



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #150

Animal Disease Indemnification Costs (Agriculture, Trade and Consumer Protection)

[LFB 2005-07 Budget Summary: Page 67, #24]

CURRENT LAW

Under current law, DATCP has the authority to investigate the existence of animal diseases and to investigate violations of, and otherwise enforce, state laws related to animal health. As a part of these powers, DATCP may examine or test any animals or materials suspected of being infected with an animal disease. The Department may condemn animals that are infected with, or exposed to, a contagious or infectious disease if the Department determines that it is necessary to do so in order to prevent or control the spread of the disease. Further, if DATCP has reason to believe the animals have been exposed to it, the statutes allow the Department to conduct surveillance testing to determine whether animals have chronic wasting disease.

The statutes require DATCP to indemnify the owner of an animal that is destroyed due to a condemnation order by the Department because of exposure to an animal disease, or in order to conduct CWD testing, in an amount equal to two-thirds of the difference between the net salvage value and the appraised value of the animal, but not more than \$1,500 per animal.

GOVERNOR

Specify that if DATCP orders an animal to be destroyed because it is suspected of having a transmissible spongiform encephalopathy (such as mad cow, chronic wasting disease or scrapie), the Department is to increase the indemnity payment for that animal by the costs of destruction and disposal (including transportation and storage) of the animal, which may exceed the current statutory maximum indemnity payment of \$1,500 per animal.

In addition, specify that DATCP may make indemnity payments from its animal disease indemnities GPR sum sufficient appropriation to owners of animals that DATCP orders destroyed for chronic wasting disease surveillance testing if federal funding or funds that the Department receives from other state agencies are not sufficient to make these indemnity payments. Currently, only federal funds or funds transferred from other agencies (DNR) may be used for chronic wasting disease surveillance indemnities.

DISCUSSION POINTS

1. State indemnity payments for animals condemned by DATCP come from three sources: (a) federal funds; (b) DATCP program revenues received from other agencies (if available); and (c) a GPR sum sufficient appropriation. The PR appropriation receives revenues from other state agencies for services rendered by the Department. Included in this is funding DATCP previously received from DNR for costs related to its chronic wasting disease (CWD) containment efforts. The GPR sum sufficient appropriation is used to make indemnification payments for any animals destroyed by the Department in the administration and enforcement of its animal health and disease responsibilities. DATCP only makes payments from the GPR sum sufficient appropriation when funds are not available from federal sources, or for CWD testing from the PR appropriation.

2. DATCP received \$500,000 from DNR for costs related to its CWD control and elimination efforts. This funding, which was deposited to its state services PR appropriation, has been used for the condemnation and indemnification of CWD-exposed or -positive deer (\$158,200), salary and fringe benefit costs of CWD-related employees (\$218,800), and supplies (\$119,900). All but \$3,100 of this funding has been expended, or is set aside for expenditures related to animals the Department currently has quarantined. DATCP is not expecting any additional funds for these purposes from DNR or any other state agency.

3. While DATCP expects federal funding to continue to be available for certain payments to owners of condemned animals in 2005-06 and 2006-07, federal funding does not come from a sum sufficient appropriation, but rather is paid out of Commodity Credit Conservation (CCC) funds. The CCC is a Government-owned and operated entity that was created to stabilize, support, and protect farm income and prices. CCC funds were authorized by the Secretary of Agriculture to enhance CWD surveillance and to purchase and euthanize animals from CWD positive herds. When an animal is condemned, its owner can receive an indemnity payment directly from the federal government (the funds do not go through DATCP), provided there is federal funding remaining for indemnifications. If federal funding is unavailable to owners of animals condemned by the state, payment is made from the GPR sum sufficient appropriation.

4. Currently, due to restrictions on the amount of the indemnity that may be paid, both the federal and state government typically make indemnity payments to the owners of condemned animals. For example, if the federal government makes an indemnity payment of \$3,000 for an animal valued at \$6,000, DATCP would then make a payment for up to two-thirds of the difference

between the animal's assessed value and its salvage value, which includes any federal indemnity payment received, with a maximum of \$1,500. As a result, in this instance the animal's owner would receive total indemnity of \$4,500.

5. Since July, 2002, Wisconsin livestock owners have received indemnities for 480 CWD-related deer or elk. Of this total, owners received state and federal indemnity payments for 276 animals, and only state indemnity payments for 204 animals. DATCP officials indicate that all of the livestock owners who did not receive federal indemnity payments chose not to accept federal payments, whether due to not wanting to go through the longer and more costly federal process to receive indemnity payments, or due to the stricter stipulations required by federal indemnity payments (no animals may ever again be kept at the site, for instance).

6. The federal government is currently developing a policy for indemnification payments for animals that are condemned related to chronic wasting disease and bovine spongiform encephalopathy (BSE). Through February, 2005, the federal government had paid destruction and disposal costs for all herds for which they indemnified an owner.

7. The cost of the Governor's recommended statutory change is uncertain, due to both the unknown number of animals that will be condemned each year, and the amount of federal government funding that will be available for animal indemnification payments and transportation costs. On March 9, 2005, 361 animals were in quarantine (270 whitetail deer, 57 elk, 10 fallow deer, 4 sika deer and 20 red deer) due to a potential exposure to chronic wasting disease.

8. The following table shows TSE-related state indemnity payments (federal payments are not readily available) since 2000-01. It should be noted that the 2000-01 figures represent 83 sheep condemned due to scrapie (a transmissible spongiform encephalopathy that affects sheep). The remaining costs were for CWD-related deer or elk testing.

TSE-Related State Indemnity Payments

<u>Fiscal Year</u>	<u>Animals Condemned</u>	<u>GPR</u>	<u>PR</u>	<u>Total</u>
2000-01	83	\$20,400	0	\$20,400
2001-02	0	0	0	0
2002-03	320	0	\$141,200	141,200
2003-04	68	10,600	15,500	26,100
2004-05	<u>92</u>	<u>19,500</u>	<u>1,500</u>	<u>21,000</u>
Total	563	\$50,500	\$158,200	\$208,700

9. In addition to transmissible spongiform encephalopathies, such as chronic wasting disease, mad cow disease (BSE) and scrapie, DATCP also has statutory authority to condemn

animals, and make indemnity payments, that have a variety of other diseases, including tuberculosis, brucellosis and pseudorabies. However, the statutory change recommended by the Governor would only provide indemnity payments for the destruction and disposal costs of animals that have a transmissible spongiform encephalopathy (TSE). Despite this fact, it could be argued that were this statutory change made, it would set the precedent for the Department to seek authority to pay increased indemnity payments (related to disposal and transportation costs) for future disease outbreaks, such as foot and mouth disease.

10. While the bill would provide indemnity payments for the destruction and disposal costs of any animal that has a TSE, DATCP does not expect significant costs related to this change for indemnities related to mad cow disease or scrapie. Department officials indicate that the state has not had a scrapie outbreak for over three years, and that the state has never had a case of mad cow disease. In addition, DATCP staff note that sheep are no longer required to be condemned if they test positive for scapie and DATCP veterinarians indicate that scrapie does not tend to be highly contagious to the extent where one infection spreads to an entire flock. Further, DATCP officials note that mad cow disease is not believed to be contagious from animal to animal, but is rather presumed to be spread through other means, like contaminated feed. As a result, DATCP does not believe there will be significant near-term costs related to either of these diseases under the bill. Therefore, the \$108,600 GPR provided in base-level funding is expected to be adequate in the 2005-07 biennium.

ALTERNATIVES

1. Approve the Governor's recommendation to require DATCP to increase the indemnity payments of animals condemned by DATCP due to exposure to a transmissible spongiform encephalopathy to reflect the costs of destroying, transporting, storing and disposing of the animal, notwithstanding the \$1,500 indemnity limit in the statutes.

2. Maintain current law.

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