

Exploring Requirements for a State Meat and Poultry Inspection Program in Nebraska

A Report to
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Executive Summary

This report on requirements for a state meat and poultry inspection program addresses three specific objectives. The report identifies revisions of the Nebraska Meat and Poultry Inspection law and other revisions to statutory authority of the Department of Agriculture and identifies rules and regulations needed to establish a state program of meat and poultry inspection. Secondly, the report provides a description of anticipated resources required to develop and maintain a state program of meat and poultry inspection. Thirdly, the report recommends a fee schedule that ensures revenue produced will be sufficient to fund the state program of meat and poultry inspection. The information for the report was obtained from interviews with United States Department of Agriculture, Food Safety and Inspection (USDA FSIS) employees, research of published statutes and codes, interviews with surrounding states that have a state program of meat and poultry inspection, and a survey of meat and poultry processors in Nebraska.

The establishment of a state meat and poultry inspection program is required to be a joint program with oversight from the Food Safety and Inspection Service agency in the United States Department of Agriculture. The programs are generally referred to as Cooperative State Meat and Poultry Inspection Programs. The cooperative program requires State statutes and regulatory codes to be “at least equal to” the Federal regulatory statutes and codes. In general, States with a Cooperative State Meat and Poultry Inspection Program adopt the Federal statutes and codes with modifications to refer to the State. Each year the States involved in Cooperative State Meat and Poultry Inspection Programs submit a self-assessment report and every three years an on-site review is conducted to demonstrate compliance with program. Nine components of the program are evaluated and are detailed in the full report.

Regulations for Cooperative Inspection Programs on Interstate Shipment of Meat and Poultry Products were published May of 2011 by USDA FSIS. The regulations provide a new voluntary Cooperative Program under which State-inspected establishments will be eligible to ship meat and poultry products in interstate commerce. After the implementation of a Cooperative State Meat and Poultry Inspection Program, official state establishments in Nebraska could volunteer to become a part of the interstate program.

The publication of the Cooperative Inspection Programs on Interstate Shipment of Meat and Poultry Products prompted discussions that State Meat Inspection Programs could slaughter horses for human consumption. The Cooperative Federal State Meat and Poultry Program is a program which USDA provides up to 50 percent of allowable funding, conducts the review of the state program, and shares items including personnel training and information technology systems. Because of these cooperative duties between the USDA FSIS and the State Meat Inspection Program, the USDA has indicated that congressional prohibition of funds and prohibition of enforcement activities, the slaughter of horses for human food is not allowed in State Cooperative Meat and Poultry Inspection programs.

Establishment of a Cooperative State Meat and Poultry Inspection Program in Nebraska would require several different job responsibilities that are usually divided among several different personnel. In addition to the inspection duties in the field, the State would need to provide personnel that are responsible for administration, enforcement, compliance, verification of

inspection, verification of the establishment's food safety programs, training, and supervision and evaluation of employees. The report provides a summary of staffing for the existing states with a Cooperative Meat and Poultry Program. The lowest number of staff for an active Cooperative State Meat and Poultry Inspection is eight for the Maine program. The cost of salary and benefits is the largest portion of a budget for state meat inspection. The travel of inspection staff to establishments and for travel to training programs is probably the second largest cost, especially for the State of Nebraska. In addition to inspection personnel, laboratory services for meat and poultry product testing is significant. While costs for the program will depend on the plant location and operations, the cost for a Cooperative Meat and Poultry Inspection Program with two to three plants was estimated at \$501,615 and the cost for a program with five to eight plants was estimated at \$843,320.

A survey sent to meat and poultry processing facilities in Nebraska provided an indication of the willingness to pay for inspection services and a plants interest in applying for state meat and poultry inspection. A majority (55%) of the plants responding to the survey are "very unlikely" to apply for state meat and poultry inspection. None of the plants with USDA FSIS inspection indicated they would apply for state meat and poultry inspection. These same plants provided comments that state meat inspection would provide limited benefit for their business. In addition, a majority of the Custom Exempt meat processing plants were "unlikely" or "very unlikely" to apply for state meat and poultry inspection. Only five custom exempt plants indicated they would apply for state meat and poultry inspection services.

Most plants are unwilling to pay fees for meat and poultry inspection services. Revenue generation for support of a Cooperative State Meat and Poultry Inspection program through license fees or service fees is unlikely to provide full support for the program. While a few plants responding to the survey indicated a willingness to pay fees for the service, the level of total fees for license or service to the plants that was acceptable by the plants would generate less than fifteen percent of the revenue needed to support the state meat and poultry program. Increased fees are likely to discourage the small business meat and poultry processors from participating in the state meat inspection program. Plants that wish to slaughter and process inspected meat and poultry are likely to select USDA FSIS Meat and Poultry Inspection rather than pay a high level of fees.

Introduction

The Legislature of Nebraska during the One Hundred Second Legislature, First Session passed LEGISLATIVE BILL 305 with the intent to implement a state meat and poultry inspection program. Within that bill the legislature indicated that “On or before November 15, 2011, the director shall provide a report to the Legislature which enumerates and describes any actions necessary to implement a state program of meat and poultry inspection described in this section.” Currently the United States Department of Agriculture, Food Safety and Inspection Service (USDA FSIS) is the regulatory agency responsible for regulatory oversight of meat and poultry processing establishments in Nebraska.

Meat and poultry processors must comply with the intent of the Federal Meat Inspection Act (FMIA) (21 U.S.C. 661) passed by Congress in 1906 (Appendix A) and the Poultry Products Inspection Act (PPIA) (21 U.S.C. 545) established in 1957 (Appendix B). In 1967 the FMIA and the PPIA were modified to provide the authority for the Secretary of Agriculture to authorize each State to develop its own meat and poultry inspection program. Regulations allowing the cooperation of the USDA FSIS with any State in developing and administering a meat and poultry inspection act are in Title 9 of the Code of Federal Regulations (CFR) Parts 321.1 and Parts 9 CFR 381.185 and are attached in this report in Appendix C. In addition, the USDA FSIS further defines the role of the states in Meat and Poultry Inspection in three Directives and one guidance document. Directive 5710.1 “Designation of States for Federal Meat or Poultry Inspection” outlines the procedures for designation of States for Federal meat and/or poultry inspection. FSIS Directive 5720.2 Revision 3 “State Cooperative Inspection Programs” provides policy and procedures concerning the Food Safety and Inspection Service’s State Cooperative Inspection Programs. FSIS Directive 5720.3 Revision 1 “Methodology for Performing Scheduled and Targeted Reviews of State Meat and Poultry Inspection Programs” provides direction to the Federal State Audit Branch personnel in the Office of Program Evaluation, Enforcement and Review in performing scheduled and targeted reviews of State Cooperative Meat and Inspection Programs with the methodology to use in performing reviews.

The State Meat and Poultry Inspection programs are a partnership with the USDA FSIS and are referred to as “Cooperative State Meat Inspection Programs” or “Cooperative State Poultry Products Inspection Programs” by the USDA FSIS. The State of Nebraska does not currently conduct a Cooperative State Meat and/or Poultry Products Inspection Program.

Meat and poultry processing operations in Nebraska are classified as “Official Establishments”, “Custom Exempt” processors, “Exempt Poultry Slaughter and Processing” processors, and/or “Retail Exempt” processors. Official Establishments in Nebraska are inspected on a daily basis by USDA FSIS and the meat and poultry products produced by these establishments can enter into commerce for distribution and sales on a regional, national, or international basis. Each establishment has an official establishment number assigned by FSIS that is included as the official mark of inspection on every package of meat sold. Custom exempt processors in Nebraska are inspected by FSIS on a 6 to 12 month basis. Custom exempt operations are allowed to slaughter and process livestock or poultry for the owner of the livestock or poultry. The products are labeled as “Not for Sale” and are for use by the owner and their immediate family. Custom Poultry Slaughter and Processing Exemptions do not bear the mark of inspection and cannot be distributed into commerce; however, additional exemptions do exist for poultry slaughter and processing. Retail

Exempt operations are processors that purchase inspected meat or poultry products and fabricate or process the meat for sale in their retail operation or through direct internet sales to customers.

Currently all meat and poultry operations in Nebraska are subject to regulations by the USDA FSIS. The implementation of a Cooperative State Meat and Poultry Meat Inspection program in Nebraska would allow plants that want to become “Official State Establishments” to be subject to regulations by the Nebraska State Department of Agriculture. These Official State Establishments would be inspected by the State of Nebraska on a daily basis and the meat and poultry products produced by these establishments can enter into commerce for distribution and sales within the state of Nebraska. In addition, the “Custom Exempt” meat and poultry operations and the “Retail Exempt” meat and poultry processing operations in Nebraska would become the regulatory responsibility of the State of Nebraska Cooperative State Meat and Poultry Meat Inspection program. Official establishments in Nebraska under USDA FSIS meat and poultry inspection could remain as Official USDA FSIS Establishments or could apply to become an “Official” Nebraska State Inspected facility.

Establishments in state inspection programs are normally small business operations and are classified as “Very small” or “Small” businesses by USDA FSIS. The number of “Very Small” and “Small” plants in Nebraska that are USDA FSIS Official Establishments is approximately 25 to 30 plants. In addition, the Number of “Custom Exempt” operations is approximately 100 to 110 plants.

Within LEGISLATIVE BILL 305 the Nebraska Legislature provided the following goal and three objectives (1., 2., and 3.) for the report. Sub-objectives for each objective have been included.

Goals and Objectives:

Primary Goal: Development of a report to the Nebraska Legislature that enumerates and describes any actions necessary to implement a state program of meat and poultry inspection.

Objectives

1. Identify necessary revisions of the Nebraska Meat and Poultry inspection law, other revisions to statutory authority of the department, and any rules and regulations promulgated thereto in order to establish a state program of meat and poultry inspection.
2. A detailed description of the anticipated resources required to develop and maintain such program of meat and poultry inspection.
3. Recommend a fee schedule that ensures revenue produced from the licensure and inspection of establishments which meat, poultry, or meat and poultry products for human consumption sufficient to fund the state program of meat and poultry inspection, including the implementation of a fee-for-service system in conducting inspections.

Objective 1

1. Identify necessary revisions of the Nebraska Meat and Poultry inspection law, other revisions to statutory authority of the department, and any rules and regulations promulgated thereto in order to establish a state program of meat and poultry inspection.
 - a. Identify a listing of United States Codes (U.S.C.), federal regulatory codes in the Code of Federal Regulations (C.F.R), current final rules for meat and poultry inspection published in the Federal Register, current directives to FSIS inspection personnel,

and FSIS notices needed by a Cooperative State Meat or Poultry Inspection program to allow for the development of a Cooperative Interstate Shipment program of meat and poultry products for the state of Nebraska.

Statutes

Nebraska's legislature will have to adopt statutes that parallel and espouse the Federal Meat Inspection Act (FMIA) (21 U.S.C. 661) (Appendix A), Poultry Products Inspection Act (PPIA) (21 U.S.C. 545) (Appendix B), and the Humane Methods of Slaughter Act (HMSA) (7 U.S.C. 1901-1906) (Appendix C). Section 661 (a) of the FMIA and Section 454 (a) of the PPIA provide that a State meat inspection program must operate at a level "at least equal to" the standards and practices provided in these Acts. FSIS defines "at least equal to" as meaning that the food safety and other consumer protection measures effected by a State program address the same issues addressed by the Federal (FSIS) program, and the results of the State's approach are to be at least as effective as those of the Federal program. The State program need not take exactly the same action as the Federal program as long as the standards and practices meet or exceed those of the Federal program.

The "at least equal to" standard of the FSIS is the benchmark by which Nebraska's State program will be viewed. Nebraska's statutes will need to adopt by reference to the FMIA, PPIA, and HMSA or specifically address the following areas:

- Ante-mortem inspection
- Post-mortem inspection
- Re-inspection
- Sanitation
- Record keeping provisions
- Enforcement authorities

The statutes from three of the more recently implemented programs, North Dakota, Maine, and Missouri (Appendix D), include a well detailed and developed "definitions" section, coupled with a well detailed section describing the duties, power/authority, and responsibilities of the State Program Director or Commissioner. These sections allow the head of the program to execute the tasks and purposes of the program. More importantly, these sections allow the director to adopt and incorporate rules, and amend regulations that are necessary to remain in compliance with the federal requirements for the State's program. It is important for the statutes to create a system by which the State Program can adapt to and enforce any changes to Federal regulations.

Code of Regulations

The Nebraska State Code for State Meat Inspection shall be "at least equal to" the code published by the USDA, Food Safety and Inspection Service (FSIS). To accomplish this, states with Federal State Cooperative Meat and Poultry Products Inspection Programs have adopted the codes in Title 9 of the Code of Federal Regulations parts 300 to the end of Title 9. States with a Cooperative Meat Inspection Program also have adopted modifications to the Federal code, specifically parts that refer to the federal program rather than the state program, and also exclusions for parts of the code that are specific for federal regulations and do not apply to the State Meat and Poultry Inspection programs.

A listing of the parts of Title 9 of the Code of Federal Regulations parts 300 to end, including the Subchapters is listed in Table 1. The listing in Table 2 indicates the parts that were excluded by each of the Cooperative State Meat and Poultry Inspection Programs are as reported in their 2010 annual self-assessment report to FSIS.

As an example, the Ohio Administrative Code with modifications and exclusions for the Division of Meat Inspection is included in Appendix F. The State of Nebraska will want to evaluate the exclusions and modifications and should not simply adopt similar language as the Ohio Administrative Code. Some of the modifications are necessary to specifically identify the Ohio Division of Meat Inspection rather than the USDA FSIS. However, some of the modifications appear to be codes specific to the Ohio Division of Meat Inspection that still qualify as “at least equal to” status in the Cooperative Federal State Meat Inspection Program.

An additional recommendation from USDA FSIS personnel is that the State of Nebraska should indicate that new code or revisions of existing code adopted by USDA FSIS in 9 C.F.R. 300 to 500 be automatically implemented in the regulations for Nebraska Meat and Poultry Inspection. This would prevent delays in implementation of new code by the State of Nebraska and would help to ensure the “at least equal to” status of the Nebraska code.

The State of Nebraska can also choose to include livestock and poultry not identified by the USDA FSIS regulatory code. In the code, livestock is defined as cattle, sheep, swine, goat, horse, mule, or other equine; and poultry is defined as any domesticated bird (chickens, turkeys, ducks, geese, guineas, ratites, or squabs, also termed young pigeons from one to about thirty days of age). If the State of Nebraska decides to include bison, domestic deer, domestic elk or other species then these species would be inspected by the Nebraska Meat and Poultry Inspection Program, but the cost of inspection of the additional species would not be included in the Cooperative Federal State Meat and Poultry Inspection program.

The USDA FSIS also provides Directives, Notices, and Guidance Materials that assist inspection staff and establishments with interpretation of the regulations. The State of Nebraska can also refer to the FSIS Directives to inspection staff, notices, and guidance materials which will support the “at least equal to” standard for the Cooperative Federal State Meat and Poultry Inspection program.

Because the program is a Cooperative Federal State Meat and Poultry Inspection Program the USDA FSIS will work as a partner for development of the program. Therefore, during the development of code for a State of Nebraska Meat and Poultry Inspection Program the legal counsel for the State of Nebraska can work with the USDA FSIS legal counsel to ensure the code is “at least equal to” in status.

- a. Identify the areas for compliance with the Cooperative State Meat or Poultry Inspection act for “at least equal to” standard required in the State Cooperative Meat and Poultry Inspection Programs.

The USDA FSIS checks nine component areas for compliance with the Cooperative State Meat and Poultry Inspection programs. The program component areas are identified by the Food Safety

and Inspection Service, USDA in the FSIS Directive 5720.3 Revision 1 (Appendix G). The Nebraska Cooperative Meat and Poultry Inspection Program will need to file an annual self-assessment report on an annual basis and the FSIS will schedule on-site reviews once every three years. The USDA FSIS will review the self-assessment reports annually and the on-site reviews for compliance. USDA FSIS personnel indicated that Nebraska will need to demonstrate the future ability to meet these nine component areas before a Cooperative State Meat and Poultry Inspection System can be implemented.

Details for each component are identified below.

Component 1. Statutory Authority and Food Safety Regulations. State Cooperative MPI programs operate under laws and regulations that provide legal authorities at least equal to those provided under the FMIA, PPIA, and HSA.

Establishment of the statutes and codes identified above meet the requirement to comply with this component. In addition, use of FSIS directives to inspectors pertaining to the above statutes and regulations, and the use of guidelines published by USDA FSIS will help to clarify the “at least equal to” status of the State Meat and Poultry Inspection System.

Component 2. Inspection. State Cooperative MPI program personnel perform inspection activities to verify whether establishments comply with applicable regulations and take appropriate enforcement actions when establishments are not in compliance with provisions that are “at least equal to” those adopted by FSIS.

The State of Nebraska would need to have trained Inspection personnel that ensure application with the statutes and codes of the State. In addition, the State of Nebraska will need to develop a system to demonstrate application of the regulations and enforcement actions when the establishments are not in compliance. The State of Nebraska could develop their own system that is at least equal to the USDA FSIS, or the Nebraska inspection staff could use computerized systems used by USDA FSIS. The USDA FSIS is currently in a transition mode from a previous system known as Performance Based Inspection System (PBIS) to a newer system identified as the Public Health Inspection System (PHIS). The PHIS program is not currently available to State Cooperative Meat and Poultry Inspection programs and the State Cooperative Meat and Poultry Inspection programs currently use the PBIS system. However, a transition will be made in the future (within the next 2 to 4 years) to allow Cooperative State Meat Inspection to utilize the PHIS system. Either system requires the inspection staff have their own computer (usually a laptop purchased from USDA FSIS) and the computers are connected to the internet system utilized by FSIS.

To meet the requirements of Component 2, most states utilize the PBIS system to guide inspection activities, collect establishment information, establish and maintain in-plant inspection procedure plans, and document establishment non-compliance. Examples of guided inspection activities include observation of preoperational sanitation checks, checking of product labels, review of plant generated records (Sanitation and Hazard Analysis and Critical Control Point [HACCP] records), and product formulation checks. Documentation of establishment non-compliance occurs when a plant is in violation of the regulatory codes and a non-compliance report is generated by the inspector, provided to the establishment for their corrections and response, and

then the correction and response is either accepted or rejected. In general, an inspector is required to be present during slaughter operations (if a plant slaughters for 8 hours, then an inspector will need to be present for 8 hours) and to perform daily inspections at processing operations (inspector does not need to be present during the entire day of processing).

Inspectors will verify that establishments have developed, implemented and maintained Sanitation Standard Operating Procedures and Hazard Analysis and Critical Control Point (HACCP) systems (HACCP systems include the HACCP plan, all supporting HACCP pre-requisite plans, and records for each). In addition, a Food Safety Assessment (FSA) will need to be conducted at each inspected establishment approximately once every four years or when a failure in the food safety system occurs. The FSA is conducted by a trained Enforcement, Investigation, and Analysis Officer employed by the State. These assessments include the design and validity of the establishments' hazard analyses, HACCP plans, Sanitation Standard Operating Procedures (SSOP), prerequisite programs, sampling programs, and any other programs that constitute the establishments' HACCP systems.

Review of custom exempt operations is also a requirement of Component 2. To be "at least equal to" inspectors will use the FSIS Directive 5930.1, Custom Exempt Review Process (Appendix H). The review will check that custom exempt operations do the following: 1. Not-adulterate or misbrand products; 2. Handle livestock humanely (FMIA); 3. Prepare products under sanitary conditions; 4. Keep certain records; 5. Properly mark, label, and package product; and 6. Keep exempt products separate from inspected products. Custom exempt reviews are usually scheduled once per year, but depending on compliance, the operation reviews could occur more or less frequently.

The final requirement of Component 2 – Inspection, ensures the State of Nebraska enforces the regulations (9 CFR Part 500, Rules of Practice), when establishments are not meeting provisions "at least equal to" the FMIA and PPIA. The State of Nebraska will need procedures for documenting relevant facts regarding all administrative actions and ensuring all administrative actions are factual, fully substantiated, and have legal basis. This could include descriptions of policies and documents to support that the inspection system includes provisions for due process, assessing civil penalties, suspension, and withdrawal.

Component 3. Product Sampling. State Cooperative MPI program personnel sample meat or poultry products to verify whether they are free of adulterants (e.g., *E. coli* O157:H7 in non-intact, raw beef products; *Listeria monocytogenes*, *Salmonella*, or *E. coli* O157:H7 in ready-to-eat products; or drug residues at violative levels) and are accurately labeled (e.g., with nutrition information).

The Nebraska Meat and Poultry Inspection Program will need to develop and implement sampling programs with sound rationale and goals that are similar to the goals of FSIS sampling programs for *E. coli* O157:H7 in raw non-intact beef products and raw ground beef components, *Salmonella* Performance Standards, and other consumer protection standards. USDA FSIS will provide a table suggesting sampling rates for these pathogens for each state that participates in the Cooperative State Meat and Poultry Inspection Program. The sampling policies shall include procedures for sample collection, maintenance of sample integrity, and laboratory analysis procedures.

The USDA FSIS publishes a Microbiology Laboratory Guidebook (http://www.fsis.usda.gov/Science/Microbiological_Lab_Guidebook/index.asp) of protocols for analytical tests required by FSIS regulatory activities. The guidebook includes sample preparation, isolation and identification of the major foodborne pathogenic microorganisms and their toxins, meat tissue species identification, and the detection of extraneous materials and antimicrobial residues. The USDA FSIS also publishes a Chemistry Laboratory Guidebook (http://www.fsis.usda.gov/Science/Chemistry_Lab_Guidebook/index.asp) of procedures for laboratory test methods used by FSIS Laboratories to support the Agency's inspection program. The Guidebook contains methods for the analysis of food composition, food additives, nutrients, veterinary drug and pesticide residues. A FSIS Pathology Laboratory Guidebook (http://www.fsis.usda.gov/Science/Pathology_Lab_Guidebook/index.asp) with protocols for analytical tests required by FSIS regulatory activities on meat, poultry and egg products. Specifically, histological methods are presented for sample preparation, processing, sectioning and staining of tissues found in meat, poultry and egg products.

USDA FSIS personnel indicated that laboratories that perform analysis of the samples should meet the ISO 17025 standards. This includes standards developed by the International Organization for Standardization for Management Requirements and Technical Requirements of testing and calibration laboratories.

In addition, the State of Nebraska Meat and Poultry Inspection Service shall develop an action plan in response to positive results, including actions to prevent adulterated product from entering commerce.

Under a Cooperative State program, the State of Nebraska would be required by FSIS to conduct testing programs for microbiological pathogens including but not limited to the following:

1. Ground beef, lean trimmings, and non-intact beef products for *E. coli* O157:H7. Within the next year, USDA FSIS has proposed to include testing of 6 additional *E. coli* serotypes (non-O157 STEC's [Shiga Toxin-Producing Escherichia coli]) for which the State Meat and Poultry Inspection program would be responsible. The USDA FSIS provides a table for sampling and states are expected to meet the sampling rates identified in Table 3.
2. *Salmonella* and *Campylobacter* testing programs for meat and poultry slaughter and ground beef and poultry processing. The USDA FSIS defines sampling requirements for these pathogens and states are expected to meet that sampling rates identified in Tables 4 and 5.
3. *Salmonella* and *Listeria monocytogenes* testing in ready to eat (cooked) meat and poultry products. Sampling plans would need to follow the FSIS requirements.
4. Laboratory testing for compliance with nutritional panels or claims that processors may want to apply to the label.
5. Residue Testing of slaughter suspect animals during the slaughter process. FSIS will provide analysis of routine samples collected by state meat inspection for the National Residue Monitoring Program. However, State Meat and/or Poultry Inspection programs would conduct sampling and analysis of samples collected from suspect animals slaughtered under the State Meat and Poultry Inspection Program.

In addition to the testing and analysis identified above, field tests for antibiotic residues in livestock and poultry, and field tests for specie identification is sometimes conducted by the State Inspection field staff.

Component 4. Staffing and Training. State Cooperative MPI programs provide competent inspection coverage in each establishment on days the establishment produces products that—if found to be safe, wholesome, unadulterated, and properly labeled—are to bear the State mark of inspection.

The State Meat Inspection program must develop methods to determine the inspectors' workloads and the number of inspectors required to provide daily inspection coverage in each establishment on days they produce products bearing the State mark of inspection. The State Meat and Poultry Inspection Program must have procedures in effect to document staffing in each establishment, identify failures to meet staffing requirements, and correct staffing deficiencies. The field supervisors assign the inspectors' work schedules, with instructions outlining daily visits to the establishments. Inspectors complete and submit weekly activity reports. To verify daily inspection coverage, the field supervisors review the activity reports. The field supervisor also assesses the effectiveness of daily staffing efforts through weekly reviews of the PBIS database and Weekly Activities Reports, and periodic site visits of establishments. Additionally, the field supervisors arrange relief inspection during routine- and emergency-leave situations.

The Nebraska Meat and Poultry Inspection program will also be responsible for development of training programs for new entry-level inspection personnel and established inspection personnel. The training should cover basic slaughter techniques and all inspection techniques required to perform slaughter duties, including basic Sanitation SOP and HACCP procedures. New inspectors can receive on-the-job-training with an employee trained in Food Safety Regulatory Essentials and basic slaughter. New employee training will be required before inspectors perform duties in a plant. Training programs of new employees are available in the FSIS system. The training programs provided by USDA FSIS for a new inspector to cover meat slaughter, poultry, and processing operations can require up to a total of 9 weeks of training. The training topics include livestock inspection, slaughter inspection, processing inspection, HACCP, Sanitation SOP, and sanitation performance standards. The state would also need to provide employees with Food Safety Regulatory Essentials training after their probationary period. When new regulatory topics arise, such as a new sampling technique for a pathogen or new inspection rules for BSE, the FSIS will usually provide web-based training for the USDA and the state meat inspection employees. In addition, state meat and poultry inspection programs can conduct their own training programs on a yearly basis. The state would also need to establish a record-keeping system to track participation and completion of training.

The Nebraska State Meat and Poultry Inspection Program would also need to incorporate the provisions and guidelines identified in FSIS Directive 4430.3 (Appendix I), *In-Plant Performance System (IPPS)*, to set employee performance standards, and complete and record ongoing employee performance evaluations. The supervisors are responsible for performing at least two IPPS assessments for each inspector annually. Additionally, they perform an IPPS assessment at the end of the employees' probationary employment periods. They have control measures in effect to examine the IPPS assessments for quality, completeness, and accuracy. Their performance

evaluation system communicates the employees' work responsibilities, performance goals and objectives, and the results of their annual performance evaluations.

The important points for compliance with the Cooperative State Meat Inspection Program is that the state maintains an inspection staff to ensure coverage of all state plants, and that the inspection staff receives the appropriate training.

Component 5. Humane Handling. State Cooperative MPI program personnel perform regulatory verification procedures to assess whether establishment personnel humanely handle all livestock and take appropriate regulatory actions in response to noncompliance. State Cooperative MPI program personnel also perform regulatory verification procedures to assess whether carcasses of poultry showing evidence of having died from causes other than slaughter are considered adulterated and condemned and to assess whether poultry is slaughtered in accordance with good commercial practices, in a manner that results in thorough bleeding of the poultry carcass and ensures that breathing has stopped before scalding so that the birds do not drown.

The State of Nebraska will need to develop schedules and records that demonstrate the inspection staff performs regulatory verification procedures to assess whether plant establishment personnel humanely handle all livestock throughout the time they are on official establishment premises and take appropriate regulatory action in response to noncompliance.

The State of Nebraska can use FSIS Directive 6900.2, *Humane Handling and Slaughter of Livestock*, to provide communication and instructions to inspection personnel (Appendix J). Inspectors will need to complete Humane Handling Reports daily to document humane handling activities. The records will need to be reviewed to verify humane handling verification tasks are performed each day an establishment slaughters livestock. In addition, a supervisor will verify humane handling during their routine visits.

In addition to the FSIS Directive 6900.2 for inspectors, FSIS has published guidance materials for small plants on humane handling of livestock. Two publications can be used by the state to inform small plants on humane slaughter and include: *Humane Handling of Livestock and Poultry, A Educational Guidebook Based on FSIS Polices* (Appendix K); and publication of powerpoint presentation titled an "FSIS Workshops for Small and Very Small Plants", *Humane Handling of Livestock*, January–April 2009.

Component 6. Non-Food Safety Consumer Protection. State Cooperative MPI program personnel perform verification procedures to confirm that meat and poultry products are wholesome, not economically adulterated, truthfully labeled, and meet the non-food safety regulatory requirements. State Cooperative MPI program personnel take appropriate actions in response to noncompliance.

A Nebraska State Meat and Poultry Inspection Program will need to demonstrate that it protects consumers from meat and poultry products that are unwholesome, economically adulterated, or not truthfully labeled, and is "at least equal to" the Federal program. The Inspection Program will need to develop control measures to substantiate that their non-food safety consumer protection verification system is functioning as intended. States with Meat Inspection programs

usually use the Performance Based Inspection Program (or the Public Health Inspection Program in the future) to generate the tasks for inspectors and to provide documents to show that a system is in place to verify establishment compliance with the non-food safety regulatory requirements. The State Inspection Program shall use applicable FSIS Directives to instruct inspection personnel. The PBIS can be used to schedule ongoing verification procedures and document noncompliance.

A significant component of non-food safety consumer protection is a system for label-approval policy and a process to verify that labels are accurate and meet regulatory requirements. Prior to applying a label, mark, or device to an inspected meat or poultry product, an establishment representative must obtain approval from the State Meat and Poultry Inspection by submitting a completed application for label approval and a label sketch.

The regulatory code that applies to this section is essentially everything in the code except the parts on HACCP and sanitation (food safety).

Component 7. Compliance. State Cooperative MPI program personnel perform surveillance activities with respect to meat or poultry products in intrastate commerce and take appropriate enforcement actions in the event that adulterated or misbranded products enter intrastate commerce.

The State of Nebraska Cooperative State Meat and Poultry Inspection Program compliance personnel will need to conduct surveillance activities to verify that persons or firms, who prepare, transport, sell, or offer for sale meat and poultry products in intrastate commerce comply with State statutory and regulatory requirements, and that meat and poultry products in intrastate commerce are wholesome, correctly packaged and labeled, and secure from threats or intentional acts of contamination.

Compliance personnel will need to investigate apparent violations and food safety incidents; detain products when there is reason to believe that the products are adulterated, misbranded, or otherwise in violation of the Nebraska Regulatory Codes; and take enforcement action when needed, up to and including prosecution of individuals or firms that have violated the Nebraska Regulatory Code. The Nebraska Cooperative State Meat and Poultry Inspection Program will need to establish procedures for obtaining and preserving legal integrity of documentary and other evidence, in order to support legal action; and for reporting transportation accidents involving State-inspected and passed meat and poultry products.

The State of Nebraska will need to develop procedures for the recall of meat and poultry products subject to their jurisdiction equivalent to the procedures described in FSIS Directive 8080.1, *Recall of Meat and Poultry Products*. The procedures include health hazard evaluation, recall classification, public notification, effectiveness checks, and closure. The Nebraska Cooperative State Meat and Poultry Inspection Program will oversee the recall activities, coordinate actions to determine whether adulterated product was removed from commerce, and issue press releases as necessary to serve the interest of public health.

The State of Nebraska Cooperative State Meat and Poultry Inspection Program will need to establish methods to record, triage, analyze, and track consumer complaints directly related to

State-regulated meat or poultry products. All complaints are investigated either by compliance personnel or referred to the local health authority. The investigative method shall include procedures for collecting and safeguarding evidence, conducting interviews, submitting product samples to the laboratory, initiating recall procedures and or regulatory and enforcement actions, and reporting potential food safety threats.

Component 8. Civil Rights. State Cooperative MPI programs adhere to Federal civil rights laws and USDA FSIS civil rights regulations. (Reviewed by CRD – FSIS Civil Rights Division.)

With the annual self-assessment, the State will need to submit the required USDA FSIS Form 1520-1, *Civil Rights Compliance of State Inspection Programs* (Appendix Q), to provide evidence to demonstrate they are adhering to Federal civil rights laws and USDA FSIS civil rights regulations. The Civil Rights FSIS Form 1520-1 requests a list of the civil rights training topics given within the past year to all inspection and office personnel who interact with program beneficiaries and the public, a description of the system for tracking civil rights training, the civil rights training planned for the next fiscal year, how inspection and office personnel are made aware of their civil rights responsibilities to deliver service in and non-discriminatory manner, and the name, title, phone number, and email for the individual with delegated responsibility for monitoring and oversight of the civil rights and disability programs for the inspection program. In addition, the form requests information on complaints and allegations for discrimination involving delivery of inspection services within the last year and how applicants for inspection and program beneficiaries are notified of their right to file a complaint of discrimination with USDA. Several questions also address program accessibility. This includes accessibility of office buildings, communications, and inspection related program materials available in alternative formats (Braille, large print, audio). The state must also describe participation in educational and outreach activities.

Component 9. Financial Accountability. State Cooperative MPI programs conform with 7 CFR 3016, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, and follow FSIS Directive 3300.1, Rev. 2, Fiscal Guidelines for Cooperative Inspection Programs. (Reviewed by FRAB – FSIS Financial Management Division, Financial Review and Analysis Branch)

The Fiscal Guidelines for Cooperative Inspection Programs, FSIS Directive 3300.1 Revision 2 is in Appendix L.

Objective 1

- b. Identify the requirements for compliance with a Cooperative Interstate Shipment program for meat and poultry as described in 9 CFR 321.3 and 9 CFR 381.187.

Regulations for Cooperative Inspection Programs: Interstate Shipment of Meat and Poultry Products were published in the Federal Register Vol. 76, No. 84, page 24714 on Monday May 2, 2011. This established a new voluntary cooperative Program under which State-inspected establishments will be eligible to ship meat and poultry products in interstate commerce. The plants must have less than 25 employees, must make application for the program, and must comply with all the Federal Standards under the Federal Meat Inspection Act and the Poultry Products Inspection. The state inspection staff providing service to the selected plants must receive training

in the enforcement of the FMIA and PPIA. In addition, FSIS will provide oversight and enforcement for the program. USDA FSIS will support reimburse a State for costs related to the inspection of establishments in the state selected for the program in an amount not less than 60 percent of eligible costs.

The USDA FSIS is currently working on Guidance Documents and Directives the will detail the Interstate Shipment Program. The parts of the code that describe the regulations are 9 CFR 321, 322, and 381.

Objective 1

- c. Determine the roles of State Meat Inspection vs. Federal Meat Inspection for the following programs and the alternatives possible under the State Cooperative Meat and Poultry Inspection programs:
 - i. Determine a Cooperative State Meat Inspection Program that would qualify official state inspected establishments to establish the Cooperative Interstate Shipment Program, a program for the interstate shipment of State inspected meat and poultry products.

The State of Nebraska must first develop a Cooperative State Meat and Poultry Inspection Program before it can establish the Interstate Shipment Program. The Federal Codes Title 9 CFR 321, 322, and 381 provide regulatory descriptions of the requirements for the program (Appendix E). However, FSIS guidance documents and FSIS Directives for the program are not currently available.

- ii. Develop scenarios or define the regulatory and compliance roles of FSIS and a proposed Nebraska State Meat / Poultry Inspection program for the following types of operations:

- 1. Custom exempt operations.

Custom exempt slaughter and processing operations exist in at least three different types of meat and poultry slaughter and processing businesses. The majority of custom operations occur in plants that are only custom exempt conducting custom exempt slaughter and processing. A second example of custom exempt operation could occur in plants that are official federally inspected establishments, but also conduct custom exempt slaughter and processing. The third type of custom exempt operation could occur in plants that are official state inspected plants that conduct custom exempt slaughter and processing. The State of Nebraska Cooperative State Meat and Poultry Inspection Program would have for the plants that are only custom exempt processing and also for the official state inspected plant that conducts custom exempt slaughter and processing. The USDA FSIS will have responsibility for the official federally inspected establishment that conducts custom exempt slaughter and processing.

- 2. Exempt Poultry Slaughter and Processing.

The state meat inspection program would have responsibility for regulatory oversight of exempt poultry slaughter and processing in Nebraska.

3. Retail Exempt Operations.

The state inspection program would have responsibility for compliance with retail exempt status within Nebraska.

4. State Inspected horse slaughter and processing.

Congress enacted legislation for the in the 2006 fiscal year that prohibited USDA to use federal funds to inspect horses being transported for slaughter and to inspect horses intended for human consumption at slaughtering facilities. This congressional prohibition on use of appropriated funds continued in fiscal year 2007. In fiscal year 2008, Congress renewed the prohibition on the use of appropriated funds for inspections on horses being transported to slaughter and at slaughtering facilities, and added a new prohibition on the use of appropriate funds for implementation or enforcement of a fee-for-service program. These prohibitions have continued.

The State Meat Inspection program is a Cooperative Federal State Program for which USDA will provide 50 percent of allowable funding, the review of the program, and other shared items such as personnel training and information technology systems. Because of these cooperative duties, the USDA has indicated that congressional prohibition of funds and enforcement that slaughter of horses for human food is not allowed in State Cooperative Meat and Poultry Inspection programs.

The Iowa Meat and Poultry Inspection Bureau has explored the scenario that a horse slaughter facility could be used for production of pet food and zoo animal food under the Food and Drug Administration (FDA) feed manufacturing regulations for pet foods and zoo foods. USDA code does require the state agency to license and review receiving and shipping records of operations using animal products not intended for human consumption. Therefore Iowa Meat and Poultry Inspection Bureau would have regulatory responsibilities for licensing the facility and for review of documents for the shipment and receiving of meat products for rendering or feed manufacturing. However, the inspection oversight in the plant would be the responsibility of FDA. The Director of the Iowa Meat and Poultry Inspection Bureau believes this approach to horse slaughter could work. However, at this point the business interested in horse slaughter has not made further requests to establish a horse slaughter facility and Iowa Meat and Poultry Inspection Bureau has not acted on the this approach.

The United States Government Accountability Office has issued a report to Congress in June 2011 on "Horse Welfare - Action Needed to Address Unintended Consequences from Cessation of Domestic Slaughter." The report is provided in Appendix M.

Objective 2

2. A detailed description of the anticipated resources required to develop and maintain such program of meat and poultry inspection.
 - i. Research area states with state meat inspection to obtain department structure and needed supporting agencies/departments for the program.

The USDA FSIS does not require a specific structure for the State Cooperative Meat Inspection Program. However, key job components must be covered to comply with the nine components.

Our review of self-assessment reports, and FSIS Directives on the nine components appear to provide expectations for a director/administrator of the program, inspectors, supervisors of inspectors, veterinary medical officers, employees that conduct food safety assessments (Enforcement and Investigation Analysis Officers –EIAO), enforcement, employee performance verification, technical/regulatory review (non-food safety regulations, labeling etc.), compliance, and accounting.

Job titles for state employees in the Cooperative Meat and Poultry Inspection Programs identified from the self-assessment reviews for 2010 are listed below.

- Director
- Administrator
- Assistant Director
- Assistant Administrator
- Inspector
- Consumer Safety Officer
- Veterinary Medical Officer (VMO)
- Public Health Veterinarians (PHV)
- Area/District Supervisor
- Field Supervisor
- Front Line Supervisor
- Enforcement Investigations and Analysis Officer (EIAO)
- Compliance Officers (CO)
- Training Officer
- Laboratory Personnel
- HACCP Specialist

The inspectors in the field can be personnel without a DVM, however, when a pathological condition on the animal is noticed during the slaughter process, a Veterinary Medical Officer (VMO) must be present to determine disposition of the slaughter animal. Therefore a VMO would need to be in close driving distance from the slaughter facility.

A summary of staffing levels for each state taken from the self-assessment reviews for 2010 published on the FSIS web site is listed in Table 6. Job descriptions from USDA FSIS detailing a few positions are in APPENDIX N.

- ii. Obtain staffing and budget information for state meat inspection programs in surrounding states and in states with low numbers of plants.

A summary of staffing levels reported by each state in their self-assessment reviews for 2010 as published on the FSIS web site is listed in Table 6. Maine has the program with the lowest number of inspection staff with 8 employees that service 8 inspected establishments. They note that a portion of the inspection Veterinary Medical Officers split time between state meat and poultry inspection and state animal health. Montana and North Dakota are states that also have a lower number of meat and poultry inspection staff. Montana has 17 total employees for 38 state establishments and North Dakota has 13 for 13 state inspected establishments.

Each of these states would have plants located in a wide geographic area that would either require inspectors to travel great distances or additional inspectors to service a local area, similar to Nebraska. Montana started their state inspection program in 1987 with 5 plants and an inspection staff of 6 people (field and headquarters staff). The current budget for the Montana State Meat and Poultry Inspection program is approximately \$1,200,000.

North Dakota started their inspection program in 2000. They have a current budget of \$1,031,036, with \$829,461 in personnel and benefits, \$159,435 in travel, \$12,700 in laboratory testing, and \$29,440 in other expenses.

Missouri has a current budget of \$1,601,500, with \$1,123,500 in personnel and benefits, \$34,450 in travel, \$11,100 in laboratory testing, and \$432,450 in other expenses (This includes \$227,000 indirect and \$173,000 mileage reimbursement - printing, shipping, cell phones, etc. \$32,450.).

The Iowa Meat and Poultry Inspection Bureau has 107 state inspected establishments and an annual budget of approximately \$3,300,000 dollars. South Dakota has a state meat and poultry inspection program that services 48 state inspected establishments and an annual budget of \$1,827,664. The federal contribution of \$857,892 is less than 50% of the total budget. The South Dakota budget includes \$1,507,988 for personnel and benefits, \$187,004 for travel, \$27,780 for laboratory testing, and \$104,892 for other items.

- iii. Estimate the costs of establishing a Cooperative Interstate Shipment program.

Budgeting is uncertain for this program as guidelines and directives are not published by USDA FSIS. However, the regulatory code appears to indicate that the inspector in charge of an establishment in the Cooperative Interstate Shipment Program shall have additional training and verification supervision.

- iv. Estimate costs for different sizes of State Meat Inspection departments based on number of plants participating.

The survey information indicates that five plants are likely to apply for a state meat and poultry inspection and become an official state inspected plant. It is likely that plants that are interested in a state meat and poultry inspection program made an effort to reply to the survey. However, the number could decrease or increase as operators of plants become more knowledgeable about the program. In addition to the official state inspected establishments, the State of Nebraska would also need to provide verification of compliance for approximately 100 to 110 custom exempt establishments during the year. Since inspection services need to be applied on a daily basis, and slaughter requires an inspector to be present, the requirement for inspection personnel is high.

Expected budget costs are listed in Table 7. The initial costs for the first year of operation if five to eight plants are under inspection would be \$843,320. If two to three plants are under state inspection, then the estimated budget would be \$501,615. The largest expenses in the budget are personnel and travel.

- v. Estimate the participation of plants in state meat inspection.
 - 5. Survey current Federal inspected meat processing operations on anticipated needs for state meat inspection

A survey was sent to all USDA FSIS inspected establishments in the state of Nebraska (see Survey Summary at the end of this document). The plants were asked the question “How likely is it that your business would apply to become an official state meat and poultry establishment?” near the end of the survey. Eight plants indicated they slaughter and/or process under Federal Inspection. None of the responses from plants that were official USDA FSIS inspected establishments were “likely” or “very likely” to become an official state meat and poultry establishment. Only one plant indicated they were “somewhat likely” to apply to become an official state meat and poultry establishment. The comments provided by the USDA FSIS official establishments indicated that the cost of the USDA FSIS inspection program is free (i.e. USDA FSIS does not charge a license fee or inspection fee) and that they see no advantage to state meat inspection for their operation.

Plants that slaughter and process under Federal Inspection will not apply to become an official state meat and poultry establishment.

- 6. Survey current custom exempt operations on anticipated needs for state meat inspection

A survey was sent to all Custom Exempt operations in Nebraska which were identified by USDA FSIS. The plants were asked the question “How likely is it that your business would apply to become an official state meat and poultry establishment?” near the end of the survey. The majority of the plants with custom exempt processing indicated they were “Very Unlikely” (12 responses) or “Unlikely” (3 responses) to apply to become an official state meat and poultry establishment. Two of the Custom Exempt plants responded that they were “very likely” to apply to become an official state meat and poultry establishment, and two plants (one custom exempt and one processing only) indicated that they were “likely” to apply to become an official state meat and poultry establishment. The Custom Exempt plants that were “Very Unlikely” or “Unlikely” to apply for state meat inspection represent 48% of the total responses to the survey question. Of the current 31 responses to the question on the survey, the percentage of “very likely” and “likely” responses represent 12% of the responses received so far. However, the actual number of five plants that responded to the question should be very close to the number that would apply as these operations were motivated to respond to the survey. A positive aspect for implementation of state meat and poultry inspection is that the five (5) the plants in this category indicated an advantage of state inspection would be the ability to sell their product locally. However, an area of concern for implementation of state meat inspection is the fact that the custom exempt plants that expressed they were “very likely” or “likely” to apply for state meat and poultry inspection also added comments that were anti-USDA or expressed concerned about federal government regulations for small business. The same regulations would be applied in a state meat and poultry inspection program.

The best estimate is that five (5) plants would be willing to apply for state meat and poultry inspection in their facility. It is possible that after learning about the requirements of state meat and poultry inspection, plants will change their decision and not apply for state meat inspection.

- vi. Estimate staffing and support budgets for application for the Cooperative State Meat and the establishment of laws and regulations for the State of Nebraska.

Two USDA FSIS personnel, one director and one Chief, were contacted to discuss the process for development of a Cooperative State Meat and Poultry Inspection Program for Nebraska. We visited Ralph Stafko, the Director, State Outreach and Technical Assistance Division, Office of Outreach, Employee Education and Training, located in Washington DC, and Ron Eckel, Chief Federal/State Audit Branch, Internal Control and Audit Division, Office of Program Evaluation, Enforcement, and Review, located in Omaha, NE. Each of them invited several of their staff to visit with us and they both provided the FSIS Directives and Guidance Documents for the State Meat and Poultry Cooperative Inspection Program. When we asked the question about how long it would take Nebraska to establish a State Meat and Poultry Cooperative Inspection Program, the answer was from 1 to 2 years. From these discussions, it is our understanding that Nebraska would need to demonstrate the future ability to comply with the nine components in Directive 5720.3, Revision 1 and would need to have an acceptable budget application. Submission of the budget is an important aspect for the amount of time it would take to establish the Nebraska State Meat and Poultry Cooperative Inspection Program. The Nebraska budget for the State Meat and Poultry Cooperative Inspection Program would need to be timed to allow USDA FSIS to include the funding request in their budget planning process for the upcoming Fiscal year. The timing for implementation is further complicated by the difference in state and federal budget fiscal years. The USDA FSIS fiscal year runs from October 1 to September 30 while state budgets for Nebraska are from July 1 to June 30.

The budgeting for the one or two years to establish a State Meat and Poultry Cooperative Inspection Program should include the hiring of a director, budgets for legal services to develop the statutes and codes, a program coordinator that will assist to inform establishments of the requirements and application process for state meat and poultry inspection, travel to USDA FSIS offices in Omaha, Des Moines, and Washington DC, and expenses for office equipment and supplies. Total budget is estimated at \$382,553 for one year (Table 8). If an additional year is needed then the start-up costs would increase.

Objective 3

3. Recommend a fee schedule that ensures revenue produced from the licensure and inspection of establishments which meat, poultry, or meat and poultry products for human consumption sufficient to fund the state program of meat and poultry inspection, including the implementation of a fee-for-service system in conducting inspections.
 - i. As a part of the meat processing plant survey identified above determine interest in a State Meat Inspection program and their willingness to pay for services for State Meat Inspection.

The survey had a large number of responses that were unwilling to pay any fee. Many of the surveys were not completed and comments indicated that no fee should be charged. The remaining responses do not give a clear direction for the type of fee, however, the annual license and per head inspection fee had a slight advantage over hourly fees. Six of the responses indicated they were likely or very likely to pay a \$10 to \$20 per head fee for cattle and eight responses indicated a \$1 to \$6 per head for hogs. An annual licensing fee of \$100 to \$200 was rated as likely or very likely by 7 responses and 5 responses from \$200 to \$299.

- ii. Determine the revenue contribution from Federal Meat Inspection.

If the budget expenditures of the State Meat and Poultry Cooperative Program are all acceptable expenditures, the Federal Government will pay up to 50% of the costs.

- iii. Estimate the costs of a State Meat Inspection Program based on staffing needs, travel costs, laboratory costs, and all other costs associated with a State Meat Inspection Program.

The most likely outcome is that two to five plants are likely to apply for a state meat and poultry inspection and become an official state inspected plant during the first budget year. In addition the state would need to provide verification of compliance for approximately 100 to 110 custom exempt establishments during the year. The state inspected plant could require daily inspection for slaughter and processing operations or the plants could request inspection on a limited number weekdays. In addition, if two plants are long distances from each other, more than one inspector would be needed to service the establishments. If we use the budget costs listed in Table 7, then the expected budget costs for five plants would be \$843,320. A commitment from the interested plants would be needed to refine the budget and determine if more or less support is needed.

- iv. Project a fee schedule assuming varying levels of participation in a State Meat Inspection Program.

The projection of a fee schedule that fully supports the State Meat and Poultry Cooperative Inspection program would require higher fees than processors would be willing to pay (according to survey results). If the budget for a program with five to eight plants is \$843,320 and all expenditures are acceptable for the Cooperative Inspection Program, then the USDA FSIS contributions to the state would be \$421,660. The survey results indicate that five plants are “likely” or “very likely” to apply for state meat and poultry inspection. Plants will slaughter one or two days each week and will process and or cook meat products four or five days a week. It is assumed that with these slaughter and processing schedules, inspectors for state meat and poultry inspection would need to service the plant five days a week. In addition, the inspectors would need to be present during the entire slaughter hours. The following scenarios considering the cost of the state share of the budget, and how revenue could be generated among the plants.

Exploring Requirements for a State Meat and Poultry Inspection Program in Nebraska

Scenario 1. The revenue from fees (annual license, or daily fees) would be entirely paid for by the Official Establishments in the State Meat Inspection Program. This scenario matches the intent of Legislative Bill 305 which stated *“The report shall recommend a fee schedule that ensures revenue produced from the licensure and inspection of establishments which process meat, poultry, or meat and poultry products for human consumption, sufficient to fund the state program of meat and poultry inspection, including the implementation of a fee-for-service system in conducting inspections.”*

At a projected cost for the Cooperative State Meat and Poultry Inspection Program of \$843,320 and assuming that the USDA FSIS will match a full 50%, then the annual fee for a plant would be \$84,332 or the daily cost for the state meat inspection would be \$325. Plants that choose to become an Official USDA FSIS Inspected facility will pay no fees. None of the plants in the survey indicated that they would be willing to pay this much in fees for inspection services. It is likely a small meat and poultry business would select Federal Meat and Poultry Inspection from USDA FSIS.

Revenue needed from Plant Inspection Fees to Match State Meat Inspection Program Cost

	Budgeted Cost	Revenue per Source	Revenue
Total budget for a Cooperative State Meat Inspection Program	\$843,320		
Contribution to the Total Budget from the USDA FSIS up to 50%		\$421,660	\$421,660
Annual license fee for 5 State Inspected Plants		\$84,332/year	
Alternative Daily Inspection fee (5 plants x 260 work days)		\$325/day (rounded up to nearest whole dollar)	
Revenue from Fees			\$421,660
Total Revenue			\$843,320

Scenario 2. The revenue from fees (annual license, or daily fees) would be assigned from the interpretation of willingness to pay from the survey. While the bulk of the meat processors that responded to the survey indicated that they believe no cost should be paid for state meat inspection, a small portion (7) indicated a willingness to pay. By selecting the upper end of fees for the processors that were willing to pay, an annual license fee would be \$299, a per-head beef slaughter fee would be \$20 per head, and a per head swine slaughter fee would be \$6 per head for swine. This would generate \$59,215 in revenue from fees for the Cooperative State Meat and Poultry Inspection program. This revenue is about 14% of the needed revenue for the state share of the budget.

Revenue generated from State Inspected Meat and Poultry Plants Estimated from plants that were willing to Pay Inspection Fees

	Budget Expenses	Revenue per Source	Revenue
Total budget for a Cooperative State Meat Inspection Program	\$843,320		
Contribution to the Total Budget from the USDA FSI up to 50%		\$421,660	\$421,660
Annual license fee for 5 State Inspected Plants @ \$299		\$1,495	
Per Head Inspection fee for Beef (5 plants x 52 weeks x 9 head x \$20)		\$46,800	
Per Head Inspection fee for Swine (5 plants x 52 weeks x 7 head x \$6)		\$10,920	
Total Fee Revenue		\$59,215	\$59,215
Total Revenue			\$480,875
Total Budget	\$843,320		
Additional Revenue Needed (Total Budget Expenses – Total Revenue)			\$362,445

Since the majority of the survey responses indicated that no fees should be charged for a Cooperative State Meat and Poultry Inspection Program, revenue generation from fees may be cost prohibitive for plants to apply for state meat and poultry inspection. For the plants that are willing to pay annual or per head fees, the fee level that is acceptable to these plants would only generate a low percentage of the revenue needed to pay for a Cooperative Meat and Poultry Inspection Program. It is likely that plants would make a business decision to use the exemptions available and not produce inspected meat and poultry products and/or adopt FSIS USDA inspection for slaughter and processing of inspected meat products.

Summary of Survey Responses

This research project involved a survey that was sent to meat and poultry processors across Nebraska. Details of the survey are in Appendix O.

The survey included a mix of fixed response and open-ended questions that generated quantitative and qualitative data. Quantitative responses are important for uncovering current and future trends, such as small plants' expectations for future growth. Qualitative responses provided insight as to the reasons why these processors have or will be impacted by these trends. Three hundred eighty two surveys were mailed and forty-one were returned, providing a 10.7% response rate.

Survey responses showed that 79% of facilities are 21 years or older, with 39% being more than 40 years old. Furthermore, 64% of respondents have one (1) to five (5) people working in their facility full time, with 85% employing 20 or fewer people at their facility. Additionally, 84% indicated they have not employed 35 or more people at any time in the past three years. Sixty-nine percent of surveys show Nebraska processors rely on one (1) to twelve (12) temporary, seasonal, or part-time employees, and 26% of processors have not hired any temporary, seasonal, or part-time labor in the last year. Though only 10.7% of surveys were returned, a significant percentage of respondents operated small or very small plants. We have estimated that approximately 139 small and very small meat and poultry processing operations are in Nebraska and the responses from the survey represent 30% of the small and very small plants. This is important as the state meat and poultry inspection program is targeted for this size of operation.

The survey also explored the type of processing and slaughter carried out in the facilities. Sixty-four percent of plants were custom exempt processors, 42% process and/or slaughter non-amenable species or wild game, and 37% indicated that they were only processors and did not slaughter. Ninety-five percent of these are establishments that produce fabricated whole muscle cuts, ground, and/or cooked products. The remaining 5% produced high pressure processed products, tempered product, provided cold storage, or did not respond.

Furthermore, 61% of operators stated that they did not brand or label their product. However, 39% did indicate they processed products that are marketed under a brand or label. Of these operations that manufactured labeled products, 32% processed products for their own label/business which is marketed directly to the public, 32% processed products under their own label for wholesale, and 32% were hired to process products for other companies or entities to market under their own label. The remaining 4% processed products specifically requested by stores or restaurants.

Eighty percent of Nebraska meat processors indicated they harvested an average of three (3) to 25 cattle per week. Eighty-one percent of respondents harvested 2-20 pigs per week. Nine operations indicated they harvest one (1) or two (2) lambs per week. Three (3) operations harvested buffalo or bison on a regular basis and indicated they harvested an average of 1, 2, or 8, animals per week.

In an effort to estimate how often a State Inspector would have to be on site for these operations, processors were asked to provide the average days per week they harvest, process, and manufacture cooked products. Operations slaughter from zero (0) to five (5) days per week with 48% of processors indicating they slaughter one (1) or two (2) days per week. A clear majority of operators also process four (4) or (5) days per week, and manufacture cooked product three (3) or more days per week. This data would suggest that a State Inspector would have to be on site five days per week if they seek State Inspection if all products produced in the plant were inspected.

Sixty-four percent of survey responses indicate operators foresee their business remaining the same size or becoming smaller in the next five years. Twenty-nine percent of surveys indicated a plan to grow their operations in the next five years. The survey then asked operators to mark factors that influenced their growth predictions. Forty-five percent indicated additional customers or markets would be needed to expand their current businesses. Government regulations, facility limitations, and the current effects of the economy each were selected 34% of the time.

Since the survey would target many small and very small meat processors that are not under Federal Inspection, the survey explored why they currently do not seek Federal Inspection. The survey indicated 76% of the time processor's operations were too small to justify the added cost, and 71% of the time it would be too expensive to comply with USDA FSIS inspection requirements. 43% of the time, respondents stated their facility currently runs at full capacity with custom processing.

Given that State Meat and Poultry Inspection could provide new avenues for Nebraska's processors, the survey explored the interest level in potential niche or local markets for their inspected and labeled product. The distinct majority, 65% of surveys, indicated processors see no advantage to state meat inspection. This high percentage was more than double the next highest response, which was interest in labeling and selling their own products (32%), selling to consumers who prefer locally grown/processed products (32%), and selling to consumers who prefer Nebraska grown/processed products (32%).

The survey also considered the advantages of a State Meat and Poultry Inspection Program being able to better serve and respond to processor needs. The survey asked processors to mark any advantage that appealed to their operation in regard to labeling, regulatory questions, or legislative response. Again, the distinct majority, 63%, of processors stated they see no advantage to state meat inspection on the responsiveness of regulatory agencies.

The survey gave a brief introduction to LB305 and the legislative intent of the Bill, and then asked processors to indicate their level of support for implementing a State Meat and Poultry Inspection Program. 50% of processors indicated they probably would not or definitely would not support a State Program. 22% of processors indicated they probably would support a State Program, and only 3 processors (9%) indicated they definitely would support a State Program. 19% were undecided.

The survey inquired into processor preferences regarding funding portions of a State Program with licenses and/or fees. The data regarding fee preferences is thin, but 38% of respondents marked "other" and provided their reasons for not wanting additional fees or licenses to be paid by

the state's processors. If the processors marked "other", they were asked to explain their choice. Many of these explanations stated the Federal USDA FSIS program is established and free. One processor stated, "All inspection fees should be paid by the general public. Food Inspection is for the public good. They should pay for it. No licensing fees or inspection fees should be paid by meat processors." Purchasing an annual license for their facility was the next most popular choice.

Processors were then asked the likelihood that they would pay given dollar amounts for per head inspection fees for cattle, pigs, sheep, and poultry birds. The vast majority of processors indicated they would be very unlikely to pay any price for a per head inspection fee. Seven (7) individuals stated they would be likely or very likely to pay \$10-\$20 per head for cattle/beef inspection. Similarly, only three (3) people expressed willingness to pay even \$1-\$4 for lamb/sheep inspection, and six (6) processors would be likely or very likely to pay \$1-\$6 for pig/pork inspection fees.

As an alternative to a per head fee, processors were asked to indicate their likelihood of paying an annual licensing fee for their facility. Again, the majority of respondents indicated they were very unlikely to buy a permit or license at any price level. However, twelve (12) individuals indicated they were likely or very likely to buy a facility license at a cost of \$100-\$299 dollars. Seven (7) more individuals were undecided whether they would pay \$100-\$299 for a license.

Processors were asked the likelihood that they would seek State Inspection upon implementation of a program in Nebraska. Sixty-eight percent of processors would be unlikely or very unlikely to seek State inspection. At the other end of the spectrum, only four (4) individuals or 12% of processors would be likely or very likely to seek State Inspection for their products. The final question on the survey asked for any comments these processors had about implementing a State Inspection Program. Many processors expressed concerns with adding costs and fees to processors. Some already feel oppressed by narrow profit margins and extensive government regulations. Only two (2) processors offered comments in support of a State Program. They see a State Program as an avenue for growth whereby they can promote Nebraska products and their operation's products.