

2022

Livestock Identification Program

Annual Report to the Legislature

As Required by RCW 16.57.460



Washington
State Department of
Agriculture

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2022 Annual Report to the Legislature

Livestock Identification Program

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Background

The Washington State Department of Agriculture (WSDA) Livestock Identification Program is charged with providing asset protection and theft deterrence for the livestock industry in Washington State. We inspect cattle for brands, electronic official individual identification, or other proof of ownership at five points. These include:

- Change of ownership.
- When consigned to a licensed public livestock market.
- When delivered to a U.S. Department of Agriculture (USDA) inspected slaughter facility.
- Upon entry or re-entry to a licensed certified feedlot.
- Prior to leaving the state.

We also inspect horses for brands or other proof of ownership when being moved out of state, offered for sale at any public livestock market, and offered for sale at a special sale or special open consignment horse sale. Surveillance and inspections at these points protect livestock assets and prevent theft. In addition, we register livestock brands and license certified feedlots and public livestock markets. We are funded entirely through agricultural local funds from licensing, inspection, and brand registration fees. In addition, the program shares 840 RFID tag data with the WSDA's Animal Disease Traceability program when the Electronic Cattle Transaction Reporting System (ECTR) is utilized by producers for change of ownership and out of state movement or when brand inspectors capture and record the 840 RFID tag numbers during inspections.

In 2018, the program faced a significant budget shortfall due to fewer brands being recorded, increased administrative and business costs, and declining program revenues. Legislators intended to restore financial solvency to the program with Engrossed Senate Substitute Bill (ESSB) 5959 that took effect on July 28, 2019. The bill increased membership of the Livestock Identification Advisory Committee, modified livestock inspection fees, allowed field livestock inspectors to perform inspections, and expanded the electronic cattle transaction reporting system to all cattle. The bill also included a sunset date of July 1, 2023 for the Livestock Advisory Committee, the fee schedule, and the requirement to provide this livestock inspection program report. This sunset date was extended to July 1, 2024 in the 2022 legislative session.

This report covers the period fiscal year 2022 from July 1, 2021 through June 30, 2022.

Program Budget

In fiscal year 2022, the program's beginning fund balance was \$333,686. We collected \$2,209,906 in revenue and expended \$1,755,846 leaving a fund balance of \$788,685. This is \$473,326 above the program's two-month operating reserve recommended by the Office of Financial Management.

The program's two primary sources of revenue are livestock inspection fees and brand recording fees. Washington brands are recorded for four years. Historically, brand registration revenue every four years maintained a positive fund balance if the base revenue from livestock inspection fees fell short of the program's expenditures in a fiscal year. In December 2019, the program initiated a two-year staggered brand renewal cycle, so we would receive half the revenue from brand registrations every two years instead of one large sum every four years.

Based on historic trends, we anticipate a relatively stable number of overall livestock inspections and number of livestock to be inspected in the future unless there is a strategic shift in the livestock industry in Washington. Given this information, we do not project any increase in revenue in the future. However, we do expect an increase in expenditures due to increased costs for salaries and benefits, goods and services and increased agency overhead costs.

Detailed projections can be found at Enclosure 1.

Revenue

In fiscal year 2022, we collected \$2,209,906 in revenue from inspection fees, license fees, brand recordings, Electronic Cattle Transaction Reporting (ECTR) fees and Washington State Beef Commission. This was \$443,827 over revenue from fiscal year 2021. It is important to note that fiscal year 2022 was a brand renewal year. As a result, we received \$373,561 more in brand revenue this year compared to last year which accounts for the majority of the variance above.

Our livestock inspectors collect approximately one third of all the beef checkoff fees on behalf of the Washington State Beef Commission and we receive \$0.075 cents per head in reimbursement for collecting those fees. We also collect the Animal Disease Traceability (ADT) program fee and we receive reimbursement in kind in the form of supplies and equipment. The ADT program also provides 10% of the salary and benefits to our fiscal specialist 1 as reimbursement for the collection and disbursement of those fees to the ADT program. This year, the ADT program provided our program with \$26,282 in support, including \$5,716 in salaries and benefits and \$20,566 in supplies and equipment.

During fiscal balancing at the end of the fiscal year, there is a difference of \$27,059, between what fiscal is reporting and what the program is reporting based on inspection data. The

program will continually work with fiscal to reconcile this revenue. Moving forward all revenue will be reconciled monthly.

Program Revenue	FY 2021	FY 2022	Difference
Livestock inspections and licensing fees	\$1,653,027	\$1,656,503	\$7,379
Brand recording fees	\$35,933	\$409,494	\$373,561
Estray transfer	\$30,422	\$68,216	\$37,794
Electronic Cattle Transaction Reporting (ECTR) system	\$17,741	\$23,066	\$5,325
Veterinarian and private field livestock inspector certification	\$3,402	\$3,480	\$78
Enforcement Violations	\$1,814	\$0	(\$1,814)
Washington State Beef Commission	\$20,105	\$22,492	\$2,387
Interest on fund balance	\$3,635	\$3,903	\$268
Reconciliation with Fiscal		\$27,059	
Total Revenue	\$1,766,079	\$2,209,906	\$443,827

Livestock Inspections

In fiscal year 2022, we inspected 642,592 cattle and horses and assessed 379,058 cattle handled through certified feedlots for a total of 1,021,650 livestock. This was 31,796 less animals than the previous year. Certified Feedlot Assessments were the largest segment, comprising 37% followed by field cattle at 34.7%. Public Livestock Markets accounted for 22.4%, USDA inspected slaughter facilities 2.5%, ECTR 1.5%, special sales 1.4%, and horses 0.3%.

Livestock Inspections and Assessments	FY 2021	FY 2022	Difference
Field Cattle	394,477	355,026	(39,451)
Public Livestock Markets	205,090	227,356	22,266
USDA Inspected Slaughter Facilities	34,499	25,946	(8,553)
Special Sales	26,284	13,142	(12,173)
Electronic Cattle Transaction Reporting (ECTR)	12,200	15,966	3,766
Horses	4,059	2,907	(1,152)
Total Livestock Inspected	676,609	642,592	(33,439)
Certified Feedlot Assessments	376,837	379,058	2,221
Total Livestock	1,053,446	1,021,650	(31,796)

Livestock Inspection Fees

The program has a two-tiered fee structure for a large majority of cattle inspections. We charge \$1.21 per head for “identified” (ID) cattle and \$4.00 per head for “non-identified” (NON-ID). These fees have been in place since July 2019 when ESSB 5959 took effect. ID cattle are those that bear a brand recorded to the owner or have an official electronic 840 series RFID tag. NON-ID cattle are everything else. Either they are not branded, they bear a brand not recorded to the owner, or they do not have an official electronic 840 RFID tag. These fees are charged for all cattle inspections except those cattle inspected at a USDA inspected slaughter facility with a daily slaughter capacity of less than 500 head per day. For those inspections, we charge \$4.40 per head regardless of whether the animal is ID or NON-ID. Until 2019, the proportion of ID cattle to NON ID cattle has been 55 % and 45% respectively. Since the implementation of ESSB 5959, the proportion of ID vs. NON-ID cattle has shifted dramatically. In 2021, the percentage moved to 78% ID vs. 22% NON-ID. In 2022, the percentage moved again to 76% ID vs. 24% NON-ID. In addition to inspection fees, we charge a \$20 call out fee per trip, or \$20 per inspector per day at public livestock markets and slaughter facilities.

Field Cattle Inspections

We characterize a number of different inspection types for cattle as field inspections. These include private treaty change of ownerships; out-of-state movements; pasture movements; receiving stations; inventory/certified feedlot entry; annual inspections and lifetime inspections. WSDA livestock inspectors plus certified veterinarians and private field livestock inspectors are all able to complete field cattle inspections. In fiscal year 2022, we inspected 355,026 field cattle, which is 39,451 less than the previous year. 85% were ID and 15% were NON-ID. Certified veterinarians and private field livestock inspectors accounted for 16,171 (4%) of these animals. We would like to point out that we conducted change of ownership inspections for 33,848 cattle for one large cattle business last year who transferred their recorded brand to a different company. These change of ownership inspections were required before we could transfer the brand. This accounts for most of the difference from last fiscal year to the present year. Taking out that difference, the difference of cattle is 5,603 which accounts for just a 1.5% decrease in headcount for field cattle.

We collected \$700,871 from inspection fees and \$68,890 from call out fees, totaling \$769,761 in revenue. Certified veterinarians and private field livestock inspectors accounted for \$27,260 (3.5%) of this revenue.

Field Cattle Inspections				
	Number of Cattle	Inspection Fees	Callout Fees	Total Revenue
WSDA Livestock Inspectors	338,855	\$678,497	\$64,004	\$742,501
Certified Veterinarians and Private Field Livestock Inspectors	16,171	\$22,374	\$4,886	\$27,260
Total	355,026	\$700,871	\$68,890	\$769,761

Public Livestock Markets

There are seven licensed public livestock markets in Washington, however only six actively sell cattle and horses. We also inspect cattle at two markets in neighboring states. Washington has an agreement with Idaho and Oregon to inspect Washington cattle that are delivered to public livestock markets in Lewiston, Idaho and Hermiston, Oregon. When Washington cattle are shipped directly to these two out-of-state markets, our inspectors will inspect the cattle upon arrival and the producer is not required to get an out-of-state movement inspection prior to leaving the state. We include these two out-of-state markets in our public livestock market statistics. We inspected 227,356 cattle and 1,280 horses during approved public livestock market sale days. This is 22,266 head more than the previous year. This year, 61% of the cattle were ID and 39% were NON-ID at markets. We received \$532,388 in inspection fees, \$18,400 in call out fees, and \$3,160 in annual licensing fees, totaling \$553,948 in revenue.

USDA Inspected Slaughter Facilities

We inspected 25,946 cattle at Washington slaughter facilities where the United State Department of Agriculture maintains a meat inspection program. This is 8,553 head less than the previous year. We collected \$79,402 in inspection fees and \$19,060 from call out fees, totaling \$98,462 in revenue. The inspection fees at slaughter facilities are linked to the daily kill capacity of the facility. If the daily capacity of the facility is no more than 500 head (small slaughter), then the inspection fee is \$4.40 per head. If the daily capacity is more than 500 head (large slaughter) then the ID and NON-ID rates apply. There were 10,740 cattle inspected at small slaughter facilities and 15,206 cattle at large slaughter facilities. Of those inspected at large slaughter, 58% were ID and 42% were NON-ID. Livestock inspections are required at USDA inspected slaughter facilities except when the cattle are accompanied by an inspection certificate or when they originate from a certified feedlot. Historically, we would inspect over 120,000 cattle per year at slaughter facilities. This is not to say that these slaughter facilities are processing fewer cattle, but we are conducting fewer livestock inspections at these facilities due to more cattle moving through the certified feedlot program.

Special Sales

Special sales includes all sales for youth organizations, individuals and livestock associations. It includes those cattle sold by public livestock markets not on their assigned sale days. We inspected 13,142 cattle and 969 horses at special sales in 2022. This represents a decrease of 12,173 livestock from the previous year. This year, 59% of the cattle were ID and 34% were NON-ID. We received \$27,350 from inspection fees and \$1,230 from call out fees, totaling \$28,580 in revenue.

Electronic Cattle Transaction Reporting (ECTR):

The ECTR system is an inexpensive, electronic and convenient alternative to in-person brand inspection. ECTR offers Washington ranchers and dairy producers an alternative way to meet brand inspection requirements through self-reporting of cattle sales and out-of-state cattle movement. ECTR meets the critical dual objectives of both livestock identification and animal disease traceability by electronically capturing proof of ownership, registered brand recordings, and official individual identification. All cattle producers who use ECTR are required to apply official electronic 840 series RFID tags to their cattle in order to use the system.

In November of 2019 when ECTR was re-tooled to meet statutory requirements, the program launched a promotion for new users. Producers who registered for ECTR were eligible for free official RFID tags:

- 40 tags and one RFID tag applicator for producers with herds of 50 head or less.
- 100 tags and one RFID tag applicator for producers with herds of more than 50 head.

To make the ECTR system even more affordable, the program launched an additional promotion in June of 2021 for current users that renew their license. Current users that choose to renew their ECTR license will receive additional free 840 RFID tags. The number of tags awarded will be based on the volume of cattle the user recorded in ECTR the year prior. For example, if users recorded 100 head of cattle last year in ECTR, users will receive 100 tags.

In 2022, WSDA received a petition for rulemaking from the WSDA's Livestock Identification Advisory Committee to amend chapter 16-610 of the Washington Administrative Code to reduce the ECTR per head fee. After an analysis was completed, it was determined that the ECTR per head fee would be reduced to \$0.80 per head. WSDA conducted rulemaking and reduced the ECTR fee as well as amended the rule to clarify the requirement that sellers using ECTR must provide proof of ownership by describing how the seller must provide that documentation. The changes went into effect on July 4, 2022.

In fiscal year 2022, we had 70 registered users, and 794 transactions involving 15,966 cattle. 13,114 head of cattle left Washington on an ECTR certificate while 2,852 head of cattle were in-

state changes of ownership. One registered user represents 87% of cattle recorded in ECTR. Revenue from ECTR registrations and transactions in fiscal year 2022 totaled \$23,066.

Field Horse Inspections

We inspected 2,907 horses during field inspections, which includes change of ownerships, out-of-state movements, horse annual inspections, horse lifetime inspections, one-way group inspections, annual group inspections and receiving stations. Horses sold at public livestock markets and special sales are included with those sections above. Collectively, WSDA livestock inspectors along with certified veterinarians and private field livestock inspectors received \$63,373 in inspection fees and \$19,434 in call out fees, totaling \$82,807 in revenue. Certified inspectors accounted for 46% of all field horses inspected and 54% of the revenue collected.

Field Horse Inspections				
	Number of Horses	Inspection Fees	Callout Fees	Total Revenue
WSDA Livestock Inspectors	1,804	\$34,607	\$10,084	\$44,691
Certified Veterinarians and Private Field Livestock Inspectors	1,103	\$28,766	\$9,350	\$38,116
Total	2,907	\$63,373	\$19,434	\$82,807

Certified Feedlots

We assessed 379,058 cattle handled through certified feedlots. This is 2,221 more cattle than the previous year. We received \$105,219 in assessment fees, \$8,465 in annual licensing fees and \$660 in call out fees, totaling \$114,344 in revenue. As noted above, cattle that are handled through a certified feedlot do not receive a livestock inspection when they are delivered to a Washington USDA inspected slaughter facility. Instead, we conduct monthly audits and assess \$.28 per head of cattle handled through the feedlot. Fiscal year 2021 there were 8 certified feedlots, during this fiscal year we certified 2 additional feedlots bringing the total to 10 certified feedlots. Certified feedlots are required to provide a monthly report to the program of the number of cattle received, the number of cattle on feed, and the number of cattle shipped out of the feedlot along with a copy of all livestock inspection certificates for the cattle received in the feedlot for the month.

Brand Recording

Washington brands are recorded for four years. The fee to record a brand is \$132. There are currently 5,684 active brands. In fiscal year 2022, we recorded 184 new brands, 14 heritage brands and renewed 2,550 brands. We completed 101 transfers, 15 of those being legacy brands. Total brand recording revenue for fiscal year 2022 was \$409,494. The program initiated a two-year staggered

brand renewal cycle in 2019 pursuant to ESSB 5959. The next renewal cycle will be fiscal year 2024 and reflect the other half of the brand book being renewed.

Expenditures

Total program expenditures were \$1,755,846. This is \$18,932 less than the previous year. Employee salaries and benefits make up the largest portion of expenses at 64%, followed by Agency Operations Support at 17%, Travel and Motor Pool at 9%, Goods and Services at 8%, and 1% from Grants, client services, professional service contracts, capital outlays and interagency reimbursements. The program employs 18 staff. There are 13 brand inspectors and one brand clerk geographically located throughout Washington. Three of the brand inspectors are working field supervisors. There are four staff at the agency headquarters in Olympia including the brand recorder, fiscal specialist, program assistant and program manager.

	FY2021	FY 2022	Difference
Salaries and benefits	\$1,181,981	\$1,130,382	(\$51,599)
Goods and services	\$154,890	\$143,268	(\$11,622)
Travel and motor pool	\$109,109	\$158,817	\$49,708
Grants, client services, professional service contracts, capital outlays, and interagency reimbursements	\$66,057	\$22,045	(\$44,012)
Subtotal Program Expenditures	\$1,501,093	\$1,454,512	(\$46,581)
Agency Operations Support	\$262,740	\$301,334	\$38,594
Total Expenditures	\$1,774,777	\$1,755,846	(\$18,931)

Certified Veterinarians and Private Field Livestock Inspectors

The certified veterinarian program began in 1998 and allows accredited veterinarians to be trained by the agency and conduct livestock inspections on behalf of the WSDA director. Recent legislation expanded this program and allows the director to enter into agreements with private field livestock inspectors. These private individuals receive the same training as veterinarians and may conduct change of ownership, out of state movement, annual, and lifetime inspections for field livestock. By rule, inspectors must recertify every three years. We conduct training 11 times per year (every month except December). This year, all training sessions were held online.

There are currently 107 people certified to conduct livestock inspections on behalf of the director – 73 certified veterinarians and 34 private field livestock inspectors. With only 13 WSDA inspectors and over 100 certified inspectors, these inspectors serve a vital role in the livestock identification program. They are often able to provide inspections for customers when or where there may not be a WSDA livestock inspector available. This year, certified inspectors accounted for over 56% of all field horses inspected, 4.7% of field cattle and collected \$65,376 in revenue.

In 2022, WSDA received a petition for rulemaking from the WSDA's Livestock Identification Advisory Committee to amend chapter 16-610 of the Washington Administrative Code to allow veterinarians and private field livestock inspectors certified by the department to conduct inspections at public livestock markets, certified feedlots, slaughter facilities, or special sales. WSDA conducted rulemaking and veterinarians and private field inspectors certified by the department are allowed to conduct inspections at the facilities noted above when WSDA has provided those facilities in writing notification that WSDA livestock inspectors are not available. The changes went into effect on July 4, 2022.

Livestock Identification Advisory Committee

The livestock identification advisory committee is comprised of 12 members. There are two seats each for six industry segments: beef producers, dairy producers, cattle feeders, public livestock market owners, meat processors, and horse producers. As of June 30, 2022, the Committee had eight members seated. There are vacancies in the following positions: one livestock market owner, one dairy producer, and two meat processors.

The program submitted an industry article to the following organizations on January 14, 2022 soliciting nominations: Washington Dairy Federation, Washington Cattlemen's Association, Cattle Producers of Washington, Washington Cattle Feeders, Washington State University Extension, and Washington State Veterinary Medical Association.

The program solicited nominations for the vacant positions by sending correspondence out on March 30, 2022 to organizations that represent those groups.

The committee must hold at least two meetings annually. The committee held four meetings; on September 20, 2021, November 18, 2021, December 20, 2021 and April 13, 2022.

Current Committee Members

Position 1 - Beef Producer – Neil Kayser

Position 2 – Beef Producer – Danny DeFranco

Position 3 – Public Livestock Market Owner - Vacant

Position 4 – Public Livestock Market Owner - Brenda Balmelli

Position 5 – Horse Producer - Brandon Meeks

Position 6 – Horse Producer - Steve Tomson

Position 7 – Dairy Producer - Joan DeBruin

Position 8 – Dairy Producer - Vacant

Position 9 – Cattle Feeder – Jesse Fletcher

Position 10 – Cattle Feeder - Clint Carl

Position 11 – Meat Processor - Vacant

Position 12 – Meat Processor - Vacant

Recommendations

In accordance with RCW 16.57.460, this report must include any recommendations for making the program more efficient, improving the program, or modifying livestock inspection fees to cover the costs of the program. The report must also address the financial status of the program, including whether there is a need to review fees so that the program continues to be supported by fees.

Engrossed Senate Substitute Bill (ESSB) 5959 that took effect on July 28, 2019 included a sunset date of July 1, 2023 for the Livestock Advisory Committee, the fee schedule, and the requirement to provide this livestock inspection program report. This sunset date was extended to July 1, 2024 in the 2022 legislative session. We recommend the legislature remove or extend the sunset clause prior to January 1, 2024. If this sunset clause is not extended or removed, the program fees will revert back to what they were in 2019.

Other alternatives to reducing expenditures but keeping the current service level may include increasing the use of private field inspectors or certified veterinarians and increasing the use of the Electronic Cattle Transaction Reporting system.

We recommend exploring options to reduce costs at public livestock markets. One idea may be to shift clerking responsibilities to market staff or to private field inspectors or certified veterinarians. This would reduce inspector time at markets, and may reduce expenditures. It is unknown if the time savings at the markets would be shifted to additional work elsewhere. Additionally, placing set hours that inspectors would be at public livestock markets may merit exploration.

We recommend reviewing the legislative intent for certified veterinarians and private field livestock inspectors remitting call-out fees to WSDA. As written, the statute requires certified veterinarians and private field livestock inspectors to remit the call-out fees along with the required livestock inspection fees to the department. Many certified veterinarians and private inspectors have told us this requirement does not make sense. They are allowed by law to charge fees above and beyond the required inspection fees to cover their costs. Requiring them to submit a minimum call out fee to WSDA forces them to charge two call-out fees, one for WSDA and one for themselves to cover their costs. Removing this requirement would result in \$14,236 revenue loss from callout fees, but we feel it would incentivize more private inspectors and veterinarians to become certified. Moreover, implementing a system where private inspectors retain a portion of the fees collected and submit the remainder to the agency to cover the costs of administering the private inspector program merits exploration.

We recommend reviewing the infraction penalty fees. In many instances, it is less expensive to receive an infraction penalty fee than to have a brand inspection. As an example, the penalty for selling animals without a required brand inspection is \$100 for the first offense. A producer could sell 25 unbranded animals to their neighbor without a brand inspection and the penalty for that infraction would cost less than a brand inspection. In order to operate as a legitimate regulatory body, the program needs to have penalty fees set to an appropriate level where the risk is greater than the reward.

We recommend that this legislative report submittal date is extended to November 1st of each year. Fiscal year end close does not conclude until the end of August and that gives the program a very short turn around time with final numbers in the legislative report by September 1, every year. This creates challenges for the program as final numbers are still being generated. The extended deadline would ensure accurate fiscal reporting by the end of the fiscal year included in the report in a timely manner.

A draft of this report was shared and discussed with Advisory Committee members and industry stakeholders on September 29, 2022.