

D30N00
Maryland Food Center Authority

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Nonbudgeted Fund	\$3,372	\$3,926	\$4,071	\$145	3.7%
Adjusted Nonbudgeted Fund	\$3,372	\$3,926	\$4,071	\$145	3.7%
Adjusted Grand Total	\$3,372	\$3,926	\$4,071	\$145	3.7%

- The fiscal 2015 operating expenses of the Maryland Food Center Authority (MFCA) increase by \$145,186, or 3.7%, compared to fiscal 2014.
- Major changes occur primarily in the area of personnel, utilities, and contractual services for landfill use and composting.
- MFCA's total operating revenue increases by \$126,353, or 2.6%, compared to fiscal 2014. Revenue increases result from inflationary adjustments, as determined by leases in the Wholesale Produce and Wholesale Seafood markets and at Sea Cap, as well as changes to operating expenses of the market which are charged to the tenants.

Personnel Data

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>
Regular Positions	33.00	33.00	33.00	0.00
Contractual FTEs	<u>1.80</u>	<u>1.20</u>	<u>1.20</u>	<u>0.00</u>
Total Personnel	34.80	34.20	34.20	0.00

Vacancy Data: Regular Positions

Note: Numbers may not sum to total due to rounding.

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- There are no changes in the number of regular positions or contractual full-time equivalents in MFCA in fiscal 2015.

Analysis in Brief

Major Trends

MFCA Retains Tenants and Responds to Tenants Needs: MFCA indicates that all units in the Wholesale Produce and Wholesale Seafood markets were rented in fiscal 2013. MFCA anticipates that all units will be rented in the two markets in fiscal 2014 and 2015. MFCA responded to the only priority 1 maintenance request received in fiscal 2013 within 14 days.

Composting Program Restarts: The Maryland Department of the Environment drafted regulations related to composting facilities, and MFCA's program restarted in June 2013 after having been unavailable since calendar 2011. MFCA anticipates that as a result of the ability to compost again that 26% of the waste generated at MFCA will not get into a public landfill in fiscal 2014.

Recommended Actions

1. Nonbudgeted.

Updates

Food Safety Modernization Act: In December 2010, Congress passed the Food Safety Modernization Act. This legislation is expected to impact MFCA and its tenants. The Food and Drug Administration is currently in the process of developing regulations to implement this legislation. The impact on MFCA will not be known until the regulations are complete.

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Operating Budget Analysis

Program Description

The Maryland Food Center Authority (MFCA), located at the Maryland Food Center in Jessup, Maryland is a nonbudgeted agency. MFCA has a mission of enhancing and providing economic growth opportunities for the State's agricultural-, seafood-, and food-related industries. MFCA develops and oversees authority projects. The three key components of MFCA are (1) the MFCA administration; (2) the Maryland Wholesale Produce Market; and (3) the Maryland Wholesale Seafood Market. MFCA also owns the Rock Hall Clam House in Kent County and is in the process of identifying tenants to lease space in the facility. MFCA also provides leases to SYSCO Food Services of Baltimore and Sea Cap, which are distribution companies, and a truck parking lot, operated by Bob's Transport, Inc. While located with the Maryland Food Center, these companies operate independently.

Tenants of the Wholesale Produce and Wholesale Seafood markets lease offices, storage, and dock facilities from MFCA. The key goals of MFCA are:

- to maintain safe, sanitary, and efficient facilities; and
- to maintain open communication with customers.

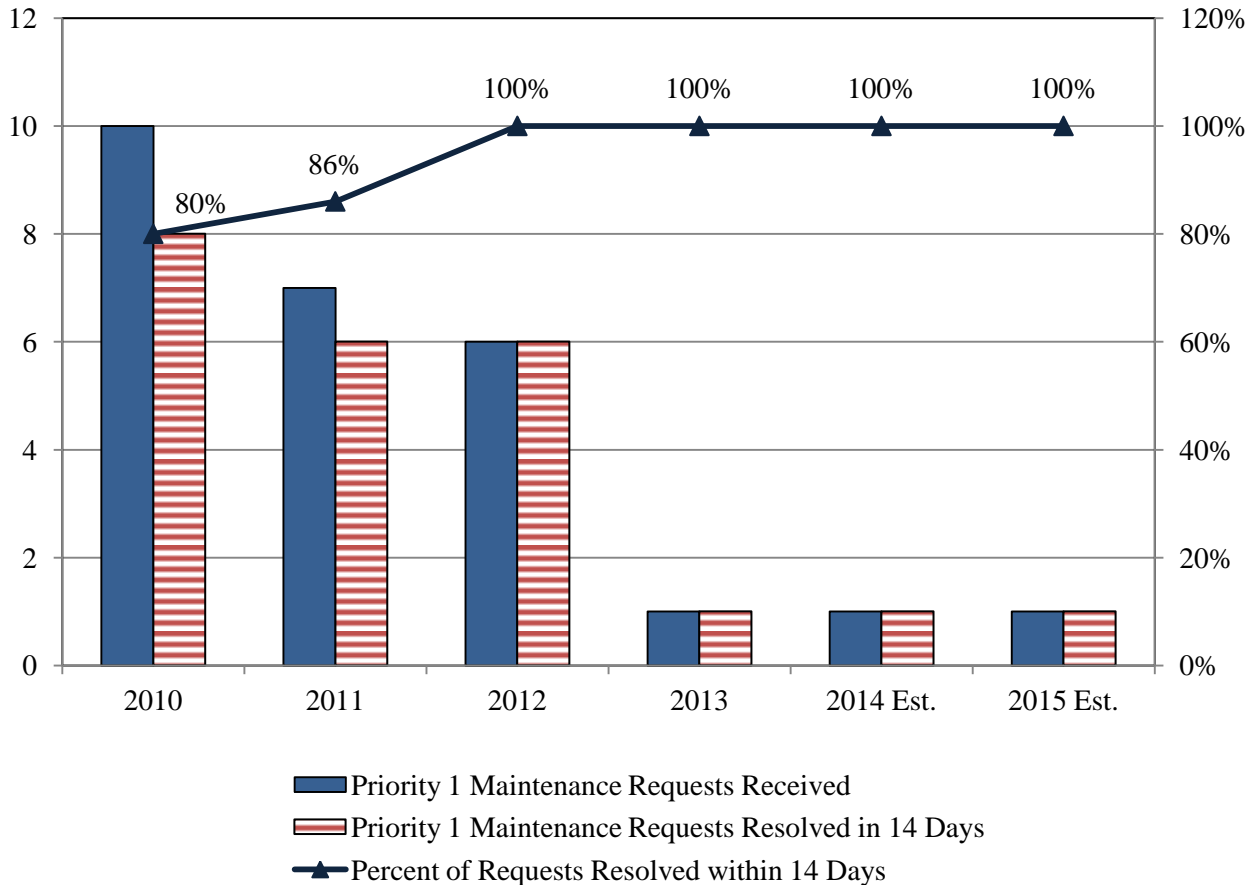
Performance Analysis: Managing for Results

1. MFCA Retains Tenants and Responds to Tenants Needs

MFCA operates as a landlord to the tenants occupying the Wholesale Produce and Wholesale Seafood markets. As a result, some measure of the success of MFCA is necessarily related to its ability to maintain good relations with the tenants and respond to the needs of the tenants. One measure of MFCA's success is an examination of the vacancy rates of the market stalls. MFCA indicates that all units were rented in the two markets in fiscal 2013 and are expected to be rented in fiscal 2014 and 2015.

As shown in **Exhibit 1**, MFCA's performance in timely resolution (within 14 days) of priority 1 maintenance requests resolved improved from 80% in fiscal 2010 to 100% in fiscal 2012. MFCA was able to maintain this performance in fiscal 2013. MFCA only reported receiving one priority 1 maintenance request in fiscal 2013. Priority 1 maintenance requests are those that require immediate attention, for example, water leaks or safety hazards.

**Exhibit 1
Maintenance Requests Completed
Fiscal 2010-2015 Est.**

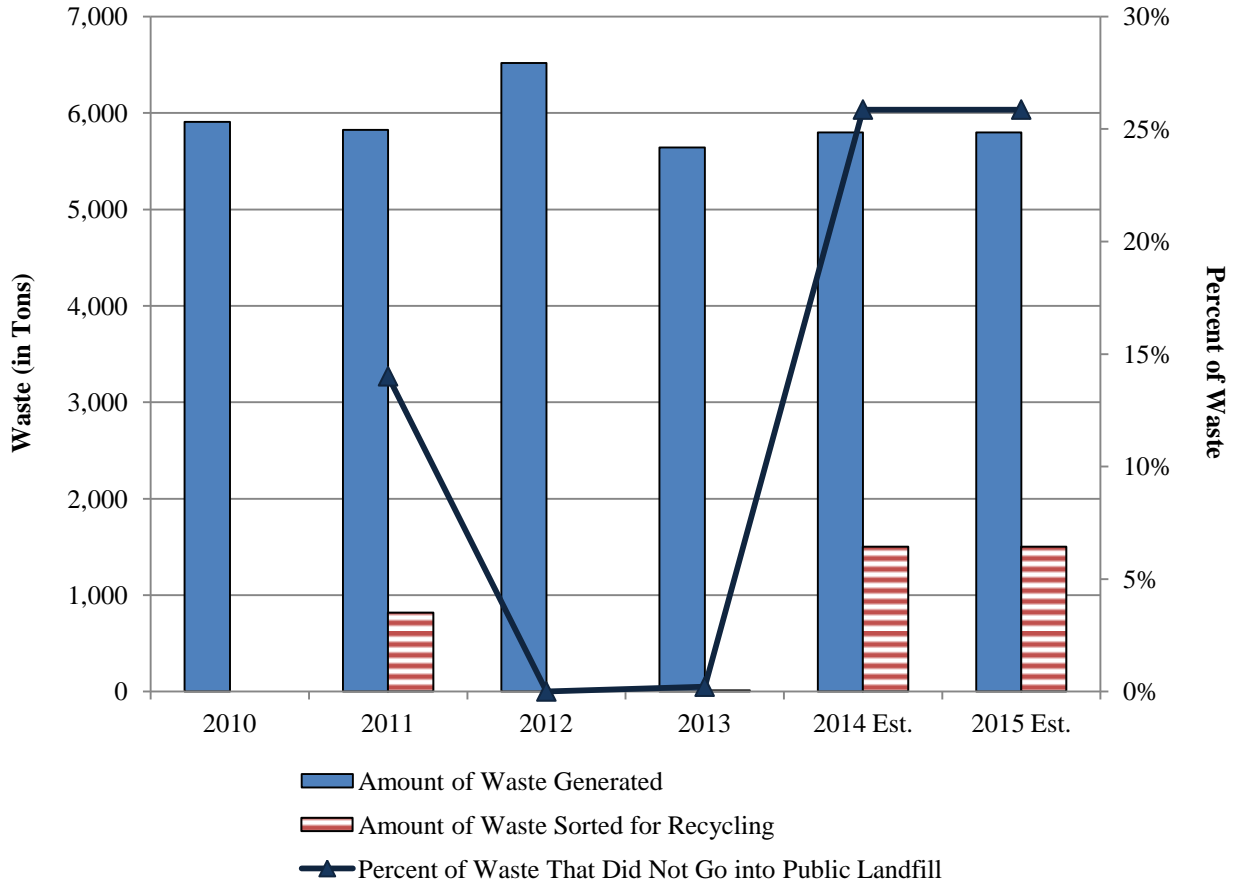


Source: Maryland Food Center Authority; Governor’s Budget Books

2. Composting Program Restarts

MFCA began to implement a composting and recycling program at the Wholesale Produce and Wholesale Seafood markets in May 2010 in an effort to reduce the amount of waste going into a landfill. However, the composting program was put on hold in calendar 2011 as a result of the Maryland Department of the Environment (MDE) determining that composting food waste was not an approved practice in Maryland. In particular, MDE was concerned that no regulatory program was in place related to the practice. MDE has since drafted regulations. MFCA indicates that the composting program resumed June 28, 2013. As shown in **Exhibit 2**, MFCA anticipates that the percent of waste that will not go into a landfill will increase to 26% in fiscal 2014 and 2015.

**Exhibit 2
Landfill Avoidance
Fiscal 2010-2015 Est.**



Source: Maryland Food Center Authority; Governor’s Budget Books

Fiscal 2014 and 2015 Budget

MFCA, a nonbudgeted fund agency, submits its budget to the General Assembly for informational purposes only, and an analysis is only prepared in alternate years.

MFCA’s fiscal 2014 budget increases by \$554,145, or 16.4%, compared to the fiscal 2013 actual expenditures. A portion of the increase is the result of lower than expected expenditures in fiscal 2013, which distorts the magnitude of changes between fiscal 2013 and 2014. As initially developed, the fiscal 2014 budget was only \$168,821 higher than fiscal 2013.

As shown in **Exhibit 3**, the fiscal 2015 operating expenses of MFCA increase by \$145,186, or 3.7%, compared to fiscal 2014.

**Exhibit 3
Proposed Budget
Maryland Food Center Authority
(\$ in Thousands)**

How Much It Grows:	Nonbudgeted <u>Fund</u>	<u>Total</u>
2014 Working Appropriation	\$3,926	\$3,926
2015 Allowance	<u>4,071</u>	<u>4,071</u>
Amount Change	\$145	\$145
Percent Change	3.7%	3.7%

Where It Goes:

Personnel Expenses

Salaries primarily due to cost-of-living adjustments and increments	\$124
Employee and retiree health insurance	35
Employee retirement	20
Workers’ compensation premium assessment	11
Social Security contributions and unemployment compensation	-6

Other Changes

Water/sewage costs to more closely reflect recent experience	50
Exterminating services to upgrade rodent control as required by tenant’s third party audits	28
Projected purchases of software, applications, and data processing equipment as determined by information technology consulting firm.....	11
Depreciation of vehicles.....	10

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Where It Goes:

Advertising for the Wholesale Produce Market.....	7
Statewide personnel system allocation.....	7
Legal costs related to planned co-development of a lot near the Wholesale Seafood Market.....	5
Building supplies due to an increase in maintenance work by agency staff.....	5
Real property taxes	5
Security equipment based on recent experience	-4
Supplies for access passes due to fewer registrations	-5
Equipment and plumbing repairs partially offset by entrance gate repairs based on recent experience	-6
Depreciation of buildings and equipment	-10
Snow removal based on recent experience	-10
Maintenance equipment purchases	-11
T-1 computer lines no longer necessary for the Wholesale Seafood Market.....	-11
Electricity partially offset by gas	-12
Composting due to restart of the program more than offset by a decrease in landfill costs .	-95
Other	-4
Total	\$145

Note: Numbers may not sum to total due to rounding.

Personnel

Personnel expenditures increase by \$119,858 in fiscal 2014 and by \$184,406 in fiscal 2015. The majority of the increase in fiscal 2015 occurs in salaries (\$124,330) as a result of the cost-of-living adjustments and increments provided to employees. However, the majority of the increase in fiscal 2014 results from employee and retiree health insurance (\$55,903) and employee retirement (\$19,219).

Each year, MFCA budgets for a deferred compensation match for employees (\$11,458 in fiscal 2014 and 2015), although no expenditure for this purpose has occurred for several years. The \$600 deferred compensation match for State employees has not been available in recent years and as a result has also not been provided to State employees working at MFCA. The expenditures currently budgeted for this purpose in fiscal 2014 and 2015 in MFCA will not appear in the actual expenditures.

Landfill

MFCA has an objective to maximize the amount of waste that is recycled while minimizing the amount of landfill disposals. In fiscal 2014, landfill expenses are budgeted to increase by \$140,454, while a decrease of \$145,000 is projected for fiscal 2015. At the time of the fiscal 2014 budget development, composting facilities were closed by MDE because there was no regulatory program in place. As a result, fiscal 2014 expenditures for landfill costs were projected to be higher than fiscal 2013. However, as noted earlier, MFCA's composting program restarted in June 2013, and MFCA has planned in its fiscal 2015 budget for this change. In addition to the decrease in landfill expenses, the fiscal 2015 budget includes a \$50,000 increase for composting.

Water Use

MFCA initially anticipated level funding the water use in fiscal 2014 compared to fiscal 2013. However, the fiscal 2013 expenditures for water use came in higher than expected, resulting in the appearance of a decrease of \$96,086 in these expenditures in fiscal 2014. MFCA has increased the budget for water in fiscal 2015 (\$50,000) to more closely reflect the recent experience. However, the fiscal 2015 budget is \$46,086 lower than the actual expenditures in fiscal 2013. In part, this reflects changes in rules by Howard County which limits the ability to wash trucks and will have the effect of limiting water usage at MFCA.

Other Changes

MFCA has increased its planned expenditures for exterminating services in fiscal 2014 (\$26,677) and 2015 (\$28,000) for pest control due to increased requirements for tenant's third party audits.

MFCA Financial Statement

Exhibit 4 presents the modified statement of operations for MFCA. This statement is presented on the accrual method of accounting. MFCA anticipates an increase in net assets in fiscal 2014 (\$123,498) and fiscal 2015 (\$65,116).

Exhibit 4
Modified Statement of Operations
Fiscal 2013-2015

	<u>Actual 2013</u>	<u>Estimated 2014</u>	<u>Estimated 2015</u>	<u>% Change 2013-2014</u>	<u>% Change 2014-2015</u>
Revenue					
Produce Market Rent	\$1,430,555	\$1,469,550	\$1,513,637	2.7%	3.0%
Seafood Market Rent	541,204	536,200	552,286	-0.9%	3.0%
Charge Back Tenant Taxes	32,208	31,700	31,700	-1.6%	0.0%
SYSCO Rent	122,745	122,745	122,745	0.0%	0.0%
Sea Cap	110,737	113,939	116,793	2.9%	2.5%
Truck Parking Lot Rent	106,344	106,344	106,344	0.0%	0.0%
Charge Back Tenant Expenses					
Produce Market	841,749	1,143,407	1,181,693	35.8%	3.3%
Seafood Market	875,485	942,266	963,172	7.6%	2.2%
Rental Income	\$4,061,027	\$4,466,150	\$4,588,369	10.0%	2.7%
Entrance Fees	\$409,313	\$413,406	\$417,540	1.0%	1.0%
Miscellaneous	-318	10,000	10,000		0.0%
Interest	30,562	35,000	35,000	14.5%	0.0%
Total Operating Revenue	\$4,500,585	\$4,924,556	\$5,050,910	9.4%	2.6%
Expenses					
Operating Budget	\$3,196,686	\$3,705,020	\$3,844,342	15.9%	3.8%
Taxes	226,976	221,136	227,000	-2.6%	2.7%
Capital Facilities Maintenance & Depreciation	712,997	874,902	914,452	22.7%	4.5%
Total Expenses	\$4,136,659	\$4,801,058	\$4,985,794	16.1%	3.8%
Change in Net Assets	\$363,926	\$123,498	\$65,116	-66.1%	-47.3%

Source: Maryland Food Center Authority

MFCA has two types of rental income for the Wholesale Produce and Wholesale Seafood markets. The first is the rent for a unit that is occupied which appears in the budget for the administration of MFCA. The second type of rent is charge back, listed as Charge Back Tenant Expenses in Exhibit 4. Charge back plus entrance fees equal the operating expenses for each market and are used for the operating and maintenance costs of the market. As a result, the revenue for these two items varies between fiscal years based on the projected expenditures in the market. The figures presented for fiscal 2014 and 2015 are preliminary and would be expected to change with actual expenditures.

Fiscal 2014

Total operating revenue of MFCA increases by \$423,971, or 9.4%, in fiscal 2014 compared to the fiscal 2013 actual revenue. The majority of the increase (\$368,439) occurs in charge back tenant expenses reflecting budgetary changes between these years.

Rents at the Wholesale Produce Market and Wholesale Seafood Market, as well as rent paid by Sea Cap, increase based on the consumer price index. However, actual rent received may vary from this level due to factors such as late fees or rent abatements. In fiscal 2014, MFCA estimates rent at the Wholesale Seafood Market will remain essentially flat, while growing by nearly 3% at the Wholesale Produce Market and Sea Cap.

An increase in miscellaneous income in fiscal 2014 is largely due to an accounting procedure in fiscal 2013 that results in abandoned capital projects being shown as a decrease.

Total expenses are expected to increase by \$664,399, or 16.1%. The majority of the increase occurs among operating expenses; however, capital facilities, maintenance, and depreciation costs increase by \$161,905.

Fiscal 2015

Total operating revenue is expected to increase by \$126,354, or 2.6%, in fiscal 2015 compared to fiscal 2014. The slower growth in operating revenue compared to fiscal 2014 results primarily from slower growth in charge back tenant expenses (an increase of \$59,192). MFCA anticipates regular rental revenue will increase by a 3.0% inflationary adjustment for the Wholesale Produce and Wholesale Seafood markets and a 2.5% inflationary adjustment for Sea Cap.

Total expenses increase by \$184,736 in fiscal 2015 compared to fiscal 2014. The growth largely occurs among operating expenses. However, taxes and capital facilities, maintenance, and depreciation costs are also expected to increase.

Capital Improvements, Maintenance, and Development Projects

Exhibit 5 provides additional information on the capital facilities, maintenance, and depreciation line that appears in the modified statement of operations. This exhibit reflects the depreciation costs for these projects rather than full project costs. The depreciation method capitalizes the cost of a project over a specific period of time instead of only in the year the project is completed. Discussion in this section describes the total cost of projects to highlight the magnitude of new capital projects. As a result, the amounts discussed will not match what appears in Exhibit 5. Depreciation costs for fiscal 2013 projects are captured in total in the line for the associated facility rather than separated by the individual project, as is shown in fiscal 2014 and 2015.

Exhibit 5
Capital Improvements, Maintenance, and Development Depreciation
Fiscal 2013-2015

	<u>2013</u> <u>Actual</u>	<u>2014</u> <u>Estimated</u>	<u>2015</u> <u>Estimated</u>
Landscaping	\$0	\$18,000	\$18,000
Normal Maintenance	0	64,000	67,500
Parcel C3 Truck Wash Facility	0	2,500	15,000
Scrubber	0	10,000	10,000
Man Doors	0	500	1,000
Phone Line (Security guard hold-up line)	0	1,057	1,057
Major Asphalt Repairs	0	0	25,000
Wall Repair (Rodents)	0	2,000	2,000
Phone System (Administration office)	0	660	660
Rock Hall	0	3,078	3,078
Rock Hall Bulkhead	0	3,750	3,750
Equipment Crossing	0	7,500	7,500
Loading Dock Canopy	0	31,750	31,750
Water Submeters	0	4,000	4,000
Trench Drain at Garage	0	300	300
Wireless Access	0	985	985
Maintenance Roof Replacement	0	0	750
Major Dock Repairs	0	6,250	6,250
Consulting/Engineering Fees	0	5,575	2,875
Cross Dock	62,661	62,661	62,661
Storm Water Management Pond	443	443	443
Wholesale Produce Market	416,505	416,505	416,505
Wholesale Seafood Market	233,388	233,388	233,388
Total Expenditures	\$712,997	\$874,902	\$914,452

Note: Landscaping and maintenance costs in fiscal 2013 were expended but not depreciated and, therefore, do not appear in this exhibit.

Source: Maryland Food Center Authority

Fiscal 2014

Fiscal 2014 capital projects have a total budgeted cost of \$2.7 million. One project (related to the loading dock canopy) accounts for 47.3% of the costs in that year. This project will replace the loading dock canopy and is necessary as a result of tenant third party audits.

The fiscal 2014 list of capital project contains several new projects, including:

- a truck wash facility and scrubber because of the changes in the Howard County Clean Water Act that prevented the truck wash downs noted earlier;
- replacement of the bulkhead at the Rock Hall Clam House;
- the addition of a crossing for equipment to improve safety;
- the addition of water submeters; and
- dock repairs.

Several of the new projects in fiscal 2014 and 2015 represent projects that were delayed from prior years. The project delays occurred for a variety of reasons, such as determining that with limited funds other projects were more pressing, staff changes, and attempts to repair before replacing items.

Fiscal 2015

Fiscal 2015 capital projects have a total budgeted cost of \$1.3 million. The majority of these funds (nearly 75%) support two projects: (1) the second year of a project to add a truck wash facility (\$500,000) and (2) asphalt repairs (\$500,000). Only one other new project is included in the fiscal 2015 capital budget for MFCA, the replacement of the maintenance building roof.

Recommended Actions

1. Nonbudgeted.

Updates

1. Food Safety Modernization Act

On January 4, 2011, President Barack H. Obama signed the Food Safety Modernization Act (FSMA) into law. The FSMA focuses more on prevention of food safety problems rather than reaction to food safety problems. The Food and Drug Administration (FDA) is currently in the process of implementing the law, including proposing regulations.

These proposed regulations include requirements for owners, operators, or agents of facilities to develop a hazard analysis focusing on preventing hazards that are likely to occur in their operation and developing preventative controls to prevent or limit the hazards. The hazard analysis would be contained in a written food safety plan that also includes the proposed preventative controls, proposed monitoring, planned corrective actions, and verification of implemented preventative controls. The plans would be required to be reassessed at a minimum every three years. Individuals, that have successfully completed training or are otherwise qualified would be required to develop the food safety plan, including the hazard analysis, validate the controls, and review the records. Other regulations under development relate to accreditation of third party auditors; development of foreign supplier verification programs; standards related to growing, harvesting, packing, and holding of produce for human consumption; and standards for food for animal consumption.

MFCA is likely to be impacted by the legislation and may need to implement capital projects to meet requirements. However, the actual impact is unclear because FDA continued to receive comments on the proposed regulations related to current good manufacturing practice and hazard analysis and risk-based preventative controls for human food through November 22, 2013. MFCA anticipates that revised regulations will be released in March 2014 and take effect at some point in the middle of 2015. MFCA will not know the impact of the legislation on the markets until the final regulations are enacted.

**Object/Fund Difference Report
Maryland Food Center Authority**

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	33.00	33.00	33.00	0.00	0%
02 Contractual	1.80	1.20	1.20	0.00	0%
Total Positions	34.80	34.20	34.20	0.00	0%
Objects					
01 Salaries and Wages	\$ 1,585,976	\$ 1,705,831	\$ 1,890,236	\$ 184,405	10.8%
02 Technical and Spec. Fees	88,350	90,266	96,641	6,375	7.1%
03 Communication	38,762	41,400	43,550	2,150	5.2%
04 Travel	64,211	110,700	109,600	-1,100	-1.0%
06 Fuel and Utilities	309,593	246,250	284,750	38,500	15.6%
07 Motor Vehicles	171,624	220,480	227,444	6,964	3.2%
08 Contractual Services	716,190	1,013,545	926,404	-87,141	-8.6%
09 Supplies and Materials	54,263	88,949	99,320	10,371	11.7%
10 Equipment – Replacement	20,096	42,000	37,240	-4,760	-11.3%
11 Equipment – Additional	4,066	22,050	13,450	-8,600	-39.0%
13 Fixed Charges	318,885	344,685	342,706	-1,979	-0.6%
Total Objects	\$ 3,372,016	\$ 3,926,156	\$ 4,071,341	\$ 145,185	3.7%
Funds					
07 Nonbudgeted Fund	\$ 3,372,016	\$ 3,926,156	\$ 4,071,341	\$ 145,185	3.7%
Total Funds	\$ 3,372,016	\$ 3,926,156	\$ 4,071,341	\$ 145,185	3.7%

Fiscal Summary
Maryland Food Center Authority

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
41 Administration	\$ 1,245,465	\$ 1,427,077	\$ 1,508,937	\$ 81,860	5.7%
42 Maryland Wholesale Produce Market	1,155,789	1,453,461	1,494,847	41,386	2.8%
47 Maryland Wholesale Seafood Market	970,762	1,045,618	1,067,557	21,939	2.1%
Total Expenditures	\$ 3,372,016	\$ 3,926,156	\$ 4,071,341	\$ 145,185	3.7%
Nonbudgeted Fund	\$ 3,372,016	\$ 3,926,156	\$ 4,071,341	\$ 145,185	3.7%
Total Appropriations	\$ 3,372,016	\$ 3,926,156	\$ 4,071,341	\$ 145,185	3.7%