

Schedule 13
Funding Request for the 2012 Budget Cycle

Department: Agriculture
Request Title: Renewal of 5 Year Lease Purchase Authority for Lab Equipment
Priority Number: R-2

Dept. Approval by: Tom Lipatky 10-17-11 Date
OSPb Approval by: Greg M. ... 10/17/11 Date

Decision Item FY 2012-13
 Base Reduction Item FY 2012-13
 Supplemental FY 2011-12
 Budget Amendment FY 2012-13

Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
Total of All Line Items	Total	85,992	-	-	99,360	- 99,360
	FTE	-	-	-	-	-
	GF	-	-	-	22,770	22,770
	GFE	-	-	-	-	-
	CF	85,992	-	-	76,590	76,590
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(2) Agricultural Services Division, Lease Purchase Laboratory Equipment	Total	85,992	-	-	99,360	99,360
	FTE	-	-	-	-	-
	GF	-	-	-	22,770	22,770
	GFE	-	-	-	-	-
	CF	85,992	-	-	76,590	76,590
	RF	-	-	-	-	-
	FF	-	-	-	-	-

Letternote Text Revision Required? Yes: No: If yes, describe the Letternote Text Revision:

Cash or Federal Fund Name and COFRS Fund Number: \$22,770 from the Inspection and Consumers Services Cash Fund (16R);
 \$53,820 from the Plant Health, Pest Control and Environmental
 Protection Cash Fund (23S)

Reappropriated Funds Source, by Department and Line Item Name: N/A

Approval by OIT? Yes: No: Not Required:

Schedule 13s from Affected Departments: N/A

Other Information:



DEPARTMENT OF AGRICULTURE

*FY 2012-13 Funding Request
November 1, 2011*

*John W. Hickenlooper
Governor*

*John Salazar
Executive Director*

Department Priority: R-2

Request Title: Renewal of 5 Year Lease Purchase Authority for Lab Equipment

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	Cash Funds
(2) Agricultural Services Division, Lease Purchase Laboratory Equipment	\$99,360	\$22,770	\$76,590

Request Summary:

This request seeks \$99,360 in annual total funds spending authority over each of the next five years, to enter into lease purchase agreements to replace or acquire needed equipment in the biochemistry laboratory.

As laboratory instruments age, many manufacturers no longer provide service or remedy software issues with such equipment. When this happens, additional staff time is required to service, repair or locate parts for failing equipment. This diversion of staff time ultimately results in a loss in productivity and increased costs, making for an inefficient business model and thereby wasting State and industry resources – all of which could be avoided if equipment is kept up-to-date and functional.

Even with past approval from the General Assembly for a five-year lease purchase agreement for updating laboratory equipment (authority that is set to expire at the end of FY 2011-12), the laboratory continues to have analytical instruments that are costly to maintain, are sometimes no longer serviceable, or are recently discovered as a necessity.

Arguably, leasing high-cost instrumentation has many benefits, most notably the immediacy of fiscal impacts. With a lease-purchase agreement,

payments for much needed equipment are spread over a period of years rather than all at once. With the requested five-year term, both industry and the State will experience minimal annual budgetary impacts associated with this request, while still allowing for the much needed equipment to be obtained immediately. If individual pieces of equipment had to be purchased outright, the cost associated with these few items would be sizable and would likely prevent all items from being obtained at once – thereby putting programs and consumers in possible harm. Despite an added financing charge associated with lease-purchase agreements, Department programs can budget for and absorb the proposed equipment costs more easily, without sacrificing regulatory oversight or daily operations.

This request therefore seeks a renewal of the five-year lease purchase spending authority to address existing and new equipment concerns for the lab – detailed in Exhibit A. The total annual authority requested equals \$99,360, of which \$22,770 is General Fund.

Anticipated Outcomes:

Given the current state of some equipment and the absence of other needed machines, the Department may run into difficulty while ensuring proper oversight in program areas such

as pesticide enforcement; feed, fertilizer, and compost regulation; and organic certification. With approval to move forward with lease purchase agreements for updated equipment, the Department will be able to ensure speedy and accurate test results, while limiting the cost associated with such testing, minimizing the impact to both industry and the State.

Assumptions for Calculations:

Price estimates for new equipment were obtained through preliminary inquiries to various suppliers / manufacturers. As an actual RFP has not yet been released with exact specifications necessary for laboratory use, actual values for the equipment above may vary. However, the Department believes the estimates in Exhibit B are reasonable given prior purchasing experiences.

Financing charges are assumed at 3.5% and are equivalent to the current financing rate included in the existing lease-purchase agreement set to expire at the end of FY 2011-12.

Fund splits were calculated based on programs intended to benefit from requested equipment purchases: the Plants division would benefit from the liquid chromatograph / mass spectrometer (100% cash funds from Fund 23S); the combustion unit and high performance liquid spectrometer would benefit the fertilizer and feed programs within the Inspection and Consumer Services division (50% General Fund; 50% cash funds from Fund 16R).

Consequences if not Funded:

Consequences outlined more thoroughly in Exhibit A include: 1) possible economic and

health concerns for farmers, ranchers, and consumers if testing results are not accurate or reliable; 2) possible delays as a result of existing equipment becoming inoperable and requiring repair or replacement; and 3) additional cost to industry and State for equipment failures, requiring staff time to track down replacement parts or repair options, if possible.

Additionally, the ICS lab could lose various components of its ISO 17025 accreditation which enables the lab to participate in numerous federal grant programs and exchange analytical results with agencies such as the FDA and CDC. As the scope of accreditation involves two components – proper methodology and an adequate “platform” (instrument systems) – if requested instruments are not replaced and become unreliable or inoperable, the lab’s scope of accreditation will be diminished. In this instance, various aspects of chemical and microbiological testing involved with feed, fertilizer, pesticides, groundwater, fresh produce, and other commodities would be in jeopardy.

Cash Fund Projections:

This request seeks cash fund spending authority from the Inspection and Consumer Services Cash Fund (16R) and the Plant Health, Pest Control and Environmental Protection Cash Fund (23S). Both funds have served as the fiscal means for maintaining and replacing laboratory equipment over the last five years and can afford the renewed annual spending authority thresholds without increasing existing fee levels. See Exhibit C for detail regarding specific projections on cash fund balances for these two funds.

Exhibit A – Description of Requested Laboratory Equipment for Lease Purchase

Below is a summary of the requested equipment and the functions and purposes associated with the tests performed by the requested hardware. Without replacement and requested new hardware purchases, the Department will have difficulty in ensuring proper oversight in various program areas such as pesticide enforcement; feed / fertilizer / compost regulations; and organic certification as described below.

Liquid Chromatograph Mass Spectrometer

Currently, the lab has a liquid chromatograph mass spectrometer ion trap and a liquid chromatograph quadrupole mass spectrometer to analyze pesticide residue and pesticide application enforcement samples. The former piece of listed equipment is no longer being supported by the manufacturer and when it becomes inoperable, it will need to go to surplus; the latter piece of equipment is starting to show signs of aging and becoming less reliable, making it costly to maintain. Therefore, this request is for a single machine to replace both of these current equipment items, to ensure proper testing results and to avoid the ever more likely possibility of these machines failing, which would result in analysis being delayed considerably until new equipment could be obtained.

Combustion Unit for Nitrogen, Carbon and Sulfur

A replacement item is being requested as the current combustion unit is becoming unstable and must be updated. Without any back-up unit to the existing equipment, the lab will have no ability to analyze fertilizer, compost, or feed samples for high concentrations of these various minerals if the current equipment deteriorates further. The importance of testing for concentration levels of these three minerals in the various products above is significant. For instance, elevated levels of sulfur in fertilizers may be harmful to crops; maintaining specific carbon-nitrogen ratios in compost is crucial to ensure stability and maturity of such substance; and dietary/nutrition considerations, including nitrogen level analysis, is imperative for feed given to certain livestock – if feed content doesn't match the feed label, ranchers may inadvertently harm their livestock, which could also then affect the consumer.

High Performance Liquid Chromatograph

This new equipment is needed as the lab currently has no ability to analyze amino acid levels within received feed samples. As amino acid testing requires a unique configuration to the liquid chromatograph unit, testing for these acids cannot be performed with existing or requested replacement equipment, and a unique machine specifically for this purpose is required. As some amino acids can be additives to various animal feed for nutritional purposes, if there is an improper concentration of these amino acids, livestock or pets consuming such feed would not receive the required nutrition in their diet, resulting in possible economic and or health concerns for the rancher and consumer. While this would be a new test performed by the lab, it is not a new need – and as there are two specific programs that can benefit from this testing (the animal feed regulation program and the ruminant feed ban support program), there would also be a benefit of doing periodic screening on animal feed and pet food for amino acids as manufacturers could use an adulterant to artificially pump up protein content in these products, rather than actual protein sources.

Exhibit B – Calculations for Request				
Equipment	Total Cost	5-Yr Amortized Cost	General Fund	Cash Funds¹
Liquid Chromatograph / Mass Spectrometer	\$260,000	\$52,000	\$0	\$52,000
Combustion Unit	\$100,000	\$20,000	\$10,000	\$10,000
High Performance Liquid Chromatograph	\$120,000	\$24,000	\$12,000	\$12,000
Financing Costs (3.5% of base price)	\$16,800	\$3,360	\$770	\$2,590
Total	\$496,800	\$99,360	\$22,770	\$76,590
<i>1 – Cash Fund authority requested equates to \$53,820 from Fund 23S and \$22,770 from Fund 16R.</i>				

Exhibit C – Cash Fund Projections for Fund 16R and 23S					
	Actual FY 2009-10	Actual FY 2010-11	Estimate FY 2011-12	Request FY 2012-13	Projected FY 2013-14
Fund 16R – Liquid Cash Balance					
Beginning Balance	\$1,430,998	\$1,539,906	\$1,558,671	\$1,318,818	\$988,447
Actual / anticipated fees collections	\$2,749,494	\$3,936,611	\$3,950,000	\$3,950,000	\$3,950,000
Actual / appropriated / projected cash expenditures	\$2,640,586	\$3,917,846	\$4,189,853	\$4,208,691	\$4,208,691
Available Liquid Fund Balance Prior to New Requests	\$1,539,906	\$1,558,671	\$1,318,818	\$1,060,127	\$690,252
Requests Using Liquid Assets ¹	N/A	N/A	N/A	\$111,184	\$111,184
Actual / Anticipated Liquid Fund Balance	\$1,539,906	\$1,558,671	\$1,318,818	\$948,943	\$579,068
Fund 23S – Liquid Cash Balance					
Beginning Balance	\$427,808	\$495,396	\$1,352,361	\$1,604,574	\$1,765,839
Actual / anticipated fees collections	\$3,557,994	\$4,199,219	\$4,100,000	\$4,100,000	\$4,100,000
Actual / appropriated / projected cash expenditures	\$3,490,406	\$3,342,254	\$3,847,787	\$3,863,344	\$3,863,344
Available Liquid Fund Balance Prior to New Requests	\$495,396	\$1,352,361	\$1,604,574	\$1,841,230	\$2,020,542
Requests Using Liquid Assets ¹	N/A	N/A	N/A	\$57,344	\$57,344
Actual / Anticipated Liquid Fund Balance	\$495,396	\$1,352,361	\$1,604,574	\$1,783,886	\$1,963,198
<i>1 – Includes impacts from this request and from non-prioritized statewide requests for vehicle replacements and ICS refinancing.</i>					