



Maryland Department of Agriculture

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Agriculture | Maryland's Leading Industry

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February 10, 2017
SENATE BUDGET AND TAXATION COMMITTEE
PUBLIC SAFETY, TRANSPORTATION AND ENVIRONMENT SUBCOMMITTEE

February 13, 2017
HOUSE APPROPRIATIONS COMMITTEE
TRANSPORTATION AND ENVIRONMENT SUBCOMMITTEE

The Maryland Department of Agriculture (MDA) is a relatively small agency that serves not only the 12,200 farm families and thousands of related food and agricultural businesses, but all Marylanders each and every day.

Due to budget reductions over the past several years, MDA has prioritized its regulatory activities and service programs. The agency works closely with federal, state and local partners to leverage additional funding and fees from the regulated industry to provide services that protect Maryland consumers and businesses.

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 fairness in the marketplace. Agriculture *will* remain a strong economic force in Maryland.

Agriculture is Maryland's most important industry and a major contributor to our economy. A recent University of Maryland study showed the **impact of agriculture on Maryland's economy amounts to \$8.25 billion annually and 45,600 jobs** – and that does not include our equine industry. MDA's budget reflects the agency's mission and priorities and integrates new federal and state regulatory requirements.

The Agency's Mission and Work

MDA plays an important role in protecting the environment, strengthening our economy and ensuring the well-being of Maryland's citizens.

- **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 300,000 acres of prime farm land on 2,218 properties throughout Maryland's 23 counties since its inception in 1977,

representing a public investment of more than \$682 million. 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 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:** As a result of the Farm to School Program, now in its 9th year, Maryland is the first state in the nation to have all of its county public school systems participate in Homegrown School Lunch Week and is recognized as a national leader in the farm-to-school effort. Maryland schools rank 9th in the nation for local food procurement. Our schools spent \$18 million on local food served in schools including milk, meat, poultry, apples, tomatoes, peaches, watermelon and sweet corn, according to a recent USDA Farm to School Census.

- **Environmental Protection:** MDA is committed to assist Maryland farmers in implementing conservation practices to reduce nutrient runoff and soil erosion, leading to a healthier Chesapeake Bay:

- **PMT** law provides adequate time for farmers to fully understand and plan for new requirements, and includes a phase-in with full implementation by 2022; the law also enacts an immediate ban of additional phosphorus on soils highest in phosphorus.

- **Animal Waste Technology Manure to Energy Projects** - The Maryland Department of Agriculture's (MDA) Animal Waste Technology Fund provides incentives to companies that demonstrate new technologies on farms and provide alternative strategies for managing animal manure. These technologies may generate energy from animal manure, reduce on-farm waste streams, and repurpose manure by creating marketable fertilizer and other products and by-products. Approximately \$3 million was available for the Fiscal Year 2015 grant program. In 2014, MDA awarded a \$970,000 grant to Biomass Heating Solutions, Inc. (BHSL), for a manure-to-energy project at a Dorchester County poultry farm. Since 2015, six projects have been approved totaling over \$3.7 million in state funding.

- **Cover Crops:** For another consecutive year Maryland farmers continued to plant a record amount of cover crops achieving increased nutrient reductions and improving soil health.

- **Technical Assistance:** Farmers not only need cost share assistance, they need the technical expertise of experienced soil conservation district staff to plan, design, and install the projects. Since the MACS program started in 1984, farmers have spent nearly \$26 million of their own money to match more than \$130.8 million in state and federal funds to install more

than 22,000 water quality projects (not including annual practices like planting cover crops). Installation of agricultural Best Management Practices on farmland is a key feature of Maryland's plan submitted to the U.S. Environmental Protection Agency to reduce nutrients entering into the Bay. Agriculture exceeded each of its 2-year milestones in 2011, 2013 and 2015 and is on track to meet the 2017 midpoint goal of 60 percent nutrient reduction towards the 2025 Chesapeake Bay water quality goal.

- **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 about 2,100 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.

- **Maryland Farm and Harvest:** MDA developed and assisted in raising funds for the 13-part series *Maryland Farm & Harvest*, which since its debut in 2013, has been the number one local program on Maryland Public Television. The series is co-produced by Maryland Public Television (MPT) and MDA. It is designed to entertain and inform the Maryland public about the state's farmers, their work with the land and resources, production of food and fiber for our society, challenges, hopes and dreams, and their future. (Five new jobs were created for this project, which has been renewed for a fifth season.) www.mpt.org/farm

Issues and Recommended Actions

1) The Department of Legislative Services (DLS) recommends that MDA comment on the trends in pet food registrations.

Pet food registrations have shown normal fluctuations due to products being discontinued and new products being added. The registrations have only been tracked the past few fiscal years.

The registrations totals are as follows:

FY 124,600

FY 134,650

FY 144,700

FY 154,525

FY 164,085*

*Registrations are still being recorded for FY 16.

2) *DLS recommends that MDA comment on the ability to staff its regulatory programs.*

State Board of Veterinary Medical Examiners

The State Board of Veterinary Medical Examiners has had staffing challenges over the last year. Now, however, the Board staff is stabilizing and in the process of reorganizing and redeploying staff functions. Efforts are also being made to move many functions online.

Plant Protection and Waste Management

The inspection numbers in 2015 were down due to the retirement of 2 permanent nursery inspection staff members. In 2016, two contractual employees were hired to fulfill the duties of the retired staff. These positions have since been converted to full-time MDA positions.

Pesticide Regulation

MDA is currently in the process of filling positions related to its regulatory programs. Once filled, the rate of inspections should return to normal.

3) *DLS recommends that MDA comment on the inevitability of farmland conversion to developed land.*

MDA recognizes the importance of preserving productive farmland in Maryland. The Chesapeake Bay Agreement not only focuses on restoration efforts but also addresses land-use changes within the watershed. MDA is committed to limiting the loss of farmland and works collaboratively with the Maryland Department of Planning and the Department of Natural Resources through the Rural Legacy Program, Maryland Agricultural Land Preservation Program and Program Open Space to support land preservation.

4) *DLS recommends that MDA comment on why the compliance and enforcement inspections and positions report has not been submitted.*

MDA has provided compliance/enforcement information pertaining to the Nutrient Management Program to MDE. MDE has taken the lead in developing this report as the bulk of regulatory programs fall under their authorization. MDE intends to submit the report by February 10th.

5) *DLS recommends that MDA comment on its plans for using geospatial data to optimize cover crop funding for nutrient loading reductions and on how it will address the fiscal 2018 \$522,545 shortfall in cover crop funding.*

The new cover crop geospatial database is being developed to streamline program administration. The new system is intended to be operational for use in FY 18.

MDA will manage the 2017 budget to address cover crop shortfalls to the extent feasible. Outstanding shortfalls may be addressed with adjustments to the 2018 cover crop incentive payments and use of the final Chesapeake Bay Restoration Fund revenue payment in August 2017.

6) DLS recommends that MDA comment on why it is assumed that the fiscal 2018 through 2022 workloads will be consistent with the workload in fiscal 2016. It should also address what staffing and funding levels would be necessary under alternative workload scenarios, such as substantial Conservation Reserve Enhancement Program contracts expiring, increased best management practice (BMP) implementation for nutrient trading, and a change in the Chesapeake Bay water quality model requiring additional agricultural BMPs in order to meet the Total Maximum Daily Load. Finally, DLS recommends that MDA comment on whether soil conservation district staffing is an appropriate use of the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund and whether a cap of \$3.3 million should be instituted for this purpose.

EPA is scheduled to finalize the new model at the end of FY 17 and will be providing final nutrient reduction targets in the summer of 2017. Loading figures and workload needed to address these are unknowns at this juncture. MDA has used the 2017 levels of workload to project staffing needs as an interim estimate.

Soil conservation district staffing is an appropriate use of Chesapeake and Atlantic Coastal Bays 2010 Trust Fund. Agricultural BMPs are the most cost effective means of addressing nutrient reductions. The availability of technical assistance (for resource evaluation, BMP design, construction oversight, etc.) is essential to BMP implementation. Use for SCD technical assistance is consistent with the current uses of Chesapeake and Atlantic Coastal Bays 2010 Trust Fund, which covers the cost of technical assistance as a component within the cost of non-agricultural projects' implementation IT funds.

MDA is a pass-through entity for MARBIDCO, RMC, and MAERDAF. Any funding questions concerning the following responses should be directed to them.

7) DLS recommends that MDA comment on the fundamental needs of rural Maryland and on how the funding from the Rural Maryland Prosperity Investment Fund will be targeted to address these needs in fiscal 2018.

Overall, rural Maryland reports larger percentages of unemployment and poverty as compared to the rest of the state. Residents and, young people in particular, from all of rural Maryland but specifically in far Western Maryland and lower Eastern Shore are relocating to more urban areas in search of economic advancement opportunities. Along with a deteriorating infrastructure, significant development pressure, a lack of transportation options and a lack of healthcare providers, the economic picture of our State's underserved and economically distressed rural areas does not match the recovered suburban and urban Maryland picture.

The Rural Maryland Prosperity Investment Fund (RMPIF) is intended to improve the quality life in Maryland rural areas. According to the formula established under the RMPIF statute, Article – State Finance and Procurement, Section 2- 207, the disbursement of revenue appropriated to the Fund shall be allocated in the following manner:

- one-third shall be allocated equally to the five regional councils as grants for rural regional planning and development assistance;

- regional infrastructure projects that directly involve two or more units of local government, not to exceed one-fourth of the total cost of any particular project;
- rural entrepreneurship development, including programs and activities serving rural communities undertaken by nonprofit organizations and institutions of higher education;
- rural community development, programmatic assistance, and education, with money to be divided equally between the Council and the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDAF); and
- rural health care organizations.

The Rural Maryland Council Executive Board, composed of representatives covering forty different organizations and representing a membership consisting of those organizations, believes that building relationships within regional jurisdictions, leveraging partnerships, promoting entrepreneurship, building capacity and strengthening our health resources will positively impact the quality of life in rural communities.

DLS Recommended Reductions

1) Next Generation Farmland Acquisition Program - \$2.5 million reduction – Response from MARBIDCO

MARBIDCO supports the Governor’s position to include \$2.5 million for the Next Generation Farmland Acquisition Program in the FY 18 Operating Budget. This is a very important program to rapidly help beginning farmers to obtain ownership of some quality farmland for the first time when the land is changing hands (and effectively preserving that farmland from future development too, all within the same transaction). Therefore, we urge rejection of the DLS recommendation to cut these funds from the FY 18 State Budget and BRFA bills.

2) Rural Maryland Council - \$2.0 million reduction – Response from RMC

Demand is high for this program. During the FY 17 request for proposals, the Rural Maryland Council received a total of 43 applications under the RMPIF for a total of \$3,279,377.47 in requests. The Grant Review Board approved 23 RMPIF grants totaling \$1,389,166.00. **For MAERDAF, the Council received 95 applications with a total of \$2,026,212.82 requested.** The Grant Review Board approved 42 grants totaling \$555,917.00. Overall, the Council received over \$5 million in funding requests for FY 17. The Council has historically requested each year \$6 million in funding under RMPIF.

The sections outlined under the RMPIF statute, championed by the Rural Maryland Council with bi-partisan support of the State Legislature, address the current needs of rural Maryland: regional economic development and planning; entrepreneurship, infrastructure, health care and rural community development. The Rural Maryland Council has resolved to research and study

several larger macroeconomic issues as acknowledged by the Maryland Department of Legislative Services. These issues are not being addressed by any other entity, public or private, in Maryland and looks to support future planning and development activities by the Council. The Council recently approved a multi-year strategic plan to better address the needs of rural Maryland.

In the immediate future, the Council looks to continue its commitment to the Rural Maryland Prosperity Investment Fund and its composite components.

The State's five regional councils serve to coordinate regional economic development and to leverage outside funding opportunities. Each council serves a three-county area that is geographically, culturally and socio-economically similar. By working together and ignoring jurisdictional lines when need be, the rural regions have become stronger and more effective in finding solutions to the challenges before them.

Between one-third and two-thirds of any economy's growth is attributable to entrepreneurial activity. Finding ways to transform the resourcefulness, innovation, and self-reliance that is so often found in rural communities into growing, innovative businesses is a challenge many rural economic development professionals are increasingly embracing as an effective and important strategy for growing the tax base, expanding economic opportunities, and creating sustainable local economies. Because of the strong correlation between a high level of entrepreneurship and high economic growth, rural entrepreneurship may well be the best economic development option for communities where citizens are typically poorer, older and more isolated from markets than their urban or suburban counterparts. Traditional economic development strategies that tend to focus on recruiting larger companies to relocate their operations to the region may not work in rural communities that often do not have the infrastructure or skilled or low-wage labor force necessary to attract or keep big employers. Focusing more on helping existing businesses grow and new businesses start offers better long-term prospects for many rural areas.

Infrastructure improvement – from traditional public facilities like roads and sewage treatment plants to such increasingly important amenities as workforce housing – are vital to healthy, flourishing communities. For instance, about half of the State's major sewage treatment facilities and 90 percent of small community waste water systems are located in rural areas, and many of these are experiencing difficult problems associated with aging collection and treatment infrastructure. Broadband access remains an issue in rural areas as almost 20% of rural residents lack internet access. To attract and retain young people and grow businesses, broadband access is essential.

Health care access and delivery is a major problem in the State's rural areas. Residents often need to travel great distances to seek health care services due to health workforce shortages. This problem is particularly acute in specialty care such as primary care providers, dentistry, mental health and other medical specialty areas.

Unlike their counterparts operating near or in the urban centers, nonprofits operating in rural communities typically lack access to public sector (county or municipal) or private sector

(corporate and private foundation) philanthropic opportunities. Moreover, given the economic distress found in the rural regions of the State, many local governments do not have the financial wherewithal to address these important developmental needs. Consequently, a serious resource deficit existed where, in many instances, the need had been the greatest. The General Assembly created the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDAF) in 2000 in order to increase the overall capacity of rural-serving, nonprofit organizations that promote statewide and regional planning, economic and community development, and agricultural and forestry education. In addition, MAERDAF provides targeted funding to community colleges that provide training and technical assistance to agricultural businesses.



MARBIDCO
growing rural ventures™

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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 2017

Introduction

Thank you very much for the opportunity to comment on the proposed FY 2018 State Budget relative to how it impacts MARBIDCO's Next Generation Farmland Acquisition Program (NGFAP). The Governor has proposed that \$5 million be included for the NGFAP in the State's operating budget package spread equally over the next two fiscal years (FY 2018 and FY 2019). MARBIDCO supports this action as it believes that getting the NGFAP operational as soon as possible will be very helpful to young or beginning farmers who do not have the substantial personal resources available to purchase productive agricultural land. An additional benefit of this program is that the farms that are being purchased are very likely to be permanently preserved forever. This will be explained below in greater detail.

During the 2016 Session, the General Assembly passed legislation (House Bill 462) generally pertaining to the required repayment of \$90 million in real estate transfer taxes that were diverted from various dedicated special fund purposes in 2006 (including rural land preservation programs). Under HB 462/2016, \$5 million of these funds are directed to be used to launch the Next Generation Farmland Acquisition Program in FY 2018. Given the State's challenging fiscal situation, the Administration has recommended that these funds be divided in half and provided over two fiscal years to lessen the General Fund impact in FY 2018. MARBIDCO supports this prudent action. **Accordingly, MARBIDCO respectfully requests that the DLS recommendation to eliminate the remaining \$2.5 million funding for the NGFAP in the FY 2018 State Budget (and the companion 2017 Budget Reconciliation and Financing Act) be rejected.**

Additional Information Concerning the NGFAP

The Next Generation Farmland Acquisition Program (NGFAP) was authorized by the Maryland General Assembly (in 2006 and again in 2008) to enable the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) to help qualified young and

beginning farmers who have trouble entering the agricultural profession because of relatively high farmland costs and a lack of access to adequate financial capital. The NGFAP is essentially a rapid response farmland conservation easement option purchase program that is designed to help facilitate the transfer of farmland to a new generation of farmers, while also effectively helping to preserve the subject agricultural land from future development. The Governor's FY 2018 State Operating Budget request provides MARBIDCO with \$2.5 million to help launch the NGFAP this summer, with the intended benefit of helping young and beginning farmers to gain access to productive farmland in the near term AND effectively helping to preserve that agricultural land from future development at the same time.

The demand for NGFAP resources is expected to be quite high during the first year. MARBIDCO conducted a series of seven outreach meetings with stakeholder groups during the summer and fall of 2016 to solicit input and receive feedback on the design of the program's application and ranking process. Included in these meetings were State and county land conservation program administrators (including MALPF and DNR staff), local and regional agricultural development officials, farm and rural land conservation organization advocates (including local land trust staff), as well as, the Maryland Young Farmers Advisory Board. We are pleased to report that a broad consensus was reached on how to best move forward, and that MARBIDCO is now fully ready to move forward with launching the program on July 1, 2017.

The key tool that MARBIDCO will deploy in making NGFAP program awards is the "easement option purchase contract". The option involves a contractual obligation not to develop the farm property until a permanent easement sale is concluded in the future with a land conservation program that will hold and administer the easement (such as MALPF, Rural Legacy, county PDR program, or local land trust). Using the option contract, MARBIDCO will pay no more than 51% of the full Fair Market Value (FMV) of the agricultural land and the beginner farmer will have a period of between four to seven years to sell the permanent conservation easement to a rural land conservation program (thus extinguishing the development rights on the property in perpetuity).

With MARBIDCO purchasing the easement option, the affected beginner farmer would then have the money available for a down-payment to be able to meet the equity requirement that a commercial lender would normally require under its credit underwriting standards before approving a mortgage loan.

MARBIDCO estimates that six to eight beginner farmers (those with 10 years or less farming experience) will be assisted through the NGFAP in FY 2018, and approximately 750 acres of farmland will be preserved.

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 so greatly cherish. The Next Generation Farmland Acquisition Program is expected to be a very important tool to enable MARBIDCO to assist young and beginning farmers with gaining ownership of productive farmland, with the double-benefit of

helping to preserve that rural land at the same time. **As such, MARBIDCO respectfully requests that the DLS recommendation for the additional funds reduction of \$2.5 million be rejected.**