

MEMORANDUM



DATE: March 23, 2005
TO: House Appropriations Subcommittee on Agriculture
FROM: William E. Hamilton
RE: Privately Owned Cervid Licensing and Inspection Program

Background – The terms "cervidae" or "cervids" refer to various species of animals in the deer family, such as deer, elk, moose, caribou, and reindeer. Prior to June 1, 2001, the Department of Natural Resources (DNR) regulated all activities involving cervids under the authority of the Natural Resources and Environmental Protection Act. The DNR regulated the hunting of wild deer and elk through the issuance of hunting licenses. The DNR also regulated the raising of privately-owned cervids, for sport, hobby, or in commercial farming operations.

June 1, 2001 was the effective date of PA 190 of 2000 (HB 4427), which created a new act, the Privately Owned Cervidae Producers Marketing Act (the Cervidae Act). This act established standards governing privately owned cervid livestock facilities. The act required the registration of cervid livestock facilities and established a regulatory/inspection process. The act gave to the Michigan Department of Agriculture (MDA) authority to administer the act. The MDA's cervid regulatory/inspection program was funded out of the Animal Health and Welfare line item within the Animal Industry appropriations unit.

At the time the MDA assumed the authority for the captive Cervidae regulatory and inspection program, the only additional funding the department received was through the license fee revenue provided in the Cervidae Act. The department's appropriation recognized license fee revenue of \$93,500, although actual license fee revenue collections were only approximately \$50,000. No additional FTE positions for this program were authorized in the Agriculture budget.

In April 2004, Governor Granholm issued Executive Order 2004-3. The EO transferred the regulatory responsibility and authority under the Cervidae Act to the DNR. The transfer was based on the findings of the Governor's Chronic Wasting Disease Task Force which found that the DNR could most effectively perform the regulatory functions established under the Cervidae Act. The task force also recommended that the DNR conduct a complete audit of privately owned Cervidae livestock facilities. The DNR audit was issued on March 10, 2005.

As a result of the EO, the license fee revenue previously collected by and appropriated to the MDA was also transferred to the DNR.

Although the regulatory function has been transferred to the DNR, the animal health and testing functions will continue to be performed by the MDA. In addition, MDA continues to determine import and movement requirements, as well as issuing quarantines.

Fees and Funding Issues – The Cervidae Act established a schedule of license fees based on the size of the cervid livestock operation. The fees ranged from \$45 for Class I license (hobby farm), to \$500 for a Class III (ranch) registration. It should be noted that these license fees were for 3-year registration periods. The annual license fee was effectively \$15 for hobby farms, and \$166 for Class III ranches.

Under the Cervidae Act, the MDA collected all registration fee revenue. The Act did not establish a separate restricted fund in the state Treasury; however, the department did account for these funds separately and treated the funds as restricted Licensing and Inspection Fee revenue. Cervidae inspection fee revenue was approximately \$50,000 in both FY 2002-03 and FY 2003-04. The cost of the regulatory and inspection program is significantly higher than the revenue generated by the license fees.

The Executive budget proposal for FY 2005-06 includes funding for both the regulatory functions performed by the DNR and the animal health inspections performed by the MDA. The Executive budget proposal is as follows:

DNR Regulatory	\$344,500
MDA Animal Health	<u>214,300</u>
Total	\$558,800

A copy of the State Budget Office's budget proposal is attached to this memo.

These costs represent the costs of the on-going monitoring operation and are over and above \$568,000 in one-time costs which the DNR identified as the costs of performing the recent cervid facility audit.

The Executive has recommended amending the Cervidae Act to increase registration fees. The Executive would also establish a separate restricted Cervidae Licensing and Inspection Fee Fund within the state Treasury. The proposed fees and related revenue estimates are shown below:

Class	Total Facilities	3-year Registration Fee		Revenue Estimate Based on Proposed Registration Fees
		Current Fee	Proposed Fee	
Class I (Hobby)	166	\$45	\$300	\$49,800
Class II (Exhibition)	33	\$75	\$300	\$9,900
Class III (Ranch)	142	\$500	\$3,000	\$426,000
Class IV (Full)	399	\$150	\$3,000	\$1,197,000
Total Facilities/Fees	740			\$1,682,700

Thus the proposed fee schedule would generate \$1,682,700 over the three year registration period or \$560,900 annually, i.e. the estimated annual cost of the inspection and monitoring program. As noted above, the Executive budget would use \$344,500 in fee revenue to fund DNR regulatory programs, and \$214,300 for MDA animal health inspection programs. The \$214,300 proposed for Agriculture would replace \$140,000 GF/GP currently supporting the program, resulting in a net increase of \$74,300 as compared to the FY 2004-05 baseline funding levels in the enacted appropriation bill.

It should be recognized that the FY 2004-05 baseline funding does not include \$93,500 in restricted revenue which had been appropriated for the program prior to EO 2004-3. In addition, Executive Order 2005-3 includes a \$70,000 GF/GP reduction in the *Animal health and welfare* line item for FY 2004-05. The Executive would carry this baseline funding reduction into FY 2005-06.

Risks and Alternatives – Chronic Wasting Disease (CWD) is a naturally occurring progressive nervous system disorder disease of certain North American deer. It is apparently similar to other diseases such as BSE (Mad Cow Disease) and Scrapie Disease of sheep.

On March 10, 2005 the DNR released an audit of cervid livestock facilities. The audit was one of the recommendations called for by the Governor's CWD Task Force. The audit report, *A Risk-based Audit of the Captive/Privately owned Cervid Industry in Michigan*, found that 37 percent of the state's captive cervid livestock facilities were not in compliance with state regulations. Deficiencies noted in the audit included animal identification, the rate of CWD testing, conditions of fences, and the rate and reporting of escaped animals.

In discussing the risks associated with transmission of CWD in the captive cervid industry, the report stated that, "*Practices which concentrate animals (such as baiting, and feeding, or maintenance in captivity) likely increase transmission rates.*" Although the report acknowledged that risk of human infection, if any, is low, it does note that "*concern has arisen that the disease might be capable of infecting humans.*" Subsection 1.2.3 of the report, *Relevance*, further describes CWD risks as follows:

"CWD is contagious, and epidemics of the disease are self-sustaining in both C/P-O [i.e. captive privately owned cervids] and free-ranging deer and elk (Miller and Wild 2004; Miller et al. 1998, 2000). Currently the geographic distribution of CWD in free-ranging cervids is relatively limited and the natural rate of expansion has been slow (Williams et al. 2002). Nevertheless, there are concerns, and in the opinion of some, evidence (Nebraska Game and Parks Commission 2002; Williams et al. 2002), that CWD can be spread much more widely and rapidly with human assistance, through movement of live animals or carcasses. Given CWD's known persistence in the environment (Miller et al. 2004), its ability to infect over 80% of the animals in a WTD [white tail deer] herd within 4 years of initial exposure (Miller and Wild 2004), its high probability of becoming established once it has been introduced into a population (Miller and Williams 2003), and disease models which project high rates of death in affected populations (Gross and Miller 2001), concern for risks to the health of both C/P-O and free-ranging Michigan cervids is clearly warranted. Introduction into Michigan's C/P-OC population would result in substantial costs to producers due to quarantines and loss of sales, and indemnity costs for government. The importance of free-ranging deer and elk to both the culture and economy (Joly et al. 2003) and the threat of unsubstantiated human health concerns about CWD eroding public participation in hunter harvest (Williams et al. 2002) make the potential consequences of CWD introduction even more grave. In short, CWD clearly has the potential to impair the long-term viability of both cervid farming and wildlife management in Michigan."

Although the audit, in accordance with the CWD Task Force mandate, was specific to CWD risk, the problems noted in the audit could also increase the risk of transmission of other diseases.

If the fee increases proposed by the Executive are not adopted, the regulatory and inspection programs could be funded from other revenue sources, including GF/GP revenue. Alternatively, the Legislature could reduce funding for privately-owned cervidae regulatory and inspection programs. However, at reduced funding levels, it is unlikely that the MDA and the DNR could effectively perform the regulatory and inspection programs currently mandated by the Cervidae Act.

A copy of the DNR Audit Synopsis and Executive Summary is attached to this memo. The entire audit report is available from the Michigan.gov website at:
http://www.michigan.gov/dnr/0,1607,7-153-10370_12150---,00.html

Attachments (2)