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November 1, 2010

Mr. Todd Saliman, Director
Governor's Office of State Planning & Budgeting
State Capitol
200 East Colfax, Room 111
Denver, CO 80203

Dear Director Saliman,

On behalf of the Colorado Department of Agriculture (CDA), I am pleased to submit our agency's proposed budget for FY11-12. As you're well aware, Colorado's agriculture industry is long on tradition and has helped to shape the foundation of our state. Just as important, the agriculture industry contributes significantly to the quality of life we all enjoy in Colorado, creates employment for more than 100,000 Coloradans, and generates an estimated \$18-20 billion in economic activity annually – ranking agriculture among the state's top economic sectors. We hope that the State will continue to provide the necessary resources, both human and financial, required by CDA to successfully carry out the responsibilities for which it has been charged.

Recent years have proven challenging for Colorado's agriculture industry. For the most part, any improvements in commodity prices were more than offset by higher input costs for feed, fertilizer, fuel, and seed. Commitments to downstream users of water, as well as a general lack of water available for irrigation resulted in the "drying-up" of thousands of acres of productive farmlands. Similarly, the availability of credit also dried up for many producers, especially dairy producers, in the wake of the closing of New Frontier Bank in Greeley in 2009. With that as the backdrop against which to consider the future, it should come as no surprise that economic forecasts for 2010 had largely predicted more of the same or possibly even further erosion of profitability for Colorado's farmers and ranchers. Nonetheless, the one constant in our industry is change – and we're seeing those changes that affect the agriculture industry happening more rapidly and on more levels than ever before. So, while we may have entered 2010 with a "the glass is half-empty" feeling, we are ending the year and beginning planning for 2011 and beyond with a more optimistic "the glass is half-full" attitude about the future of Colorado's agriculture industry!

Factors contributing to this change include, among others....

- ✓ Timely rains throughout the 2010 growing season helped our crops and pastures flourish, and slower than normal melting of the State's snowpack helped boost groundwater and reservoir levels critical for irrigation of alfalfa, corn for grain, dry beans, potatoes, and sweet corn.

- ✓ Colorado's winter wheat producers benefited from the combined effects of a record harvest, both in terms of overall production and yield per acre, as well as rising prices brought about by concerns that fires had greatly reduced Russia's wheat crop. Wheat futures prices at the Kansas City Board of Trade rose significantly through June and July before topping out at \$7.80 per bushel – a level more than \$3.00 per bushel higher than market prices just two months earlier. The Colorado Wheat Administrative Committee recently estimated the 2010 Colorado winter wheat crop at 103.5 million bushels.
- ✓ Futures prices at the Chicago Board of Trade for live cattle and feeders are now roughly ten percent higher than a year ago. Although cattlemen are marketing fewer head, the higher prices have helped enhance profitability. Also, the cattle feeding industry appears to have adjusted to higher input prices and according to a USDA-ERS High Plains Cattle Feeding Simulator, showing positive gains in 2010, reversing losses that in the winter of 2008-09 were estimated at as much as \$24 per hundredweight.
- ✓ Exports of food and agriculture products from Colorado rebounded in the first half of 2010. Beef complex exports from Colorado were reported at \$358 million – a 38 percent increase over the \$260 million reported for same period for 2009. Much of the increase resulted from improved market access, particularly to Korea, where frozen beef exports more than tripled to \$25 million. Also, hides and skins exports to China, Taiwan, and Korea more than doubled to \$75 million. Canada and Mexico remain Colorado's most prominent export markets and annually account for roughly half of Colorado's food and agriculture exports.

Key Initiatives

While each and every program we administer is important to the health and well-being of consumers and the industry, I'd like to highlight just a few initiatives that are representative of the work that the roughly 270 men and women who work at CDA undertake to strengthen and advance Colorado's agriculture industry.

Colorado Proud

A key initiative of the Markets Division is the Colorado Proud program that promotes food and agricultural products that are grown, raised or processed in the state. With consumer preference for locally grown food on the rise, Colorado Proud is well positioned to serve those who make locally grown food available, as well as the "locavore" community (i.e., people who make a point of purchasing food grown locally because it is fresher, and it is perceived as healthier and better for the environment).

Since its inception in 1999, the number of companies licensed to participate in the program has grown to nearly 1,400 – including farmers, ranchers, manufacturers, nurseries/greenhouses, restaurants and retailers. In just the last two years, more than 400 companies have become licensed members, many of which are new businesses. Members believe the program is important and helps contribute to their bottom line as a 2010 survey of Colorado Proud members reported that nearly 90 percent stated that the program is valuable or extremely valuable.

Colorado Proud advertising and promotion has contributed to an increased interest among consumers to purchase Colorado products. Surveys have found that nearly 92 percent of Coloradans would buy more Colorado grown and produced products if they were available and identified as local. According to a 2009 survey, 67 percent of respondents are very or somewhat familiar with the Colorado Proud logo, up from 59 percent in 2008. In addition, 84 percent

purchase at least some Colorado food products, and 55 percent look for the logo more now than they did in the past. In 2002, only 16 percent of respondents to a similar survey understood the purpose of Colorado Proud.

Retailers understand the consumer desire for buying local and are increasingly using the logo to promote local products. The Colorado Proud logo and message has been featured in television and radio advertising and in-store signage for all the major food retailers in Colorado including Safeway, King Soopers, Wal-Mart, Costco, Smart Co Foods, Sprouts, Sunflower Market and Albertsons.

Restaurant members and chefs are seeing consumer demand for local ingredients increase and are incorporating more Colorado products into their menus. Schools across the state are also supporting local producers and the "farm to school" model continues to expand.

To help connect the food and agriculture industry with potential buyers, CDA in conjunction with Colorado State University (CSU) has developed a new online resource for finding local products called Colorado MarketMaker (www.comarketmaker.com). This resource helps consumers, restaurants, retailers and schools find locally grown, raised or processed food products.

As the Colorado Proud program grows, efforts to promote the program are evolving. Colorado Proud continues to promote its message through a summer television advertising campaign, public relations efforts and events. However, the program is also exploring new and year-round options such as social media, outdoor advertising and in-store merchandising.

Livestock Health & Disease Management

Tuberculosis (TB) is a major concern for Colorado's cattle industry and is caused by infection by *Mycobacteria* spp. Bacteria – an old organism that over the ages has resulted in significant disease for animals and for humans. TB disease in cattle has changed dramatically over the years and some of those changes are due to the incidence, the epidemiology, and dairy production practices. There is a bovine TB program which is a cooperative Federal, State, and industry effort to eradicate bovine TB from cattle in the United States. It has made significant progress since the program's inception in 1917. The disease prevalence rate in cattle herds has dropped from 5 percent in 1917 to less than 0.001 percent today.

Even with the low incidence of TB in the U.S., an infected herd was diagnosed in Colorado in 2010. CDA and USDA/APHIS has expended a large amount of time and resources to diagnose this herd, submit samples, oversee the depopulation of the animals, institute cleaning and disinfection of the premises, and educate cattle producers about the disease. In addition, epidemiological tracing and testing of animals is still ongoing and this testing includes animals that left the infected herd and the testing of herds of origin of the cattle that had entered the infected herd in the past two years. There are benefits for cattlemen when a state is considered to be "TB-free" or in eliminating a TB infected herd when one is found. CDA's efforts to maintain this free status will help the cattle industry by reducing livestock movement restrictions, testing costs, and the time and resources spent in fulfilling added regulatory and industry requirements.

Trichomoniasis, commonly referred to as "trich" is a venereal disease of cattle caused by a protozoan parasite. Trich causes infertility, abortions and occasionally, chronic uterine infection in dairy and beef cattle. Losses include reduced milk production, reduced calf crop and delayed breeding. It is an insidious and economically significant cattle disease, often called the "silent cattle rustler."

CDA has developed new rules pertaining to trich management and promoted educational efforts which have shown positive outcomes. These results are partially demonstrated by the drop in the number of quarantined premises. In 2008, there were 43 cattle facilities quarantined in 18 counties. That number dropped in 2009 to just 13 facilities in only eight counties. In 2010, there have been only six facilities quarantined in six counties and currently there are no quarantined facilities. CDA will continue partnering with CSU, CSU/Extension, the Colorado Veterinary Medical Association (CVMA), and industry groups to develop educational programming to promote best management practices to control and prevent trich.

The Bureau of Animal Protection (BAP) program within the Animal Industry Division was created in 1990 and authority was given to the Commissioner of Agriculture to promulgate rules. The BAP is a program within the State Veterinarian's office that serves to assist local agencies in the investigation and prosecution of animal cruelty and neglect. As part of this mission, animal control agents from across the state can become commissioned through the BAP and entrusted with the authority to investigate criminal animal cruelty under the state statute. In 2009 there were over 12,000 investigations conducted which resulted in nearly 5,000 summons. The BAP employs one full time investigator and utilizes the experience and expertise of 6 veterinarians, and numerous animal health technicians to assist local agencies. These resources put Colorado at the forefront of animal protection and we continue to be a model state in animal welfare and protection.

A number of high visibility cases involving horses, small animals, and livestock have been dealt over the last 12 months by CDA. The most notable was a cattle incident in which the caretaker was not taking care of a herd of approximately 1,200 head. In April 2010, the Bureau received a call from Park County to assist with a livestock investigation, the Bureau staff was able to advise local investigators on evidence collection and provide veterinary opinion as to the condition of the animals in question. CDA worked with local law enforcement to work through the judicial system to remove the cattle, feed and care for them, and sell part of the herd at auction. The BAP remains a vital part of the State Veterinarian's office, a valuable resource to Colorado animal cruelty investigators, and an important service to the citizens of Colorado as it carries out its unique responsibility in protecting the animals of the state from abuse and neglect.

One other area of work of the Animal Industry Division is protecting Colorado from foreign animal diseases (FAD). One FAD that CDA has had to control and eradicate from the state was the recent incursion of equine piroplasmiasis (EP). It is a blood-borne parasitic disease that affects horses, ponies, donkeys, mules, and zebras. EP-infected animals can develop fever, anemia, yellowing of the membranes in the eyes and mouth, and dark brown to red-tinged urine. Some animals die from the disease, while others never get sick. Horses with persistent EP infections are carriers of the parasites that cause the disease and are potential sources of infection to other horses. EP is a reportable disease and leads to regulatory consequences. A quarantine and subsequent disease control plan for any test-positive horse is determined by the State Veterinarian of Colorado, USDA/APHIS/VS, along with input from the owners. Currently, there is no vaccine or approved treatment for EP in the United States. CDA diagnosed four horses with EP during the last 12 months, quarantining two different equine premises. All known EP-positive cases have been eliminated from Colorado by euthanizing three horses and transporting the fourth to Pullman, WA to be included in a USDA/ARS study program. Removal of the EP infected horses from the state has provided successful outcomes such as protecting horses' health, reducing the added financial burden for horse owners in the testing of their horses prior interstate movement, and protecting the viability of the horse industry by eliminating a equine FAD.

Japanese Beetle Management

CDA has been working cooperatively with the nursery and golf course industries, USDA, CSU/Extension Service, and local governments to manage Japanese beetle populations that have become established in our state. While the insect, introduced into the U.S. in 1919, can cause damage to many ornamental plants, it poses an economic threat to fruit and vegetable crops and restricts trade in the nursery stock industry, a valuable component to Colorado agriculture.

In 2002, a population of Japanese beetles was discovered in the town of Palisade, home of much of the state's orchard and grape production. An aggressive program of trapping, insecticide treatments, and landscape plant management has proven to have successfully impacted the nascent population. In 2009 and to date in 2010, the trapping program failed to capture even one beetle. While it is too early to claim victory, the management program is clearly successful. Three years of no detections will allow us to claim the population as eradicated in Palisade.

More work remains elsewhere in Colorado where the Japanese beetle has established itself. Infection in areas along the Front Range are suspected to be the result of trees and other plant material imported from infested areas outside Colorado's borders. In late 2009, CDA, in close cooperation with the Colorado Nursery and Greenhouse Association (CNGA), adopted a quarantine program that targets imported nursery stock from infested states. That nursery stock is required to meet strict inspection standards and treatments before it will be allowed into Colorado. The initial year of implementation of the quarantine has progressed well.

Emerging Issues

Looking forward, it is also essential that we quickly identify, research, and take the necessary actions to address emerging issues that could potentially affect longer-term profitability for Colorado's 36,000 farmers and ranchers. These emerging issues may include

- ✓ Grain producers have experienced a significant widening of the basis in recent years and as a result, actual cash prices received are often well below the price of the nearby commodity futures contract. Basis is best defined as the difference between the cash price received by the producer and the price of the underlying commodity futures contract. Basis generally reflects market risk and transportation costs. For much of the past decade, the basis for Colorado winter wheat producers was in the 50 to 75 cents per bushel range; however, for the past year or two, basis has been near \$1.50 per bushel. Additionally, premiums and discounts related to protein levels are becoming an increasingly more important determinant of the market price received by producers. As such, certification and inspection of protein testing equipment may need to be considered as a protection for both producers and grain warehouses.
- ✓ Volatility in grain prices also requires increased oversight to protect grain and bean producers from warehouse financial failures. For example, a country grain terminal handling one million bushels of wheat in 2009 had financial exposure of an estimated \$4 million, but with wheat prices rising to the \$6 to \$7 per bushel range in 2010, that exposure increased to \$6 to \$7 million. This volatility in market prices exposes warehouse operators to greater market risk and potential for margin calls on hedged positions. Currently, these warehouses are required to file a bond with CDA in the event of financial failure. However, it is unlikely that the face amount of the bond would fully compensate all producers in the event of a broad failure. CDA has held discussions with warehouse operators and grain producers, and continues to research potential for a producer-funded indemnity program. Under the program, producers

would contribute a small amount of sale proceeds to an account that would build to a level that could reimburse losses incurred as a result of a warehouse failure at a level much higher than would the bond alone.

- ✓ Food Safety – We are very fortunate in the U.S. to have an abundant quantity of high quality and healthy foods that is truly the envy of the world. Nonetheless, concerns over food safety continue to exist and we are reminded from time to time, as with the recent recall of eggs, that those involved in producing, processing, and/or distributing the foods we eat need to be increasingly vigilant when it comes to food safety. To this end, CDA has been encouraging agricultural producers and processors to develop and implement best management practices leading to certification under the Good Agricultural Practices (GAP) and Good Handling Practices (GHP) programs. Our responsibility to ensure food safety will also require us, along with the Colorado Department of Public Health & Environment (CDPHE), to exercise great care in addressing policy and regulatory questions relating to cottage industry development including, but not limited to, home-based production of non-potentially hazardous foods, the sale of raw milk, and exempting small producers from the inspection of eggs.
- ✓ Farmers' markets in Colorado continue to grow in number and in popularity. This season, there are 110 farmers' markets operating across the state – up from 78 just five years ago. The growing trend for purchasing local products has propelled the popularity of farmers' markets across Colorado and throughout the nation. Results from a survey conducted by CDA, in cooperation with the Colorado Farmers' Market Association (CFMA), found that farmers' market operators viewed government and health regulations and the lack of a formal definition of a farmers' market in Colorado statute as impeding opportunity for growth and further development. CDA is currently working with CSU and CFMA to identify and map the various state and local rules and regulations impacting farmers' markets, as well as to lead a broader discussion among stakeholders to develop strategies to enhance the direct marketing opportunities afforded producers via farmers' markets.
- ✓ Livestock disease and health management must continue to be a priority. Colorado's agriculture industry is largely livestock centric with more than half of total farm and ranch cash receipts coming from livestock sales. Without significant efforts directed toward disease monitoring, livestock producers in Colorado could be burdened with expensive, time consuming testing making commerce in livestock more difficult and costly.

Tuberculosis (TB) continues to be a one of the major livestock disease concerns for the cattle industry as outbreaks cause obstacles to the movement of cattle between states. It is rather common in Mexico beef herds and requires vigilance on the part of livestock producers in Colorado that buy heavy calves from Mexico for finishing in feedlots. To this end, Colorado has developed an Approved Feedlot program whereby producers can import feeder cattle from states with a downgraded TB status without TB testing, providing they meet the standards for an Approved Feedlot. These increased standards include specific holding pens, special tagging procedures, increased record keeping, and the requirement that these imported cattle are not mingled with other cattle. Nonetheless, we suspect some producers are commingling imported feeders with herd cattle, thus potentially exposing commercial herds to the diseases.

Colorado's Approved Feedlot program helps enhance Colorado cattlemen's profitability and has charted a new course for many states to follow. Going forward, other similar approaches may be needed with other disease programs in order to aid our stakeholders yet still prevent and control animal disease.

Foreign animal diseases (FAD) like foot and mouth disease and avian influenza are always a threat to Colorado and the U.S. CDA will need to constantly work toward enhancing our livestock emergency preparedness and response plans, build our response resources, and continue to use innovative communication tools so that we can quickly detect and rapidly respond to any FAD or emerging disease that tries to get a foothold in the state. One challenge in dealing with any FAD outbreak is the tension between properly controlling the disease through eradication and livestock movement controls and doing unintended harm to the livestock industry through the emergency disease response. CDA continues to explore how we can maintain continuity of business in the midst of a foreign animal disease outbreak.

Brucellosis is a disease that causes low birth rates in infected beef herds. A portion of Wyoming, Idaho, and Montana that comprise the Greater Yellowstone Area (GYA) now requires that animals be tested before ranchers can ship animals outside the boundary of the infected area. Colorado is a common destination for cattle from the GYA.

Additionally, USDA/APHIS is in the process of developing draft regulations for Animal Disease Traceability. It proposes that animals would need to be officially identified if moving across state lines. In addition, states will need to meet certain performance standards for the tracing of animals involved in a disease incident. This will require increased demands on CDA staff time and resources.

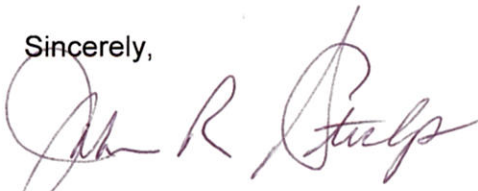
Summary

While we anticipate there will be continued pressure to further reduce General Fund expenditures in order to produce a balanced budget for FY11-12, it is important that we continue to support and protect Colorado's agriculture industry. Our agency has experienced a reduction of General Fund appropriations of more than 30 percent since FY07-08. Further reductions have the potential to seriously jeopardize CDA's mission.

Our budget document details the financial request for our seven divisions. Our website, www.colorad.gov/ag, is an excellent source for details beyond this cover letter. The areas mentioned in this letter are indicative of the complexity of our mission to the agricultural industry and the citizens of Colorado. Areas of CDA not directly mentioned are as important to certain sectors of agriculture as those I've detailed. Conservation districts, Colorado Insectary at Palisade, the Colorado State Fair, Advancing Colorado's Renewable Energy (ACRE) program, marketing order oversight, and brand inspection are very effective and vital programs that space does not allow a full explanation.

In closing, I want to thank you for the opportunity to present CDA's budget for FY11-12. Should you have any questions about our budget plan or require additional information, please contact Tom Lipetzky, our Chief Financial & Operations Officer or our Budget Director, Peter Strecker.

Sincerely,



John R. Stulp
Commissioner

Colorado Department of Agriculture
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