

Washington State Department of Agriculture Strategic Plan

2007-09

WSDA Mission

The Washington State Department of Agriculture serves the people of Washington by supporting the agricultural community and promoting consumer and environmental protection.

WSDA Statutory Authorities:

The Department of Agriculture is created in RCW 43.17.010 and its general powers and duties are established by RCW 43.23, Department of Agriculture. WSDA administers 58 separate chapters of the Revised Code of Washington (RCW) and is responsible for significant activities under an additional 12 statutes.

Statutes administered by the Director of Agriculture (58)

RCW 15.04	Agriculture and Marketing - General Provisions	RCW 15.66	Washington State Agricultural Commodity Commissions
RCW 15.08	Horticultural Pests and Diseases	RCW 15.70	Rural Rehabilitation
RCW 15.13	Horticultural Plants and Facilities - Inspection & Licensing	RCW 15.76	Agricultural Fairs, Youth Shows, Exhibitions
RCW 15.14	Planting Stock	RCW 15.80	Weighmasters
RCW 15.15	Certified Seed Potatoes	RCW 15.83	Agricultural Marketing and Fair Practices
RCW 15.17	Standards of Grades and Packs	RCW 15.85	Aquaculture Marketing
RCW 15.19	Ginseng	RCW 15.86	Organic Food Products
RCW 15.30	Controlled Atmosphere Storage of Fruits and Vegetables	RCW 15.105	From the Heart of Washington program
RCW 15.35	Washington State Milk Pooling Act	RCW 15.xxx	Energy Freedom (new chapter created by Chapter 171, Laws of 2006)
RCW 15.36	Milk & Milk Products	RCW 16.36	Animal Health
RCW 15.37	Milk & Milk Products for Animal Food	RCW 16.38	Livestock Diseases - Diagnostic Service Program
RCW 15.49	Seeds	RCW 16.49	Custom Slaughtering
RCW 15.53	Commercial Feed	RCW 16.50	Humane Slaughter of Livestock
RCW 15.54	Fertilizers, Minerals and Limes	RCW 16.57	Identification of Livestock
RCW 15.58	Washington Pesticide Control Act	RCW 16.58	Identification of Cattle through Licensing of Certified Feed Lots
RCW 15.60	Apiaries	RCW 16.65	Public Livestock Markets
RCW 15.61	Ladybugs and other Beneficial Insects	RCW 16.68	Disposal of Dead Animals
RCW 15.64	Farm Marketing	RCW 16.72	Fur Farming
RCW 15.65	Washington State Agricultural Commodity Boards		

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RCW 17.10	Noxious Weed Control Boards	RCW 22.16	Warehouses and Elevators - Eminent Domain
RCW 17.15	Integrated Pest Management	RCW 43.23	Department of Agriculture
RCW 17.21	Washington Pesticide Application Act	RCW 69.04	Intrastate Commerce in Food, Drugs, and Cosmetics
RCW 17.24	Insect Pests and Plant Diseases	RCW 69.07	Washington Food Processing Act
RCW 17.26	Control of Spartina and Purple Loosestrife	RCW 69.10	Food Storage Warehouses
RCW 17.34	Pest Control Compact	RCW 69.25	Washington Wholesome Eggs and Egg Products Act
RCW 19.32	Food Lockers	RCW 69.28	Honey
RCW 19.94	Weights & Measures	RCW 69.36	Washington Caustic Poison Act of 1929
RCW 19.112	Motor Fuel Quality Act	RCW 70.106	Poison Prevention - Labeling and Packaging
RCW 20.01	Agricultural Products - Commission Merchants, Dealers, Brokers, Buyers, Agents	RCW 90.64	Dairy Nutrient Management
RCW 22.09	Agricultural Commodities		

Statutes with significant responsibilities assigned to the Director of Agriculture (12)

RCW 15.24	Washington apple commission	RCW 15.xxx	Beer commission (new chapter created by Chapter 330, Laws of 2006)
RCW 15.26	Tree fruit research act	RCW 16.04	Trespass of animals - General
RCW 15.28	Soft tree fruits	RCW 16.24	Stock restricted areas
RCW 15.44	Dairy products commission	RCW 16.67	Washington state beef commission
RCW 15.62	Honey bee commission	RCW 16.70	Control of pet animals infected with diseases communicable to humans
RCW 15.88	Wine commission		
RCW 15.100	Forest products commission		

The Origins of the Washington State Department of Agriculture

The Washington State Department of Agriculture traces its history back to the early years of statehood. The first state law related to a program the department administers today was an act passed in 1890 that made the Secretary of State the Sealer of Weights and Measures. The State Board of Horticulture was created in 1891 and the Washington State Fair was organized in 1893. In 1895, the first state veterinarian and state dairy commissioner positions were created and the Bureau of Statistics, Agriculture and Irrigation was established. The Hay and Grain Inspection Program was established in 1896.

The Department of Agriculture was created in 1913 when the Legislature consolidated eight areas of responsibilities. The new department was charged with all the powers and duties formerly vested in the State Veterinarian, Dairy and Food Commissioner, Commissioner of Horticulture, State Oil Inspector, Bakery Inspector and State Fair Commission and took over the duties of licensing and registering "jacks and stallions" from the Washington State College and the duties related to feed and fertilizer from the Washington Agricultural Experiment Station. When officially established, the department had 34 employees, including 11 in the horticulture program. The department's first biennial appropriation was \$195,400.

WSDA Mission and Goals

WSDA Mission Statement

WSDA serves the people of Washington State by supporting the agricultural community and promoting consumer and environmental protection.

WSDA Goals

WSDA carries out a broad spectrum of activities that benefit the producers, distributors, and consumers of food and agricultural products. The department's statutory authorities define the scope of the activities and programs carried out by the department in support of its mission. Each of these many activities and programs support one or more of the department's four prioritized goals.

1. Protect and reduce the risk to public health by assuring the safety of the state's food supply.
2. Ensure the safe and legal distribution, use, and disposal of pesticides and fertilizers in Washington State.
3. Protect Washington State's natural resources, agriculture industry, and the public from selected plant and animal pests and diseases.
4. Facilitate the movement of Washington agricultural products in domestic and international markets.

Our success at achieving the first three goals is essential to achieving the fourth goal.

Statewide Results Areas:

Ten statewide results – results that citizens expect most from government – serve as the state's strategic framework. All of the Department of Agriculture's activities contribute to the statewide result “**Improve the economic vitality of businesses and individuals.**” Many department activities also contribute to three other statewide results areas:

- Improve the health of Washington citizens;
- Improve the safety of people and property, and;
- Improve the quality of Washington's natural resources.

<i>WSDA Goals, Strategies, Activities and Major Objectives</i>

Goal #1: Protect and reduce the risk to public health by assuring the safety of the state's food supply.

Strategy: Monitor, inspect, test, and provide technical assistance to Washington State's food processing and storage industry.

Activities:

Food Safety – Regulates, licenses and inspects the dairy industry, the egg industry, and the food processing and storage industry. Examines facilities for product adulteration, cleanliness, evidence of rodent infestation, potential for cross contamination with chemicals and toxic materials, appropriate holding temperatures, and sanitary preparation techniques.

Microbiology Laboratory – Supports the Food Safety program by testing food and dairy products.

Major Objective:

- 1) 95 percent of licensed dairy farms, milk processors, egg handlers and food processing firms are in compliance with public health and sanitation standards.

Outcome Measure: Percent of licensed dairy farms, milk processors, egg handlers and food processing firms with a Sustained Compliance Rating score of 90 or more with no GMP (Good Manufacturing Process) critical violations each year.

Goal #2: Ensure the safe and legal distribution, use, and disposal of pesticides and fertilizers in Washington State.

Strategy: Regulate, educate and provide technical assistance to users on the appropriate use of pesticides and fertilizers.

Activities:

Pesticide Regulation – Regulates the sale and use of all pesticides in Washington. Investigates complaints of misuse; conducts field inspections of manufacturers and applicators; registers pesticides for use in the state; provides data to federal agencies evaluating impacts of pesticide exposure on endangered species. Licenses and administers a continuing education program for more than 25,000 pesticide applicators, dealers and consultants. Trains Spanish-speaking farm workers in pesticide use. Disposes of canceled, suspended or unusable pesticides.

Fertilizer Regulation – Registers fertilizers for distribution in the state; tests for plant nutrient guarantees and state heavy metals standards. Regulates application through irrigation systems to prevent ground water and surface water contamination.

Livestock Nutrient Management – Inspects the state's 600 dairy farms and permitted animal feeding operations and takes action to ensure they comply with state and federal water quality laws.

Chemistry Laboratory – Supports several agency programs by analyzing samples taken in investigations of alleged pesticide misuse, monitoring for pesticide residues in foods, and analyzing feed and fertilizer samples. Participates in federal program monitoring pesticide residue levels in the American diet.

Major Objectives:

- 1) Complete 90 percent of pesticide case investigations, including appropriate enforcement actions, within 120 days.

Output Measure: Percent of pesticide case investigations, including appropriate enforcement actions, completed within 120 days.

- 2) 90 percent of licensed dairy farms and permitted concentrated animal feeding operations (CAFOs) are effectively implementing nutrient management plans.

Outcome Measure: Percent of licensed dairy farms and permitted concentrated animal feeding operations (CAFOs) effectively implementing nutrient management plans based on field inspections.

Goal #3: Protect Washington State's natural resources, agriculture industry, and the public from selected plant and animal pests and diseases.

Strategy: Inspect, detect, control and/or eradicate selected animal and plant diseases and other pests (weeds and insects).

Activities:

Plant Protection – Prevents the establishment of high-risk insects, plant diseases and weeds through surveys, inspections, and agricultural quarantines. Detects, delimits and eradicates introductions of invasive species that present a significant threat to the economy and environment with current efforts focused on keeping Washington free of gypsy moth, Japanese beetle, longhorned beetles and sudden oak death; controlling apple maggot; and controlling noxious weeds, including major efforts against spartina and knotweed.

Animal Health – Protects animals and the public from communicable animal diseases. Regulates and monitors the movement of animals across state lines. Responds to animal disease outbreaks and emergencies.

Microbiology Laboratory – Supports the Animal Health program by testing animal blood and tissue for disease; performs diagnostic and export testing for private veterinarians.

Major Objectives:

- 1) Preserve the state's disease-free classifications in the national animal disease eradication programs.

Outcome Measure: Standards of federally designated disease-free classifications in the national animal disease eradication programs are maintained.

- 2) Reduce the number of acres of solid Spartina to 100 acres by June 2009.

Outcome Measure: Number of acres of Spartina in Washington State.

Goal #4: Facilitate the movement of Washington agricultural products in domestic and international markets.

Strategy: Inspect, test, and certify agricultural commodities to facilitate movement and sales and assist growers and agri-businesses to enter new markets.

Activities:

Fruit and Vegetable Inspection – Provides inspection services to the fresh produce and processing industry to ensure orderly marketing of fruits and vegetables in domestic and international markets.

Grain Inspection – Provides inspection, analytical and weighing services to ensure orderly commerce for grain, dry peas, dry beans, lentils, rapeseed, and similar commodities sold in or from Washington.

Seed Inspection/Certification – Conducts pre-harvest field inspections and laboratory testing of agricultural, vegetable and flower seeds grown under the seed certification program. Tests submitted seed samples for compliance with standards and certification for domestic and international marketing.

Hop Inspection – Performs physical grading and chemical analysis of the Washington hop crop and a significant portion of the Oregon and Canadian crops to ensure orderly international and domestic marketing.

Nursery Inspection – Inspects nurseries to ensure consumers and the nursery industry are provided healthy, pest-free and disease-free plant materials; enforces agricultural quarantines to prevent pest introduction; provides inspection services to certify plant materials are free from disease and insects as required by domestic and international markets.

Planting Stock Certification – Provides testing and inspection services to assure disease-free planting stock for the tree fruit, potato, hop, grape, mint, garlic, caneberry, and strawberry industries.

Organic Food Certification – Ensures that all food products making organic claims meet organic standards by inspecting, certifying and assisting more than 850 organic producers, processors, and handlers.

Feed Regulation – Regulates the distribution of animal feeds to assure product identity and quality and proper labeling; inspects feed mills for compliance with current good manufacturing practices.

Livestock Identification – Maintains the official recordings of more than 6,000 livestock brands and inspects cattle and horses for brands or other proof of ownership at public livestock markets, certified feed lots, and slaughter plants; prior to moving out of state; and at any change of cattle ownership. Licenses and bonds public livestock markets; licenses and audits certified feed lots.

Commission Merchants – Licenses and regulates persons involved in buying and selling agricultural products; investigates producer complaints against commission merchants.

Grain Warehouse Audit – Protects grain producers from undue losses by licensing and auditing warehouses and dealers.

Weights and Measures Inspection – Regulates the use and accuracy of all commercial

weighing, measuring and counting devices in the state. Provides calibration services to businesses, laboratories, and government entities; licenses weighmasters; tests motor fuel quality; investigates consumer complaints in commercial transactions.

International Marketing – Assists food and agriculture companies to sell their products internationally; works to fight trade barriers that prevent or limit overseas market access for Washington's products.

Small Farm and Direct Marketing – Works to improve the viability of the state's small farms by reducing market barriers and developing or enhancing direct marketing opportunities for farmers.

Agricultural Promotion and Protection – Provides funding for coordinating the state's bioenergy initiative; for the "From the Heart of Washington" program and other targeted activities that support the agricultural industry.

Agricultural Fairs – Provides approximately \$2 million annually in financial assistance to agricultural fairs and youth shows.

Commodity Commissions – Administers agency responsibilities related to the state's 24 agricultural commodity commissions.

Major Objectives:

- 1) Timely, accurate inspection and certification of agricultural commodities.

Outcome Measure: Percent of review inspections that validate original grain inspection accuracy (Target = 100%).

Output Measure: Percent of rush purity seed testing samples completed within three working days (Target = 95%).

- 2) Assist Washington State export-ready companies to generate \$115 million in FY 08 and \$130 million in FY 09 in export sales of agricultural and food products.

Outcome Measure: Reported dollar sales of exported food and agricultural products assisted by WSDA's International Marketing program (includes sales assisted by WSDA staff, contract trade representatives and jointly with commodity groups).

- 3) Increase frequency of inspection of weighing and measuring devices to once every 28 months by June 2009.

Output Measure: Percent of registered devices inspected in the last 28 months.

Appraisal of External Environment

Changes in the agricultural economy and in public expectations related to food and agriculture have a direct impact on the department's activities.

Economic Factors

Washington is an exceptional agricultural state with a unique combination of climates, soils and irrigation that supports an extremely diverse industry. The food and agriculture industry is the core of most rural economies and accounts for 13 percent of the state economy. The industry is highly dependent on international trade, with Washington ranking third among the 50 states in exports of food and agriculture products.

Several long-term economic trends and issues are affecting all aspects of the state's food and agriculture industry.

- 1) **Consolidation**: Through mergers and acquisitions, a handful of mega-retailers now control a majority of the U.S. food market. This concentration of buying power is driving consolidation downstream by food processors, distributors and even growers. Smaller farms must rely on smaller, regional markets, which are declining as the large retailers reach into more communities around the state.
- 2) **Globalization**: New information technologies, shipping and storage technologies, and reduced trade barriers allow products to be obtained from anywhere in the world. Our farmers and food processors now face increasing foreign competition in both U.S. and export markets. While Washington is well positioned and has the infrastructure to benefit from the rapidly growing Pacific Rim markets, unfair competition from other countries, trade agreements and other barriers put our products at a disadvantage.
- 3) **Domestic Competitiveness**: Rising costs of operation are challenging the ability of growers and processors to be competitive in this changing market, especially when costs in this state rise more rapidly than other states and growing regions. Some of these costs include:
 - a. **Labor**: Increased labor costs in the region without commensurate increases in productivity are affecting competitiveness while immigration policies impact labor supply.
 - b. **Transportation**: Of the major food-producing states, Washington is the most geographically isolated and most vulnerable to increasing costs of transportation. Our companies must ship their products more than 1,800 miles to reach the 200 million consumers east of the Mississippi. Rising fuel costs and truck and rail service reductions disproportionately affect Washington producers and processors. The absence of significant competition for eastbound rail prevents market forces from maintaining acceptable pricing or service.
 - c. **Water/Land Use**: The cost of water, critical to production in eastern Washington, is

increasing, while the availability of water is decreasing due to competition from non-agricultural sources. Urban encroachment, endangered species protection, and other land use issues are affecting the viability of agriculture, especially in western Washington.

The result of these economic realities is that farm profitability remains low despite increased productivity and the industry has largely divided into large farms and processors that supply the large retailers, and small farms and processors that supply niche and direct markets. The traditional family farm may face the greatest risk because it is too big to survive on niche markets but too small to have the economies of scale to supply large buyers. The food processing industry faces a similar situation. Some companies that supplied the regional market have failed or been absorbed into large, national companies headquartered outside Washington.

Other Significant Factors

On top of the long-term economic factors, national issues and consumer expectations are having a significant impact on the state's food and agriculture industry and WSDA's external environment.

- **Border/Homeland Security:** Increased security issues are raising the cost of production, slowing the import and export of products, and restricting access to farm inputs.
- **Food Security:** There is heightened public concern over food safety and food animal diseases, such as avian influenza, mad cow disease and foot and mouth disease. The potential for animal diseases, as well as plant pests and diseases, to spread continues to grow with increased international trade and travel. Public and industry expectations of government's ability to guard against or quickly address any threat to public health or the economy are high.
- **Declining federal funding for agriculture:** To remain competitive, the food and agriculture industry needs to innovate by improving production practices, developing new crops and new products, and reducing costs and environmental effects. Federal funding for programs to support these needs is being cut as is funding for export promotion and programs that directly support farmers.
- **Consumer preferences:** A growing segment of the consumer market is made up of people who want to be able to choose how and where the food they eat is produced. There is increasing demand for organic, locally grown, high-quality fresh and processed foods.

Impacts on WSDA

These trends and issues in the external environment are affecting WSDA as it works to ensure the safety and integrity of food and agricultural products through its regulatory responsibilities and to provide needed, cost-effective services to assist the marketing of these products and the overall viability of the industry. Examples of these impacts include:

Inspection Services Demands: To increase competitiveness, shippers are demanding more and

different inspections and certification, with faster turnaround times. WSDA's largest inspection programs are working to develop and deploy web-based systems to meet buyer and government requirements for certifications and other documentation and assurances delivered in a timely and efficient manner.

Market Assistance Demands: Farms and companies are seeking new markets to find new opportunities and reduce dependence on single markets. Even large companies are looking at local and institutional markets while others seek greater export opportunities. There are increased demands on our International Marketing and Small Farm and Direct Marketing programs to provide marketing assistance, promote awareness of the industry and its importance, and encourage purchase of locally produced foods.

Organic Product Certification: An important growth market is in organic crops and products. Small farms supply much of this market but increasingly large farms are shifting to organic production to meet demand, especially as large retailers move to expand their organic offerings. The size and scope of our Organic Food program has grown dramatically over the last ten years with the greatest growth now being seen in dairy products and tree fruit.

Food Processing Assistance: Many farmers, seeking to maximize their profits and secure markets, are processing their crops into finished retail products. Other individuals also see economic opportunities in processed food products. This has meant increased demand for our Food Safety program for technical assistance, inspections and licensing. The number of applications received for new food processing licenses has tripled in the last four years. Most of the new licensees are small businesses with less than \$50,000 in annual sales that require greater technical assistance.

State Financial Assistance: As federal funds decline, industries are turning to the state to help fund research and marketing efforts. This has led to WSDA serving in a new role in administering specified grants and other targeted financial assistance programs.

Emergency Response: WSDA and other agencies are devoting significant resources to prepare for a possible pandemic of Avian Influenza and other diseases that pose significant risks to animals and humans. Washington experienced the first U.S. case of mad cow disease (Bovine Spongiform Encephalopathy) in December 2003. This had immediate and devastating, as well as long-term, effects on the Washington and U.S. beef industry and placed great burdens on the department. WSDA is facing challenges in its efforts to develop the state component of a national animal identification system and ensure the integrity of our state's animal health system.

Bioenergy Development: In 2005, WSDA was charged with playing a lead role in the state's effort to reduce energy costs and dependency and create new opportunities for Washington farmers. Legislation passed in 2006 to help provide a new market for Washington-grown crops like canola or mustard by requiring fuel sellers in Washington to gradually increase the percentage of biofuels in diesel fuel and gasoline as state biofuels production rises. The legislature also provided funding to promote private investment in bioenergy infrastructure, such as seed crushers and anaerobic digesters. More work lies ahead to ensure we are directing the

state's efforts to best further the development of this new initiative.

The complexity and interconnectivity of our economic, social and government systems continue to increase. More and more, WSDA is called upon to be at the policy table on an ever-broadening array of issues ranging from bioenergy to land use, trade barriers to transportation, economic development to water quality. In each arena, WSDA faces the challenge of fostering and supporting a sustainable, competitive food and agriculture industry in Washington.

Internal Capacity and Financial Health Assessment

Overview

The Department of Agriculture's budget provides for 675 FTEs (full-time equivalent employees). The department employs approximately 900 individuals in the course of the year, with roughly 600 employees who work year-round and 300 or so employees who work seasonally, primarily as fruit and vegetable inspectors and insect trappers. Offices and employees are located throughout the state.

The agency's 05-07 biennial operating budget is \$109 million, with 23% of its funding from the State General Fund. Most of the agency's budget (56%) is provided by licensing, registration and inspection/service fees. The remaining 21% is provided by federal funding (10%) and other state designated or appropriated funding (11%).

The agency also received funding for the 05-07 biennium in the capital budget, including first-time funding of \$17 million for the new Energy Freedom loan program and \$700,000 from the State Building Construction Account for fairground improvement grants and hop harvesting technology projects.

Internal Capacity Assessment

The Department of Agriculture faces a number of capacity challenges as it heads into the 2007-09 biennium.

Staffing and Organizational Capacity:

The most pressing workforce-related issue facing the agency is succession planning. As is the case with many agencies, WSDA is experiencing and will continue to experience the retirement of employees in key positions who have years of institutional knowledge. The agency is beginning to emphasize management and leadership skill building as we identify up-and-coming supervisors and managers within the agency. We are also beginning to take the necessary steps to become more competitive in our recruitment efforts as we are experiencing difficulty in recruiting qualified candidates for both line and management positions due to uncompetitive salary levels.

A second area has to do with the agency's administrative and operational capacity. WSDA has historically held its administrative or overhead costs to as low a level as possible. While this has given the Department of Agriculture a reputation for being "lean" and "efficient," it also has placed the agency in a position of not being able to provide the administrative and support services necessary to maintain program operations.

At the same time, the agency also must prepare to address three new, ongoing accountability reviews or initiatives. These include Governor Gregoire's Government Management Accountability and Performance (GMAP) reviews, performance audits, and the requirement to

obtain an independent assessment of the agency's quality management accountability and performance system at least every three years. To meet these new mandates, the Department must have a coordinated approach to doing the work of constant process improvement and measuring effectiveness, tracking the work internally, and presenting the information in an understandable, meaningful way for stakeholders and reviewers.

In addition, Governor Gregoire has launched a major initiative to develop a single, Internet portal for anyone conducting business transactions with the state. This will require agencies to have systems that have been streamlined and re-engineered to allow transactions over the Internet.

Faced with these challenges, the department is contracting with a private consultant in the summer of 2006 to assess the agency's administrative and operational capacity. Included in the assessment are those items generally defined as centralized administration functions, including, but not limited to, budget, fiscal and payroll activities, office services, public disclosure and records management, administrative rules management, human resources/personnel, and information technology. The assessment will address staff organization and the capacity of the current organization to effectively meet the department's mandated state agency responsibilities.

A third area of critical challenge to the agency's capacity is in its Animal Health program. Public expectations and Animal Health program needs have changed dramatically over the past five years. In the wake of the terrorist attacks of September 11, the discovery of mad cow disease in a Washington dairy cow in December 2003, and the threat of Avian Influenza, the need for stepped-up surveillance, outreach, response and emergency preparedness has continued to increase. Since 2004, the program has received additional state funding to add two positions (bringing the program's budgeted FTEs to 11.5) and garnered additional federal grant funding. However, it is becoming increasingly clear that WSDA is not adequately staffed to develop an effective animal identification system, enforce the state's animal health requirements, respond quickly to animal health incidents, and ensure the health of animals and the public is adequately protected.

Information Technology:

Business demands and other drivers are requiring more technology solutions be implemented at the department. WSDA is positioning itself to maintain existing services, meet upcoming agency needs, and build capacity for statewide initiatives (i.e., Business Portal, OFM Roadmap, GMAP, and HRMS).

The department is continuing to move toward an enterprise-wide view of information technology. We are assessing to what degree our IT infrastructure is compatible enough to support current and future agency initiatives. This most likely will require some one-time expenditures to build the capacity (skills, hardware, software) necessary to support current and future business program operations. Over the next two to five years, we will continue to refine our approach to IT standardization and define to what extent we can standardize various IT operations to consolidate or eliminate redundant applications, operating systems, and IT practices.

We are also facing the need to replace outdated hardware and software applications throughout the agency. A number of the department's database applications are old and many are no longer supported by vendors. The longer the department waits to make the necessary upgrades, the more risk it assumes in terms of system crashes or catastrophic failure.

The recent implementation of HRMS has created an increased level of work throughout the agency and specifically in the Human Resource and Payroll sections. Payroll and Human Resources staff have made the transition to HRMS quite well, however, the increased workload (primarily time and attendance data input) will be an ongoing workload driver. We are working with other agencies as we explore options to determine what type of employee time tracking system would best serve the agency's new requirements to support HRMS.

Facilities and Office Space:

The department is headquartered in the Natural Resources Building on the Capitol Campus in Olympia and occupies the majority of the second floor. Due primarily to the shift of the Livestock Nutrient Management program to WSDA and growth in the Organic Food program, we have now reached the point where there is no capacity for additional staff on the second floor. While the agency is looking into efficiency efforts such as document imaging to reduce the need for file cabinets and free up valuable floor space, we do not know to what extent this effort might increase the footprint for additional workstations. The agency may need to procure additional space elsewhere in the building or in another facility.

Another facilities issue the agency faces is with its Microbiology Laboratory, which is housed in a leased facility in Olympia. The building, constructed in the 1970s, was originally designed as a manufacturing facility. In 1993, the department moved the laboratory to the facility and assumed the necessary tenant improvement costs. Included in these costs were some modifications to the building's HVAC system. While we have made further HVAC modifications over the past several years, the overall age and condition of the system likely necessitates more significant repairs. We are assessing a range of options, including a complete upgrade, to better accommodate the specialized needs of a laboratory facility. Included in the assessment is a discussion as to whether it is cost effective to invest in a significant upgrade or perhaps consider another facility.

Financial Health Assessment

Just over half of the agency's operating budget (56%) is provided by licensing, registration and inspection/service fees that are deposited in non-appropriated special revenue funds. These "local funds" are managed by the agency. Of the agency's 26 activities, 15 receive all or most of their funding through local funds; only six agency activities do not receive any significant local fund dollars. Each agency activity has its own budget. For those with local funds, revenues, expenditures and fund balances are recorded and tracked at the activity level.

The agency's largest programs are fee-for-service programs. In these programs, including Fruit & Vegetable Inspection, Grain Inspection and Seed Inspection among others, revenue and expenditure levels are a function of inspection activity. As inspection activity increases, revenue

generated from the fees also increases. Likewise, as inspection activity decreases, revenue and expenditures decrease.

At this time, revenues for fee-supported activities are expected to continue at a level sufficient to cover estimated expenditures. However, given the nature of the agricultural industry, revenues can vary significantly based on markets and on nature. Other significant financial factors include rising costs for energy-related expenditures and employee health benefits and salaries. In fee-supported programs, these costs are shouldered by the fee payer. These financial realities put added pressure on programs that may necessitate fee increases on an industry that in many areas is financially strapped.

With respect to activities that rely on appropriated funds, the most pressing financial issues are related to funding of the Animal Health program and for implementing the recently enacted biofuels standards. In addition, there is some uncertainty surrounding funding for the Livestock Nutrient Management program as we await federal rules that are expected to better define program workload and permit fee revenue.

Federal Funding:

Federal revenue estimates are based on 2005-07 estimates. The agreements between the department and various federal agencies are renegotiated each year and are subject to the availability of federal appropriations. With growing emphasis on animal disease, bio-terrorism and homeland security, we anticipate some degree of increase in federal contracts and cooperative agreements to support these activities at the state level.

WSDA depends on federal funding to achieve results in a number of key activities. With the current federal budget squeeze and many federal agencies facing reductions, we are concerned about the possibility of reductions in our federal grants and cooperative agreements. For example, in the Plant Protection activity, the gypsy moth survey and eradication program depends on funding from USDA to carry out these activities. There have been discussions at USDA around possible funding reductions for the gypsy moth program. Should the agency experience a significant reduction in federal funding, we may need additional General Fund-State dollars to maintain essential activities to achieve key results.

As the agency pursues federal funding to expand targeted activities, the funding often requires a state match. New federal funding with a state match requirement often places the agency in the position of either turning down the federal funding due to our inability to meet the state match requirements or possibly redirecting base appropriation amounts, often to the detriment of other agency activities, to the new activity in order to meet the state match requirements.