



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

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Joint Committee on Finance

Paper #143

State Agriculture Laboratory Rental Costs (Agriculture, Trade and Consumer Protection)

[LFB 2013-15 Budget Summary: Page 59, #3]

CURRENT LAW

The Department of Agriculture, Trade and Consumer Protection (DATCP) currently maintains laboratory facilities in Madison for services provided to the food safety, agricultural chemical and plant industry programs. The Bureau of Laboratory Services (BLS) provides services for the Department's food safety and agricultural chemical programs. Laboratory services for these programs may provide both evidence in cases of suspected law violations and indications of broader risks to public health and welfare. BLS charges these departmental programs for its services, which are reflected in DATCP's budget as expenditures to the food safety and agricultural chemical areas and as program revenues for the laboratory. The laboratory, in turn, uses these revenues to cover costs such as staffing, equipment purchases and maintenance, and facilities rent payable to the Department of Administration (DOA). Also, DATCP's Plant Industry Bureau operates a laboratory responsible primarily for testing soils and crops for plant pathogens. Rental costs for the plant industry laboratory are supported by GPR.

In 2013-14, the DATCP laboratories will move into a new facility on Madison's southeast side, co-located with the State Laboratory of Hygiene. This new facility was authorized in the state's 2009-11 building program, and has been under construction since November, 2011.

GOVERNOR

Provide \$358,200 GPR in 2013-14 and \$365,400 GPR beginning in 2014-15 for additional costs expected for rental costs of the laboratory facility.

DISCUSSION POINTS

1. DATCP and the administration report the item is intended to provide adequate funding for additional rental costs likely to be assessed by DOA, which would be the owner of the laboratory facility, but also minimize costs that otherwise could be assessed by BLS to the food safety and agricultural chemical programs. The DATCP food safety program is responsible for enforcing state sanitary and food purity standards affecting: (a) food processors, warehouses, and retail food establishments; and (b) milk producers, processors and haulers, including enforcement of the Grade A pasteurized milk ordinance. It is funded primarily by GPR and various PR sources, including annual license fees and monthly procurement fees assessed on dairy processors for milk purchases. The agricultural chemical management program regulates activities involving animal feed, pesticides, fertilizers, and other agricultural chemicals. This includes monitoring groundwater that may be vulnerable to contamination by the use of agricultural chemicals. The program is supported by the segregated agrichemical management (ACM) fund, which receives various license, product registration, and tonnage fees assessed against agrichemical production and sales.

2. For 2010-11 and 2011-12, the laboratory services PR appropriation received revenues of \$2,811,500 annually from the agricultural chemical and food safety programs. A similar amount is expected for 2012-13. ACM SEG currently accounts for approximately 64% of program revenues, with various GPR, PR and FED appropriations in the food safety program accounting for approximately 36%. The laboratory services PR appropriation has base-level expenditure authority of \$2,982,000 PR and would be authorized expenditures of \$2,904,000 PR each year under the bill. Of these amounts, approximately \$388,200 is for rent payments to DOA for rent on current laboratory facilities.

3. The new laboratory building would provide DATCP approximately 24,000 square feet, an increase of approximately 4,900 square feet from the current laboratory's space of approximately 19,100 square feet. Rental charges are assessed based on usable square footage in state facilities, and certain facility types are billed at slightly different rates, based on different characteristics of a facility's operating and construction costs. For example, DOA reports laboratory space is billed at higher rates than office or storage space. This owes primarily to typically higher construction costs, due to laboratories often requiring separate or advanced mechanical systems, and higher utilities costs over a facility's life. The increase in space preliminarily appears to be attributable to BLS space. Further, it appears the plant industry services laboratory would be expected to pay lower rents on an annual basis, due to a reduction in space in the new facility. (This difference is discussed further in a subsequent discussion point.)

4. The State Laboratory of Hygiene currently has rental costs of approximately \$145,700 per month for existing facilities on the site. These costs are funded in 2012-13 at approximately 42% GPR, 50% PR, and about 8% FED. However, the recommended UW System budget under AB 40 includes funding increases of \$929,000 GPR over the biennium for the State Laboratory of Hygiene under standard budget adjustments, to fund increases in rent costs for the additional space being built and to increase the GPR share of laboratory rent to 50%. DATCP has argued the agricultural laboratory facilities are appropriate to similarly fund with a 50% GPR share, as the facilities confer statewide public health benefits as the State Laboratory of Hygiene does.

5. Total annual rent costs on current agricultural laboratory facilities are approximately \$500,600. This includes: (a) \$388,200 PR annually paid from BLS PR, which are the amounts charged to the food safety and agricultural chemical programs; (b) \$74,000 GPR annually for the plant industry services laboratory; and (c) \$38,400 FED annually received by and DATCP credited toward lab rental costs. Direct GPR contributions toward laboratory facility rent under current law would be approximately 14%. Preliminary DATCP estimates indicated additional square footage of the new laboratory facility would result in total annual rents of \$695,300. Preliminary estimates also indicate the total rent (GPR) billed to the plant industry services laboratory will be perhaps \$15,000 less on an annual basis, due to lesser square footage in the new facility. The Department assumed additional rental rate increases of 3% in 2013-14 and 2% in 2014-15, which would result in total rent of \$716,400 in 2013-14 and \$730,700 in 2014-15. The GPR the bill would provide is intended to account for half of the laboratory rent costs each year, with remaining amounts supported by BLS PR chargebacks and FED.

6. At this time, it appears annual costs may be lower than initially estimated, due to revised rate information submitted by DATCP and DOA. Table 1 shows the revised annual rental rates for the new laboratory space. Annual rate increases of 2% are assumed in 2013-15, consistent with administration estimates for the biennium.

TABLE 1

2013-15 DATCP Laboratory Rental Costs

<u>Fiscal Year</u>	<u>AB 40</u>	<u>Revised</u>
2013-14	\$716,400	\$640,200
2014-15	730,700	653,000

7. Additionally, DATCP reports it is uncertain when the agency would take occupancy of the new facility. The Department expects the facility's construction will be completed in mid-2013, although official completion and occupancy dates have not been established. DOA reports rent would be billed beginning at the agency's occupancy. For purposes of this item, DATCP reports it has assumed a full year's occupancy in 2013-14, although it appears occupancy may not occur until perhaps September or October of 2013, reducing the first-year need to \$616,900.

8. Table 2 summarizes one option the Committee could consider. Alternative 1 would adopt the Governor's recommendation for a 50% GPR share of total laboratory rent upon occupancy of the new facility. Total GPR reductions relative to the bill would be \$236,000. Due to GPR supplanting a portion of the rent obligations currently supported by laboratory services PR, the Committee could consider reducing laboratory services PR by \$88,800 in 2013-14 and by \$100,100 in 2014-15. One could argue that because the agriculture laboratories help protect the public against various risks to public health, it is appropriate to supplement their operations with additional GPR. Further, doing so would avoid increased obligations to fee-based programs in DATCP.

TABLE 2**Summary of Alternative 1**

<u>Fund</u>	<u>Base (Est.)</u>	<u>Alternative 1</u>		<u>Change to Base</u>		<u>Change to Bill</u>	
		<u>2013-14</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2014-15</u>
GPR	\$59,000	\$279,100	\$326,500	\$220,100	\$267,500	-\$138,100	-\$97,900
FED	38,400	38,400	38,400	0	0	0	0
PR*	<u>388,200</u>	<u>299,400</u>	<u>288,100</u>	<u>-88,800</u>	<u>-100,100</u>	<u>-88,800</u>	<u>-100,000</u>
Total	\$485,600	\$616,900	\$653,000	\$131,300	\$152,400	-\$226,900	-\$198,000

* Consists of charges assessed to food safety and agrichemical management programs.

9. Alternatively, GPR could be provided in an amount sufficient to meet the revised total rents shown in Table 1, assuming the total base-level rent of \$485,600. Table 3 summarizes this option. Alternative 2 would reduce GPR under the bill by \$226,900 in 2013-14 and by \$198,000 in 2014-15, or \$424,900 over the biennium. Like Alternative 1, this option incorporates revised rent rates and two fewer months of occupancy. The total GPR share of DATCP laboratory rent in 2014-15 would be approximately 35%.

TABLE 3**Summary of Alternative 2**

<u>Fund</u>	<u>Base (Est.)</u>	<u>Alternative 2</u>		<u>Change to Base</u>		<u>Change to Bill</u>	
		<u>2013-14</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2014-15</u>
GPR	\$59,000	\$190,300	\$226,400	\$131,300	\$167,400	-\$226,900	-\$198,000
FED	38,400	38,400	38,400	0	0	0	0
PR*	<u>388,200</u>	<u>388,200</u>	<u>388,200</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$485,600	\$616,900	\$653,000	\$131,300	\$167,400	-\$226,900	-\$198,000

* Consists of charges assessed to food safety and agrichemical management programs.

10. However, it also could be argued that the combined laboratories as currently funded reflects some level of GPR support, with other costs of laboratory testing passed to agricultural chemical handlers, food producers and processors. One could argue shifting some or all additional costs to fee-based programs is appropriate.

11. The Committee could consider deleting the Governor's recommendation and instead provide any necessary increases to base-level laboratory rent costs as increases to the laboratory services PR chargeback appropriation [Alternative 3]. This option, summarized in Table 4, would increase the DATCP general laboratory services PR chargeback appropriation by \$131,300 in 2013-14 and \$167,400 beginning in 2014-15. Alternative 3 would increase overall expenditure authority for the laboratory services PR from \$2,904,000 each year under the bill to \$3,035,300 in 2013-14 and \$3,071,400 in 2014-15.

TABLE 4**Summary of Alternative 3**

<u>Fund</u>	<u>Base (Est.)</u>	<u>Alternative 3</u>		<u>Change to Base</u>		<u>Change to Bill</u>	
		<u>2013-14</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2014-15</u>
GPR	\$59,000	\$59,000	\$59,000	\$0	\$0	-\$358,200	-\$365,400
FED	38,400	38,400	38,400	0	0	0	0
PR*	<u>388,200</u>	<u>519,500</u>	<u>555,600</u>	<u>131,300</u>	<u>167,400</u>	<u>131,300</u>	<u>167,400</u>
Total	\$485,600	\$616,900	\$653,000	\$131,300	\$167,400	-\$226,900	-\$198,000

* Consists of charges assessed to food safety and agrichemical management programs.

12. If the Committee wished to provide increased expenditure authority for the laboratory facility as PR, it also could consider provide increased expenditure authority to the food regulation PR and agrichemical management SEG appropriations, to cover the increased rental charges. These amounts would be: (a) for food regulation PR, \$47,300 in 2013-14 and \$60,300 in 2014-15; and (b) for agrichemical management SEG, \$84,000 in 2013-14 and \$107,100 in 2014-15 [Alternative 4]. Act 32 provided increases to the food safety PR and agrichemical management SEG appropriations for expected increases to each program for future laboratory testing costs. Funding provided for increased laboratory costs included: (a) \$302,200 PR and \$768,300 SEG in 2011-12; and (b) \$343,800 PR and \$873,200 SEG in 2012-13. The overall laboratory charges to the two programs have remained unchanged, although adjustments have been made among appropriations, in some instances. Further, as shown in Table 5, expenditures in each appropriation for 2011-12 did not reach the full authority provided under Act 32. DATCP staff expect expenditures in 2013-15 to approach authorized expenditure levels, due in part to filling certain position vacancies and planned equipment and other upgrades. It should be noted that as of July 1, 2012, the food regulation PR account had an available balance of approximately \$4.2 million, while the ACM fund had an available balance of \$3.6 million.

TABLE 5**Food Safety and Agrichemical Program Expenditures**

<u>Appropriation</u>	<u>2010-11</u>		<u>2011-12</u>	
	<u>Ch. 20</u>	<u>Actual</u>	<u>Ch. 20</u>	<u>Actual</u>
Food regulation (PR)	\$5,003,500	\$4,642,100	\$5,603,300	\$3,669,500
Agchem. ops. (SEG)	5,492,500	5,484,800	6,607,800	5,708,800

13. The Committee also could consider establishing any funding provided in the 2013-15 biennium for laboratory rental costs as one-time funding [Alternative 5]. This would allow for a re-examination of the distribution of laboratory rental costs in the course of considering the 2015-17 budget to determine whether changes would be appropriate.

ALTERNATIVES

1. Adopt the Governor's recommendation, as reestimated, to provide \$220,100 GPR in 2013-14 and \$267,500 GPR beginning in 2014-15 under the DATCP appropriation for central administrative operations for additional rent costs for a new state agriculture laboratory. Further, delete \$88,800 PR in 2013-14 and \$100,100 PR in 2014-15 from the DATCP appropriation for general laboratory services. (This would be a reduction from the bill of \$138,100 GPR in 2013-14 and \$97,900 GPR in 2014-15. Rent costs for the agricultural laboratory facilities would be supported by 50% GPR.)

ALT 1	Change to Bill Funding
GPR	- \$236,000
PR	<u>- 188,900</u>
Total	- \$424,900

2. Delete \$226,900 GPR in 2013-14 and \$198,000 GPR in 2014-15 under DATCP central administrative services. (Rent costs for the agricultural laboratory facilities would be supported at an estimated 35% GPR in 2014-15.)

ALT 2	Change to Bill Funding
GPR	- \$424,900

3. Delete the Governor's recommendation. Instead, provide additional expenditure authority of \$131,300 PR in 2013-14 and \$167,400 PR in 2014-15 under the DATCP appropriation for general laboratory services.

ALT 3	Change to Bill Funding
GPR	- \$723,600
PR	<u>298,700</u>
Total	- \$424,900

4. In addition to Alternative 3, provide \$47,300 PR in 2013-14 and \$60,300 PR in 2014-15 under the DATCP appropriation for food regulation, and \$84,000 SEG in 2013-14 and \$107,100 SEG in 2014-15 under the DATCP appropriation for agrichemical management operations.

ALT 4	Change to Bill Funding
PR	\$107,600
SEG	<u>191,100</u>
Total	\$298,700

5. In addition to any of the alternatives above, specify funding in the 2013-15 fiscal biennium is to be designated as one-time financing in the state budget system.

Prepared by: Paul Ferguson