



Maryland Department of Agriculture

Agriculture | Maryland's Leading Industry

Office of the Secretary

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Budget and Taxation Committee Subcommittee on Public Safety, Transportation, and Environment

Good Afternoon Chairman DeGrange and Committee members. I am Buddy Hance, Secretary of the Maryland Department of Agriculture.

With me today is our Deputy Secretary Mary Ellen Setting; Jim Wallace, Director of Administration; Royden Powell, Assistant Secretary for Resource Conservation; Pat McMillan, Assistant Secretary for Marketing, Animal Industries and Consumer Services; Carol Holko, Assistant Secretary for Plant Industries and Pest Management; and, Carrie DeBoy, Chief Information Officer.

The Maryland Department of Agriculture is a relatively small agency that serves not only the 12,800 farm families and thousands of related food and agricultural businesses but, all Marylanders each and every day.

The reductions that the MDA has made have caused the agency to prioritize regulatory activities and service programs. The agency works closely with federal, state and local partners to leverage a great deal of additional funding and fees from the regulated industry to provide for services that protect consumers and businesses. Despite fiscal constraints, MDA remains committed to meeting its core mission of preservation, regulation, promotion, education, and service activities. Marylanders can expect a safe and healthy food supply and environment, and fairness in the marketplace. Agriculture will remain a strong economic force.

MDA's budget reflects the agency's mission and priorities as well and integrates new federal and state regulatory requirements.

MDA has a very important role to play in environmental protection, the strength of our economy and the well-being of Maryland's citizens and believes you share that understanding.

The Agency's Mission and Work:

- **Agricultural Land Preservation:** Marylanders enjoy the benefits of preserved farmland through its open spaces and the food it provides, but there is much more demand to preserve farms than there is money. With local and federal partner funding, MDA's Maryland Agricultural Land Preservation Program has preserved more than 279,000 acres of prime farm land throughout Maryland's 23 counties since its inception. This is the greatest ratio of farmland preserved to total land mass of any state.
- **Buy Local:** One of the brightest spots today is Maryland's leadership in the Buy Local Campaign to connect producers with consumers, restaurants, schools, hospitals and grocers. MDA's marketing staff is working to help expand these connections through the Maryland's Best program so that Marylanders get the freshest, most nutritious produce, meats, cheeses, and value-added products available. Buying local helps reduce transportation costs and its associated carbon footprint while helping farmers expand their markets and bottom line and to stay on the farm, keeping land open.
- **Farm to School:** Programs like the Farm to School program, currently in its fifth year, bring these products to students at school. Every county school system and Baltimore City participated, buying products from Maryland agricultural producers. In just one example, Harford County purchases 70-80 percent of their produce from farmers within a 50-mile radius of Harford County during the Maryland growing season.
- **Environmental Protection:** In environmental protection, MDA's cover crop and water quality cost share programs provide farmers with the financial assistance and incentives necessary for them to install best management practices (BMPs) that reduce nutrient runoff and soil erosion. We are having a second record-breaking year in the Cover Crop Program with Maryland farmers planting over 429,000 acres last fall. New regulations for animal feeding operations as well as the new federal TMDL limits and two-year Chesapeake Bay milestones will require farmers install more BMPs to be in compliance with permits.
- **Technical Assistance:** Farmers not only need cost share assistance, they need the technical expertise of additional soil conservation district staff to plan and install the projects. Since the program started in 1984, farmers have spent more than \$15 million of their own money to match more than \$105 million in state and federal funds to install more than 21,000 water quality projects or about 2.5 BMPs per day, every day, for two years. Installation of agricultural BMPs on farmland is a key feature of Maryland's recent plan submitted to the U.S. Environmental Protection Agency to reduce nutrients.
- **Leveraging Resources:** MDA leverages state dollars with federal funds from USDA, administered in Maryland by the Natural Resources Conservation Service and the Farm Services Agency. These programs provide parallel support for technical assistance for conservation practice design and construction, as well as financial incentives to farmers to encourage implementation.

- **Mosquito Control:** Maryland residents benefit from the mosquito control program, which provides direct services to 1,760 communities in 16 counties. This program has the primary goal of preventing the occurrence of mosquito borne disease in humans, pets, and livestock through survey and monitoring, and treatment where action thresholds are reached. Mosquito control is an economic necessity in parts of Maryland dependent on outdoor tourism during the summer.

MDA comment on the current status of 2012 Farm Bill deliberations, what the 2012 Farm Bill is anticipated to mean for Maryland agriculture, and what MDA is advocating for in the 2012 Farm Bill.

While Farm Bill discussions continue in earnest, most speculate that it is unlikely a new Farm Bill will pass prior to the election. It is important to note that Maryland received significantly higher levels of funding from the current authorization, especially related to Chesapeake Bay restoration. The next Farm Bill will likely not be as generous. MDA continues to support those federal programs providing meaningful support to Maryland farmers and land owners.

Comment on the recent drop in Maryland non-corporate farm earnings and how these relate to corporate farm earnings and the general state of Maryland agriculture.

The U.S. agricultural sector is generally in excellent financial condition. The USDA Economic Research Service (ERS) projects that 2011 net farm income will be the highest on record since 1974. This is the result of a wide range of factors including robust market demand in both domestic and international markets. The National Agricultural Statistics Service estimates of Maryland net farm income averaged \$319 million for the five year period 2006-2010. The 2010 net farm income was \$236 million, or nearly 26% under the five year average. Some of the decrease can be attributed to challenging weather that reduced yields of major crops including corn and soybeans. The broiler industry is Maryland's number one agricultural industry and accounts for more than 40% of state total farm cash receipts. Thus, any changes in the broiler industry will have a large influence on aggregate state farm income data. The broiler industry has been under financial stress as it adapts to rising feed input costs, especially corn and soybeans. The ERS estimates that feed accounts for nearly 60% of broiler production expenses.

My staff and I are here to address the remaining analyst recommendations:

MDA comment on whether an inspection cross-training program would allow for more flexibility in how it handles vacancies and extended medical leave.

MDA currently utilizes cross-training within their programs; and to some extent, between programs when feasible. However, some of the programs are very technical and require experienced personnel. For example, Weights & Measures inspectors may need up to a year of training before the inspector is productive. Cross-training would not necessarily address staffing vacancies in science-specific programs.

Improve the level of conformance with Maryland laws within the State Chemist Program concerning fertilizer, liming materials and, soil amendments.

Non-conformance of regulated products often is a result of the natural characteristics of the raw and recycled materials used in these products. Quality control is challenging to producers, so the final product may contain one or more raw materials that are non-compliant. MDA sees sample analysis results as evidence that the inspection and enforcement program is working.

MDA, provide an update on what it is doing to resolve the issue of the four State Chemist funds and the Pesticide Fund being treated as one fund.

MDA is looking into how current law can be effectively amended.

MDA comment on how cover crops can be more effectively targeted; and, on whether strengthened nutrient management regulations might be more efficient and less costly for reducing nutrient loading from cropland than State cover crop funding.

The current program adheres to scientific justifications for targeting cover crops according to management conditions that maximize nutrient reductions. MDA's incentive structure targets early planting dates, rye, certain tillage methods, cropland that received manure, crops with the highest risk of residual nitrogen, and priority watersheds designated by Baystat. Watershed prioritization has been an element of the program since 2008. The current program is modified in accordance with new scientific findings and a series of surveys done by the University of Baltimore Schaffer Policy Center to better understand farmer behavior and response to program eligibility requirements. This methodology has resulted in record enrollment and record implementation of cover crop acres during the last two years.

Strengthening of nutrient management regulations was undertaken to enhance farm-scale management of nutrients and to accelerate implementation of nutrient reduction measures necessary to assure Maryland meets TMDL requirements. Given the magnitude of the nutrient reductions to be achieved, these new nutrient management requirements must work in concert with existing programs, such as cover crops, in order for agricultural nutrient reduction goals to be met.

MDA comment on how the nutrient management plan compliance rate of 63.1% comports with its data and on how MDA could improve small farm compliance with nutrient management plan requirements and implementation of best management practices.

MDA presently documents compliance of 1.2 million acres of crop and pasture land with the requirement to have a nutrient management plan. This acreage represents over 99% of agricultural land in Maryland. The Agency has worked with available databases to target those required to adhere to nutrient management. These databases include the information maintained by USDA's National Agricultural Statistics Service (NASS). This is the same source of information the University of Maryland used in its survey.

The University of Maryland survey does not provide information about the extent or collective magnitude of nutrient impacts from these farms they characterize as “small.” MDA has 9 FTEs that are responsible for compliance with nutrient management regulations. Information available does not justify redirecting limited staff resources to pursue small farmers responsible for 1% of agricultural land.

MDA conducts on-farm evaluations to determine compliance with requirements to implement the nutrient management plans. Implementation compliance data suggests approximately 70% of farmers are compliant, with failure to have a current plan as the predominate reason for non-compliance. This data approximates findings by the University of Maryland survey.

Further, NASS data captures farm operations with at least \$1,000 of gross income. Data discrepancies may exist between the farmers surveyed and farmers actually subject to state nutrient management requirements, either by virtue of the \$2,500 gross income threshold or the eight animal unit criteria.

MDA comment on why it did not submit fiscal 2013 information with the required report; how many soil conservation district field personnel will be funded in fiscal 2013 relative to the 110 statutory mandate and 160 level suggested by EPA; and how the statutory mandate can be clarified.

When MDA reviewed the goals for Phase 2 of the WIP, in order to achieve the goal the agency needed an additional 63 field positions, four positions for the MACS program and three support positions. A total of 70 positions and an additional \$1 million for operating support would be needed to achieve the goal.

MDA has historically reported the status of implementing the Agricultural Stewardship Act of 2006 (HB2) retrospectively. The accounting has always reflected on the progress to date in fulfilling the intent to provide 110 positions in soil conservation districts. The proposed FY2013 allowance will continue to fund the 79 positions supported in FY2012 as reported.

DLS recommends that the \$717,000 in the reimbursable fund appropriation be deleted since the allocation from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund has not yet been determined.

MDA Concurrs

DLS also recommends that (1) existing and needed positions to fulfill the State field personnel mandate be funded from an allocation off the top of the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund revenue via a BRFA of 2012 provision, both as a cost-saving measure and to provide a dedicated source of funding; and (2) general funds commensurate with the current level of State field personnel positions funded be reduced contingent upon the proposed BRFA of 2012 provision being adopted.

MDA does not concur with the analyst's suggestion to fund all soil conservation field personnel from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund. This proposal does not provide a more cost effective or more stable work force as suggested. In fact, to move the fiscal and budgetary control for SCD staffing out of MDA makes this funding less stable, more subject to redirection for other purposes. The resulting instability would adversely affect the agency's ability to recruit and retain the workforce necessary to accomplish established goals. While it would provide a source of funding, MDA questions the degree of program flexibility and the steadiness of revenue cash flows that would be needed to maintain a program. There is no analysis provided to indicate how such a move would be more cost effective.



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Peter Alexander, Chair
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Stephen R. McHenry,

MARBIDCO Operating Budget Testimony Statement for the Maryland General Assembly

**Stephen R. McHenry, Executive Director
February 2012**

Introduction

Thank you very much for the opportunity to comment on the Fiscal Year 2013 State Budget relative to how it impacts MARBIDCO.

MARBIDCO was established by the Maryland General Assembly to enhance the sustainability and profitability of the State's agricultural and resource-based industries in order to help bolster rural economies, provide locally-produced food and fiber products, and preserve working farm and forest land. MARBIDCO is an independent public instrumentality *that is required by law to become self-sustaining after Fiscal Year 2020*, at least with respect to its core rural business assistance activities. MARBIDCO has financed 169 farm and rural business projects* located in 21 counties since becoming operational in the spring of 2007. And in the process, MARBIDCO has helped to create or retain an estimated 1,113 full- and part-time jobs. MARBIDCO has also assisted with 55 value added food or fiber processing enterprises and helped 47 young or beginning farmers buy their first farms or expand their business operations. MARBIDCO's investment in rural business lending has also leveraged nearly \$22 million in private commercial loan capital.

The General Assembly directed as part of the *Agricultural Stewardship Act of 2006* that up to \$4 million in annual general fund support be provided for each year through FY 2020 in order to adequately capitalize MARBIDCO's rural business investment programs. (However, due to State cost containment efforts undertaken between FY 2008 and FY 2012, MARBIDCO has under-attained by about 40% of what was originally mandated in the *Agricultural Stewardship Act* to be appropriated for this period.) In addition, in 2008, the General Assembly passed legislation that potentially provides additional special fund revenues to MARBIDCO with the intent of funding the Next Generation Farmland Acquisition Program (NGFAP) with a share of dedicated agricultural land transfer tax revenues. Unfortunately, the collapse of the real estate market three years ago has resulted in no transfer tax revenues being available to fund the NGFAP.

**NOTE: The term "rural business" is used by MARBIDCO as a generic reference to describe a farm, forestry or seafood business (i.e., a business that either produces or processes food or fiber products). A rural business can potentially be located anywhere in the State of Maryland, including in an urban or suburban area.*

MARBIDCO Programming in 2012

MARBIDCO currently offers about a dozen financing programs, and this programming falls into three broad and distinct categories:

"Core" Rural (and Urban-edge) Business Development – In this category are several loan and grant financing programs that are funded as a result of the enactment of the landmark *Agricultural Stewardship Act of 2006*. MARBIDCO's loan and grant programs are tailored to meet key ag, forestry, or seafood business investment needs. Loans that are made in this category can typically be used for land purchases, facilities construction or renovation, equipment acquisition or working capital. Loans can range from \$10,000 to \$400,000, depending on the program, and most are required to be fully collateralized. The Maryland Resource-Based Industry Financing Fund (MRBIFF) is MARBIDCO's "workhorse" program and it helps to leverage significant commercial lending capital in financing rural business projects. The Maryland Value Added Producer Matching Grants program is also a popular program offering.

Rural Land Preservation Facilitation – In this category are programs that are funded from special or dedicated revenue sources (such as agricultural land transfer taxes), or that are offered in conjunction with other public agencies with MARBIDCO serving as a conduit financing agent. This includes innovative Installment Purchase Agreements (IPA) programming that MARBIDCO offers to help State or local governments conclude agricultural land conservation easement purchase transactions (either through "self-funded" or "leveraged" IPAs). A Next Generation Farmland Acquisition Program (the combination young farmer land purchase assistance/land preservation program mentioned earlier) as well as conduit short-term financing for local critical farm-type preservation programs through the use of "Aggie Bonds" or "Next Gen Option IPAs" are also being planned.

Special Targeted Higher Risk or "Micro" Lending – In this category are loan programs that are solely funded by partnering agencies for targeted purposes (and typically loans are made on an unsecured basis). The *Maryland Shellfish Aquaculture Financing Fund* and program was launched last year in partnership with DNR, MDA and University of Maryland Sea Grant Extension to help sustain seafood commerce and improve water quality in the Chesapeake Bay through the development of a much-expanded oyster aquaculture industry. Using funds provided by DNR (\$700,000/capital and \$137,000/special) and the federal government (approximately \$850,000/NOAA), MARBIDCO was able to approve 26 low-cost shellfish aquaculture loans during the 2011 season totaling about \$1.7 million. (Interestingly, 22 of the 26 aquaculture loan borrowers are commercial watermen who are interested in transitioning part or all of their commercial enterprises from wild oyster harvesting to shellfish farming.)

The Governor's Budget/BRFA Submission for Fiscal Year 2013

The Governor has included \$2.75 million for MARBIDCO in the FY 2013 Operating Budget submission (level funding), with the effect of a \$250,000 reduction taken as part of the *Budget*

Reconciliation and Financing Act of 2012. With these funds available, MARBIDCO can expect to be able to make approximately 13-18 loans during the next year (which does not include a dozen or more additional shellfish aquaculture loans that MARBIDCO expects to make using federal and capital funds). Approximately 10-13 modest grant investments (principally for farm value added production activities) may also be made during the year as resources permit. If the demand trends for MARBIDCO rural business financing continue MARBIDCO could run short of lending capital before the end of fiscal 2013. However, given this very difficult fiscal environment, we are pleased with this allowance level and would expect to be able to accomplish a quite a lot during the coming year. We are also delighted to see within the BRFA that MARBIDCO's annual core funding is proposed to be fully restored in FY 2015 at the \$4 million level.

Conclusion

MARBIDCO recognizes that this is a very challenging time for the State's policy-makers who must make very difficult budget decisions. We very much appreciate that the Governor has provided level-funding to allow MARBIDCO to continue to be able to offer most of its core rural business development programs going forward. MARBIDCO remains committed to helping sustain Maryland's agricultural industries and the jobs that they support, while at the same time helping to ensure the viability of the rural working landscape that Marylanders have come to so greatly cherish. Clean air and water, a safe and healthy local food supply, thriving rural communities, and scenic pastoral vistas for human enjoyment and renewal are what we plan to help sustain for the benefit of many generations of Marylanders to come.

MARBIDCO Projects Funded (by County)

County	Loans		Grants	
	Number Funded	Total Funding	Number Funded	Total Funding
Allegany	0	\$ -	0	\$ -
Anne Arundel	3	\$ 116,000.00	0	\$ -
Baltimore	3	\$ 425,000.00	5	\$ 63,000.00
Baltimore City	0	\$ -	0	\$ -
Calvert	3	\$ 175,000.00	1	\$ 9,144.00
Caroline	12	\$ 2,182,474.00	5	\$ 55,433.00
Carroll	2	\$ 450,000.00	9	\$ 130,731.50
Cecil	1	\$ 65,000.00	5	\$ 67,574.00
Charles	2	\$ 600,000.00	0	\$ -
Dorchester	17	\$ 2,621,640.00	4	\$ 22,200.50
Frederick	2	\$ 252,670.00	10	\$ 166,636.67
Garrett	4	\$ 459,740.00	1	\$ 20,000.00
Harford	0	\$ -	7	\$ 93,000.00
Howard	0	\$ -	0	\$ -
Kent	3	\$ 499,999.00	6	\$ 88,377.00
Montgomery	0	\$ -	2	\$ 8,500.00
Prince George's	0	\$ -	2	\$ 8,998.00
Queen Anne's	3	\$ 814,000.00	6	\$ 149,755.33
Somerset	2	\$ 94,725.00	1	\$ 5,000.00
St. Mary's	11	\$ 820,579.00	2	\$ 39,987.50
Talbot	5	\$ 754,500.00	4	\$ 33,041.33
Washington	7	\$ 1,028,460.00	8	\$ 89,998.60
Wicomico	6	\$ 997,500.00	3	\$ 5,376.02
Worcester	2	\$ 83,000.00	3	\$ 48,364.00
Regional or Statewide	0	\$ -	4	\$ 87,100.00
Totals*	87	\$ 12,440,287.00	82	\$ 1,192,217.45

MARBIDCO Project Investment Activity – Statewide

Counties Where Projects Funded:	21	
Total Loans Made By MARBIDCO:	87	\$ 12,440,287.00
Total Grants Made By MARBIDCO:	82	\$ 1,192,217.45
Total Project Requests Funded:	169	\$ 13,632,504.45
Total All Financial Requests:	251	\$ 21,030,552.45

* Three grants have been shared by multiple counties.