



Maryland Department of Agriculture

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February 1, 2018

HOUSE APPROPRIATIONS COMMITTEE TRANSPORTATION AND ENVIRONMENT SUBCOMMITTEE

February 5, 2018

SENATE BUDGET AND TAXATION COMMITTEE PUBLIC SAFETY, TRANSPORTATION, AND ENVIRONMENT SUBCOMMITTEE

Issues and Recommended Actions

- 1) The Department of Legislative Services (DLS) recommends that MDA comment on why the data is seasonal, whether there are any geographic trends (urban vs. rural) that may be seen in a more detailed analysis of the data, and why euthanasias of cats and dogs appear to be decreasing, but not intakes. DLS also recommends that MDA comment on the status of feral cat colonies in Maryland.*

This data is seasonal due to the biology of the breeding of cats and dogs. Kitten and puppy season begins in early spring and reaches its height in the summer. This is when most shelters get a large influx of young cats and dogs. Also, strays are more active and likely to be brought into shelters in warmer weather.

Geographic trends are difficult to ascertain since the data is divided by county. As per the legislation that created the program, county shelters must provide the statistics for their facilities on a quarterly basis. The data is broken down by cat/dog and includes numbers collected, adopted, transferred to other agencies, and euthanized, but the report is not detailed by geography beyond the county level. To date, the program has funded 24,348 surgeries. Overall, for cats intake has decreased by 3% and euthanasia decreased by 39%, and for dogs intake has decreased by 4% and euthanasia decreased by 25% when comparing shelter from December 2013 to December 2016. There is no count of feral cats or colonies statewide.

- 2) DLS recommends that MDA comment on the status of any strategic planning it is doing related to the future of agriculture in Maryland and that MDA complete a strategic plan incorporating the insights from the 2018 Farm Bill, 2017 Agriculture Census, recent*

strategic plans, the two reports completed by the Harry R. Hughes Center for Agro-Ecology, and any other economic or policy source material it considers relevant.

MDA is currently working on a draft of the strategic plan. The 2017 Agriculture Census is currently underway, and the data will not be completed until February 2019. MDA intends to incorporate insights from the 2018 Farm Bill and the 2017 Agriculture Census, which are currently in progress. Once it is completed, MDA will be happy to share its strategic plan with the committee.

3) DLS recommends that MDA comment on the likelihood that Maryland's farms will be able to comply with the Produce Safety Rule within the timelines given by FDA.

MDA, in cooperation with University of Maryland (UMD) and University of Maryland Extension (UME), has been preparing Maryland farms for these changes since 2010 by educating farmers on best practices for food safety, providing worker health and hygiene training, assisting farmers with developing food safety plans that incorporate best practices, and providing voluntary inspections to assist farmers with identifying areas needing improvement to reduce the risk of produce contamination. MDA has provided and continues to provide outreach, education, and technical assistance to ensure all Maryland farms are aware of the Produce Safety Rule, have the opportunity to attend the FDA-mandated Produce Safety Alliance Produce Safety Rule training, and continue to receive technical assistance to correct potentially non-compliant issues on farms. Many Maryland farms are already compliant, and MDA is continuing these efforts to assist all farms in meeting the compliance deadlines.

MDA and UME will be providing On Farm Readiness reviews starting in May of 2018 to further educate Maryland farms on the Produce Safety Rule requirements and methods to comply. Based on the number of outreach and educational activities already conducted by MDA and Extension, MDA believes it likely that for those who continue produce operations, they will be compliant by the FDA established timelines.

4) DLS recommends that MDA comment on why it went ahead with the midge treatment despite the reduction of the fiscal 2017 deficiency funding by the General Assembly, what is not being done as a result of using MDA's own general fund resources to do the treatments, and whether the treatments are expected to be effective given the likely limited area and amount of treatments.

In FY17, the midge infestation was a growing concern with both the agency and the Governor's office receiving complaints about the issue. Therefore, the Governor's supplemental

budget bill introduced during the 2017 session included an FY18 supplemental request for midge suppression. The legislature struck that supplemental appropriation. As the summer progressed, the already aggressive infestation intensified, necessitating action. Therefore, in FY18, Governor Hogan instructed the agency via Executive Order 01.01.2017.17 to conduct treatment to deal with the infestation. The agency executed a treatment with excess funds earned in FY18, which were the result of a settlement on an energy performance contract. The long term solution remains the Back River Wastewater Treatment Plant, which the state has heavily invested in, but MDA believes that these treatments in the interim will give much needed relief to local citizens.

This is a pilot program and a feasibility study; we partnered with DNR for the monitoring part of this treatment. Biologists at DNR conducted larval sampling and continuous adult sampling, as well as tracked complaints in the area. Anecdotal evidence suggests that the treatment was effective, and DNR monitoring recorded decreases across the entire treated area.

The eradication of midges is complex and requires technical expertise. In FY18, MDA will continue to provide technical assistance for the pest issue and additional treatments as directed by Governor's Hogan Executive Order.

5) DLS recommends that MDA comment on its long-term plan for balancing the policy goal of increasing cover crop use while budgeting within available resources.

MDA continues to refine the cover crop program and adopt changes to meet budget constraints. For the last 7 years, Maryland farmers have planted a record number of acres of cover crops. Cover crops are one of the most effective BMPs we can use, which is why Governor Hogan invested additional funding for the program last year. The legislature struck that supplemental appropriation, but MDA was able to use realigned funds to keep the program - and achievement of our goals - on track. In FY16 and FY17, Maryland expended more funds than were appropriated but was able to exceed Maryland's cover crop 2017 Watershed Implementation Program (WIP) milestone goals by 134%. For the current 2017-2018 season, MDA altered the cover crop program to balance funding sources, which has allowed farmers more flexibility for planting and provided choices to address soil health.

Prior to the FY18 program, the state incentivized farmers to grow both traditional as well as commodity cover crop. In FY 18, MDA eliminated the commodity incentive to stay within its

budget allowance. Farmers paid out of pocket for commodity acres, and together with the state program, Maryland has met its 2017 WIP goals.

6) DLS recommends that MDA comment on the long-term funding plan for black fly eradication and control activities.

MDA is committed to completing the pilot project. MDA conducted its first treatment for the black fly program in September 2017. Four additional treatments are planned for spring and summer 2018, pending environmental factors. Upon completion of the pilot program, MDA and DNR will work together to determine the effectiveness of the pilot program and any additional resources that may be necessary to control this issue in the future.

MDA is a pass-through agency for Rural Maryland Council (RMC), Southern Maryland Agricultural Development Commission (SMADC), and Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO). Please refer to the answers below for their testimony.

Rural Maryland Council

DLS recommends that MDA include Managing for Results measures for the Rural Maryland Council in its formal submission, that the Rural Maryland Council update its RuralStat website, and that the Rural Maryland Council comment on the strategies it is pursuing to improve rural broadband Internet access.

The Rural Maryland Council supports the inclusion of *Managing for Results* measures in the formal MDA budget submission. A mix of process measures, as well as performance measures, should be included. These measures include: the number of grant applications received, number of grant awards, number of jobs created or retained as a result of the grant awards, number of community events attended, number of new memberships received, and the number of research activities. The Council also currently tracks long-term data such as unemployment rates, per capital personal income, and the median household income. This data is included on the Council's website under RuralStat.

RuralStat is the Council's web-based set of dashboards showcasing selected demographics and indicators (including trends) for each of the state's 18 rural councils and six rural regions. The data was last updated by the Council in 2013. Funds have been budgeted during Fiscal Year 2018 to update RuralStat. The Council is scheduled to release a Request for Proposals, which will result in an updated, graphically rich, data visualization tool with built-in interactivity that includes information on each of the rural counties. The Council's Executive Committee is scheduled to approve the RFP at its upcoming meeting to be held on March 27, 2018.

The Rural Maryland Council Executive Director is currently leading the Task Force on Rural Broadband, Internet, Wireless and Cellular Service - a legislatively created body to assess rural connectivity and opportunities for federal grant programs. Much of the work of the Task Force has been to focus on strategies to lower installation costs for Internet Service Providers.

The lower population density of rural areas presents unique challenges in the deployment of broadband. The greater the geographical distances among customers, the larger the cost to providers looking to serve those customers. Therefore, there is less of an incentive for companies to invest in broadband in a rural region than in an area where there is more demand, more customers with higher incomes, and less cost to the service provider. Removing barriers for providers such as access to rights-of-way and access to state and local government assets as well as shortening the permitted process, could help lower costs to providers. Legislation is currently under consideration to extend the authority of the Task Force on Rural Broadband, Internet, Wireless and Cellular Service, as well as to expand the group's charge to include working with

Maryland's local governments to calculate broadband construction costs and enhance mapping capabilities (to further define areas that lack complete access to the Internet or wireless services).

The Rural Maryland Council currently funds small broadband projects through the Rural Maryland Prosperity Investment Fund - through a public private partnership model. As highlighted during a Regional Forum, cohosted by the Council and USDA Rural Development in May 2017, the public private partnership model is considered a national best practice; however, a major obstacle is the unavailability of state and federal investments in broadband infrastructure.

Southern Maryland Agricultural Development Commission

AMENDMENT FOR BUDGET LANGUAGE SECTION L00A12.13

L00A12.13 Tobacco Transition Program

Currently the language reads as: L00A12.13 Tobacco Transition Program – Special Fund Appropriation, provided that this appropriation shall be distributed to each of the counties in the Tri-County Council of Southern Maryland in the following allocations: Calvert County - \$333,000, Charles County - \$333,000, and St. Mary’s County - \$333,000 (Total \$999,000)

Language Change Needed: L00A12.13 Tobacco Transition Program - Special Fund Appropriation, provided that this appropriation shall be distributed to the Tri-County Council of Southern Maryland for purposes of land preservation for the five Southern counties based on the percentage of tobacco previously raised in each county. (Total \$999,000)

The language needs to be amended to reflect what it was in previous years, so that SMADC can distribute the Land Preservation money to the five Southern Maryland counties of Anne Arundel, Calvert, Charles, Prince George’s, and St. Mary’s, based off the Tobacco Transition formula for land preservation.



DEPT of AGRICULTURE Budget

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MARBIDCO Operating Budget Testimony Statement
(Pertaining to the Next Generation Farmland Acquisition Program)

for the

Maryland General Assembly

Stephen R. McHenry, Executive Director

February 2018

Introduction

Thank you very much for the opportunity to comment on the proposed FY 2019 State Operating Budget relative to how it impacts MARBIDCO's Next Generation Farmland Acquisition Program ("The Next Gen Program" or "NGFAP"). Governor Hogan has proposed that \$2.5 million be appropriated to The Next Gen Program next year which is the second half of a required payment mandated by legislation that passed in 2016 and 2017. MARBIDCO heartily supports the Administration's budget proposal as the Next Gen Program is already proving to be very helpful to beginning farmers who do not have the substantial personal resources available to purchase productive agricultural land. As reported previously, the Next Gen Program is the "missing tool" in the financial toolbox that permits MARBIDCO to help a certain cadre of young and beginning farmers who need access to good farmland. The Next Gen Program allows MARBIDCO to provide a young or beginning farmer with the money needed to make a large down-payment on a farm, in order to meet the equity contribution and projected cash flow requirements of a commercial lender, which then permits the lender to make a mortgage loan to help finance the balance of a farm purchase. An additional benefit of this program is that the farms that are being purchased are intended to be permanently preserved forever.

Mr. Gray has provided a very thoughtful analysis of MARBIDCO's overall financial programming in the DLS presentation, and a few additional statistics are provided below before more detailed information is offered concerning The Next Gen Program and the DLS recommendations.

MARBIDCO Celebrates its First Decade of Operations in 2017

The Maryland General Assembly established MARBIDCO a little more than a decade ago 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 farm and forest land (as over one-half of the State's land area is still privately-owned rural working land). MARBIDCO is an independent quasi-public instrumentality *that is required by law to become self-sustaining after Fiscal Year 2024* (with respect to its "core" rural business assistance activities). MARBIDCO greatly appreciates all the very fine support it has received from the Legislature and the Administration over the last decade!

Since becoming operational in the spring of 2007, MARBIDCO has funded some 457 farm, forestry and seafood projects located in all 24 counties (including Baltimore City), and totaling nearly \$49.3 million. In addition, MARBIDCO's investment in farm and rural business lending has leveraged nearly \$132 million in private commercial loan capital (yielding approximately a 3.5-to-1 leverage ratio). The attachment provides a county-by-county information concerning MARBIDCO's project investments.

MARBIDCO today continues to offer more than a dozen financial assistance programs to meet a variety of agri-business needs and leverage a variety of other resources (with the largest dollar volume going out in the form of low- or moderate-cost loans). Assisting young and beginning farmers, and helping existing farmers to diversify their operations are key objectives for MARBIDCO that directly pertain to the long-term viability of Maryland's agricultural industries. Since 2007, MARBIDCO has assisted with funding 184 value-added food or fiber processing projects, and helped 252 young or beginning farmers through various programs including assisting six beginning farmers (and their spouses) with farm purchases this year through the newly launched Next Gen Program. **The Next Gen Program is believed to be the only program available in Maryland today that can effectively help a young or beginning farmer to purchase a dairy farm (or other niche farming-type operation) where uneven business cash flows will hinder the making of debt service payments to cover very large land purchase costs.**

The Next Generation Farmland Acquisition Program

"The Next Gen Program is Helping Young and Beginning Farmers to Secure Long-Term Access to Farmland While Helping to Preserve that Land at the Same Time"

Supporting both the protection of much of the remaining productive farmland, as well as the next generation of farmers to work that land is very important to the sustainability of Maryland's future and good quality of life. The Next Generation Farmland Acquisition Program was established by MARBIDCO to help qualified young or beginning farmers who have trouble entering or staying in the agricultural profession because of relatively high farmland costs and a lack of access to adequate

financial capital to purchase farmland. The Next Gen Program is a relatively speedy farmland conservation easement option purchase program that is designed to help facilitate the transfer of farmland to a new generation of farmers, while effectively helping to preserve the subject agricultural land from future development in a simultaneous fashion. Most farm properties coming into the program are required to be at least 50 acres in size, unless they are contiguous to farmland that is already preserved from development.

The Maryland Young Farmers Advisory Board had for more than a decade strongly encouraged the creation and funding of the Next Generation Farmland Acquisition Program that was first authorized in *The Agricultural Stewardship Act of 2006* (but not funded until this year). Legislation passed in 2016 (HB 462) that was designed to partially help accomplish this aim was supported by a broad coalition of agricultural and conservation organizations including the Maryland Farm Bureau, the Partners for Open Space, and the Chesapeake Bay Commission, as well as the statewide associations representing county and municipal governments. A key provision of HB 462/2016 required \$5 million in first-time funding in FY 2018 for The Next Gen Program (in addition to the full regular funding that goes to support MAPLF's farmland conservation easement purchases). The *Budget Reconciliation and Financing Act of 2017* split this initial funding to be provided over two fiscal years, with the second distribution of \$2.5 million to be provided in FY 2019.

MARBIDCO defines a Next Gen Program beginning farmer as someone:

- a) having at least one year of farming experience (or has completed a qualified farm management training program that includes substantial fieldwork experience);
- b) not owning a farm or ranch (or owning less than 10 acres);
- c) not operating a farm or ranch as a principal operator for more than 10 years; and,
- d) expecting to substantially participate in the farming operation on the subject property.

MARBIDCO had \$2.5 million available in FY 2018 to fund the Next Gen Program option purchase projects as well as to cover its administrative expenses. Seven applicants from four counties located in Western Maryland, Southern Maryland and the Eastern Shore met the eligibility requirements for the program, and six have been selected to receive funding for their farm purchases this winter (totaling \$2.183 million). The total cost of the easement option contract purchases and administering the program in FY 2018 is about \$2.26 million, leaving a small amount of remaining funding to be carried over to FY 2019's program. The average farm size in this inaugural year of Next Gen Program farm purchases is about 132 acres, and the average Next Gen Program option payment is \$363,781. Moreover, the agricultural operations to be run by these Next Gen Farmers include a good variety of farm enterprise types: from dairy, beef and poultry/eggs, to grain and row crops, and vegetable and specialty crops.

Why is The Next Gen Program So Potentially Important to Maryland's Future?

Maryland agriculture today may be nearing an important juncture in terms of its long-term viability. According to the most recent USDA Census of Agriculture, conducted by the National Agricultural Statistics Service (NASS), the average age of the principal farm operator in Maryland today is 59 years old. The National Young Farmers Coalition (NYFC) conducted a nationwide survey released in November 2017, and citing a recent NASS research study, reported that farmers over the age of 65 now outnumber farmers under 35 by a margin of six to one, and U.S. farmland is overwhelmingly concentrated in the hands of older farmers. Moreover, NASS estimates that over the next five years nearly 100 million acres of U.S. farmland are expected to change ownership and will need a new farmer.

For Maryland, this trend is especially problematic because of the projected estimates of population growth and its potential to help drive the conversion of farmland into new development. Since 1950, Maryland has lost half of its farmland to residential and commercial development, and it is possible that thousands of additional acres of good quality farmland could be converted to non-agricultural uses in the future – especially if there are not younger farmers available and able to take over the existing farm operations or start new ones. Aspiring young farmers continue to report that they face often-insurmountable difficulties in purchasing farmland for the first time because they simply do not have the money available for a large down-payment that commercial lenders typically require.

In fact, surveys of young farmers in Maryland and nationally have with frequency found that “access to farmland” and “access to capital” are among the top concerns often listed by respondents. Moreover, the just released NYFC survey report of farmers under 40 years of age found that, by a good margin, the top concern of young farmers today is “getting access to farmland”. Whether these young farmers came from a farm family or were first-generation farmers, respondents to the survey cited “land access”—particularly finding and affording land on a farm income—as their top challenge. It was also the top reason cited as to why farmers quit farming and why aspiring farmers have not yet started. As such, it appears that The Next Gen Program is arriving on the Maryland scene at a very opportune time, and has the potential to become a nationwide model for other states and localities to follow as well.

How Does The Next Gen Program Work?

The financing tool that MARBIDCO uses when making The Next Gen Program farm purchase awards is the “easement option purchase”. The option is a contractual agreement that requires the “Next Gen Farmer” to use the farm that is purchased for agricultural purposes and to stop any development on the farm property during the option period (which is either four or seven years, depending on who a third-party default easement holder is).

Under the Program, MARBIDCO pays up to 51% of the Fair Market Value (FMV) of the agricultural land (only), and the Next Gen Farmer then has a period of several years to sell the permanent farmland conservation easement to a rural land preservation program that is able and willing to hold the permanent easement (thus extinguishing the development rights on the property forever). If MARBIDCO is repaid the amount of money advanced to the Next Gen Farmer from the proceeds of the sale of the permanent conservation easement, then MARBIDCO will use these monies to help fund future Next Gen Program option purchases. (About half of the Next Gen Program funds are anticipated to revolve in this fashion.)

If the Next Gen Farmer cannot sell the permanent easement within the specified timeframe, the option will be exercised and the permanent easement will be held by a third-party default easement holder (either a county agricultural land program or a private land trust). In this situation, MARBIDCO will have then effectively purchased a permanent land conservation easement at a big discount to FMV (but those funds unfortunately then do not revolve in the program).

In a nutshell then, The Next Gen Program allows MARBIDCO to provide a young or beginning farmer with the money needed to make a large down-payment on a farm, in order to meet the equity contribution and projected cash flow requirements of a commercial lender, which permits the lender to make a loan to help finance the balance of a farm purchase – with the added benefit that the subject farmland is on track to be permanently preserved as part of this process.

Conclusion

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 greatly cherish. The Next Generation Farmland Acquisition Program is a very important tool that enables MARBIDCO to assist young or beginning farmers with gaining ownership of much needed productive farmland, with the double-benefit of helping to preserve that rural land at the same time. And at the present time, this is the only real tool that MARBIDCO has in its toolbox to effectively help transition a young/beginning farmer to a dairy (or similar risk profile) operation.

As such, MARBIDCO respectfully requests that the DLS recommendation for the deletion of \$2.5 million in General Funds in the Operating Budget for The Next Gen Program be rejected. Moreover, MARBIDCO vigorously objects to the additional DLS recommendation that funding for The Next Gen Program be diverted from Special Funds that the Maryland Agricultural Land Preservation Foundation receives. The demand by existing farmers for the MALPF program is very robust at the present time, so taking funds from this program would cause conflict within the agricultural community.

MARBIDCO Projects Funded (by County)

County	Loans		Grant Incentives		Next Gen Program Option Purchases	
	Number Funded	MARBIDCO Funds	Number Funded	MARBIDCO Funds	Number Funded	MARBIDCO Funds
Allegany	0	\$ -	2	\$ 10,239	0	\$ -
Anne Arundel	8	\$ 205,840	3	\$ 70,000	0	\$ -
Baltimore	3	\$ 530,000	12	\$ 150,789	0	\$ -
Baltimore City	1	\$ 50,000	5	\$ 39,430	0	\$ -
Calvert	8	\$ 679,059	4	\$ 42,459	0	\$ -
Caroline	41	\$ 9,415,940	7	\$ 48,324	0	\$ -
Carroll	2	\$ 450,000	18	\$ 200,474	0	\$ -
Cecil	4	\$ 750,000	6	\$ 64,546	0	\$ -
Charles	6	\$ 1,557,055	3	\$ 21,757	0	\$ -
Dorchester	40	\$ 5,841,316	10	\$ 91,167	0	\$ -
Frederick	3	\$ 452,670	23	\$ 279,202	1	\$ 500,000
Garrett	8	\$ 783,225	3	\$ 31,985	0	\$ -
Harford	4	\$ 415,000	8	\$ 97,000	0	\$ -
Howard	1	\$ 100,000	15	\$ 103,400	0	\$ -
Kent	10	\$ 2,187,382	5	\$ 58,097	0	\$ -
Montgomery	3	\$ 565,000	7	\$ 60,590	0	\$ -
Prince George's	2	\$ 345,000	7	\$ 72,017	1	\$ 500,000
Queen Anne's	23	\$ 5,268,400	6	\$ 78,500	0	\$ -
Somerset	6	\$ 1,177,194	1	\$ 5,000	0	\$ -
St. Mary's	24	\$ 1,907,494	5	\$ 78,500	0	\$ -
Talbot	9	\$ 1,448,990	11	\$ 128,508	1	\$ 322,886
Washington	7	\$ 1,028,460	14	\$ 138,691	3	\$ 859,802
Wicomico	34	\$ 6,353,135	6	\$ 36,226	0	\$ -
Worcester	16	\$ 3,257,120	5	\$ 58,364	0	\$ -
Regional or Statewide	0	\$ -	12	\$ 333,100	0	\$ -
Totals*	263	\$ 44,768,280	188	\$ 2,298,364	6	\$ 2,182,688

MARBIDCO Project Investment Activity – Statewide

Counties Where Projects Funded:	24		
Loans Made By MARBIDCO:	263	\$	44,768,280
Grant Incentives Made By MARBIDCO:	188	\$	2,298,364
Option Purchases Made By MARBIDCO:	6	\$	2,182,688
Total Project Requests Funded:	457	\$	49,249,332
<i>Total All Financial Requests Received:</i>	<i>638</i>	<i>\$</i>	<i>67,743,075</i>
Commercial Lender Leverage:		\$	131,143,308
Total Young or Beginner Farmer Projects:	252	\$	36,296,596

* Five grants have been shared by multiple counties