Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 294 (Delegate Morhaim, *et al.*)
Environmental Matters

Agriculture - Small Farm Protection Loan Program

This bill establishes a Small Farm Protection Loan Program within the Maryland Department of Agriculture (MDA) to make loans at a preferred rate of interest to small farms to finance the implementation of "sustainable agriculture techniques" that: (1) promote the long-term profitability of small farms; (2) encourage environmentally sound practices; and (3) promote a healthy quality of rural life. The bill establishes a Small Farm Protection Loan Fund and requires the Governor to transfer $20 million from the Revenue Stabilization (Rainy Day) Fund to general fund revenues in the fiscal 2001 operating budget for deposit into the fund. MDA must deposit funds derived from loan payments into the fund. MDA must submit a report regarding the condition of small farms in the State to the Governor and the General Assembly by December 1, 2000, and each December 1 thereafter.

The bill takes effect June 1, 2000.

Fiscal Summary

State Effect: Transfer of $20 million in FY 2001 from the Revenue Stabilization Fund through the general fund to the new special fund. Additional increase in special fund revenues beginning in FY 2001 from loan payments, application fees, and any penalties collected. Special fund expenditure increase of $153,200 in FY 2001 to administer the program; additional special fund expenditure increase beginning in FY 2001 in loans to eligible farms. The penalty provision of the bill is not anticipated to significantly affect State operations or finances.

Local Effect: The penalty provision of the bill is not anticipated to significantly affect local operations or finances.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill authorizes MDA to make direct loans out of the fund to small farms at an interest rate that will make the program self-supporting. The interest rate may not exceed the prime rate, and MDA must take into account program expenses, including administrative expenses and possible losses, in establishing the interest rate. The loans must be secured as provided by the bill and may not exceed $250,000 to an individual qualifying small farm or $2 million to a cooperative of small farms.

MDA may: (1) collect an application fee not exceeding $100; (2) contract for services relating to the program; (3) adopt regulations to implement the program; (4) extend or modify the terms of an existing program loan; (5) establish the principal amount and maturity of a program loan, not exceeding 15 years; (6) enforce repayment; (7) foreclose mortgages used as security; (8) obtain and enforce a deficiency judgment for a program loan; and (9) require and obtain appraisals, credit information, and other information necessary to make sound loans. A person may not knowingly make, or cause to be made, a false statement or report to influence MDA on a loan application or a previous loan. A person who violates the prohibition is subject to a fine of three times the loan amount with interest of 6% from the date of the loan. MDA may enforce the penalty in the appropriate court.

Current Law: Under the Farm Disaster Loan Program, MDA provides loans to farmers at a preferred rate of interest to allow farmers to rebuild, repair, or recover farmlands, buildings, crops, or livestock damaged or destroyed by a natural disaster.

Background: Based on the Governor's budget submission, at the end of fiscal 2001, there will be over $600 million in the Rainy Day Fund in excess of the 5% requirement.

State Fiscal Effect: The bill requires the Governor to transfer $20 million from the Revenue Stabilization Fund to general fund revenues in the fiscal 2001 operating budget for deposit into the Small Farm Protection Loan Fund. Because the number of farmers that will apply for loans is unknown, an estimate of the amount of loans provided in any given year cannot be determined at this time. In any event, loans could not exceed $250,000 to an individual qualifying small farm or $2 million to a cooperative of small farms. In 1999, there were 12,400 farms in the State. Based on the percentage of farms in 1997 with annual revenues less than $250,000, it is estimated that approximately 9,300 farms would be eligible to apply for loans under the bill.

Excluding the dollar amount of loans made, special fund expenditures could increase by an estimated $153,200 in fiscal 2001, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one administrator, one loan processor, one fiscal specialist, and one office secretary to administer the loan program. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The estimate assumes that MDA will administer the program. Legislative Services advises that should MDA contract out the administration of the program, as allowed by the bill, costs would presumably decrease.

Salaries and Fringe Benefits	$125,200
Vehicle Purchase	12,900
Loan Account Software	11,500
Operating Expenses	3,600
FY 2001 Administrative Expenditures	**$153,200**

Future year expenditures (exclusive of actual loans made) reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses, including software maintenance, as follows:

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures (exclusive of loans)	$176,600	$184,900	$193,600	$202,700

Special fund revenues will increase by an indeterminate amount beginning in fiscal 2001. Revenues to the fund will include: (1) $20 million from the Revenue Stabilization Fund in fiscal 2001 only; and (2) loan payments, including principal and interest. The amount of revenue that will be deposited into the fund from loan payments cannot be reliably estimated at this time. It depends largely on the number and amount of loans made, the interest rate, and the terms of the loans established by MDA pursuant to each loan agreement. The amount of revenue generated from loan payments will in large part determine the amount of funds available to make additional loans to small farms in future years.

It is assumed that MDA will also deposit revenue from application fees and penalties into the fund. Depending on the number of applications submitted, revenues from application fees will vary; however, as provided by the bill, the fee may not exceed $100. Any penalties collected pursuant to the bill cannot be reliably estimated at this time; however, it is assumed that the penalty provision will not significantly affect State operations or finances.

Small Business Effect: Eligible farms (those with an annual gross income of less than

$250,000) could receive loans in an amount not exceeding $250,000 each or $2 million for a cooperative of eligible farms to finance the implementation of sustainable agricultural techniques that promote the long-term profitability of small farms, encourage environmentally sound practices, and promote a healthy quality of rural life.

As the Water Quality Improvement Act of 1998 is implemented, many agricultural operations will need to address the sustainability of their current agricultural techniques. The loans provided by this bill would help eligible farmers finance any changes in those practices that will be made pursuant to that law or otherwise. To participate in the loan program, eligible farmers must pay any application fee assessed by MDA (not exceeding $100), provide a loan security, and make loan payments based on the terms of the loans that MDA prescribes.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Agriculture, Department of Legislative Services

Fiscal Note History: First Reader - March 7, 2000
cm/jr

Analysis by: Lesley Frymier

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510