative 5, but specify the amount be transferred on a one-time basis from the SEG fund to the animal health PR appropriation.

7. Delete the fee levels recommended by the Governor. Instead, authorize DATCP to establish a fee for animals slaughtered in the state, but require DATCP to promulgate an administrative rule setting fee levels. Direct DATCP to consult with representatives of industries and groups affected by the fee. Delete \$310,900 PR and \$184,000 FED in 2009-10. Revenues would not be expected in 2009-10.

ALT 7	Change to Bill	
	Revenue	Funding
PR	-\$750,000	-\$310,900
FED	<u>- 184,000</u>	<u>- 184,000</u>
Total	\$2,934,000	-\$494,400

a. In addition, authorize DATCP to promulgate an emergency rule for setting fee levels without the finding of an emergency. Allow the emergency rule to remain in effect until the earlier of January 1, 2011, or the date the permanent rule is effective.

- 8. Specify that poultry is defined as:
 - a. Under Chapter 97 of the statutes (discussion point #31).
 - b. Chickens and turkeys.

9. Delete provision.

ALT 9	Change to Bill		
	Revenue	Funding	Positions
PR	-\$1,500,000	-\$1,222,400	- 7.50
FED	<u>- 429,300</u>	<u>- 429,300</u>	<u>- 3.50</u>
Total	-\$1,929,300	-\$1,651,700	- 11.00

Prepared by: Paul Ferguson