

**LA11**  
**Department of Agriculture – Capital**

***Capital Budget Summary***

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**State-owned Capital Improvement Program**  
(\$ in Millions)

<b>Projects</b>	<b>Prior Auth.</b>	<b>2018 Request</b>	<b>2019 Est.</b>	<b>2020 Est.</b>	<b>2021 Est.</b>	<b>2022 Est.</b>	<b>Beyond CIP</b>
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Salisbury Animal Health Laboratory Replacement	\$0.750	\$0.630	\$11.728	\$4.143	\$0.000	\$0.000	\$0.000
<b>Total</b>	<b>\$0.750</b>	<b>\$0.630</b>	<b>\$11.728</b>	<b>\$4.143</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>

<b>Fund Source</b>	<b>Prior Auth.</b>	<b>2018 Request</b>	<b>2019 Est.</b>	<b>2020 Est.</b>	<b>2021 Est.</b>	<b>2022 Est.</b>	<b>Beyond CIP</b>
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GO Bonds	\$0.750	\$0.630	\$11.728	\$4.143	\$0.000	\$0.000	\$0.000
<b>Total</b>	<b>\$0.750</b>	<b>\$0.630</b>	<b>\$11.728</b>	<b>\$4.143</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>

CIP: *Capital Improvement Program*  
GO: general obligation

**Grant and Loan Capital Improvement Program**  
 (\$ in Millions)

<b>Program</b>	<b>2016 Approp.</b>	<b>2017 Approp.</b>	<b>2018 Request</b>	<b>2019 Est.</b>	<b>2020 Est.</b>	<b>2021 Est.</b>	<b>2022 Est.</b>
Maryland Agricultural Land Preservation Program <sup>1</sup>	\$20.855	\$21.228	\$32.924	\$50.661	\$52.203	\$53.638	\$51.724
Tobacco Transition Program	0.868	1.000	1.000	0.000	0.000	0.000	0.000
Maryland Agricultural Cost-Share Program <sup>2</sup>	2.000	0.000	8.000	8.000	8.000	8.000	8.000
<b>Total</b>	<b>\$23.723</b>	<b>\$22.228</b>	<b>\$41.924</b>	<b>\$58.661</b>	<b>\$60.203</b>	<b>\$61.638</b>	<b>\$59.724</b>

<b>Fund Source</b>	<b>2016 Approp.</b>	<b>2017 Approp.</b>	<b>2018 Request</b>	<b>2019 Est.</b>	<b>2020 Est.</b>	<b>2021 Est.</b>	<b>2022 Est.</b>
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PAYGO SF	\$4.678	\$22.228	\$33.924	\$50.661	\$52.203	\$53.638	\$51.724
GO Bonds	2.000	0.000	8.000	8.000	8.000	8.000	8.000
Bond Premiums	17.045	0.000	0.000	0.000	0.000	0.000	0.000
<b>Total</b>	<b>\$23.723</b>	<b>\$22.228</b>	<b>\$41.924</b>	<b>\$58.661</b>	<b>\$60.203</b>	<b>\$61.638</b>	<b>\$59.724</b>

GO: general obligation  
 PAYGO: pay-as-you-go  
 SF: special funds

<sup>1</sup> The fiscal 2016 appropriation includes \$17 million in bond premium funding and the final special fund appropriation based on the local participation funding level. The fiscal 2019-2022 special fund estimates reflect current transfer tax revenue estimates and county participation funding levels.

<sup>2</sup> While not reflected in the exhibit, the fiscal 2018 operating budget includes a \$1.1 million general fund fiscal 2017 deficiency appropriation for the Maryland Agricultural Cost-Share Program. This funding reflects the replacement of funding for the Cover Crop Program that was used for Maryland Agricultural Cost-Share (MACS) Program projects. For fiscal 2017, the Maryland Department of Agriculture (MDA) is also planning on repurposing approximately \$1.9 million in Grants to Farmers funding for manure injection projects that is currently allocated through the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund. In addition, MDA notes that there is \$373,692 available from canceled GO bond projects. As a result, there would be approximately \$3.4 million in available funding for the MACS Program in fiscal 2017.

## ***Summary of Issues***

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***Maryland Agricultural Cost-Share Program Fiscal 2017 Funding Cobbled Together:*** The fiscal 2017 budget restricted \$6 million for the Maryland Agricultural Cost-Share (MACS) Program in the Revenue Stabilization Account (RSA), but the Governor plans to revert the appropriation to the General Fund. This raises the question of what funding will be used in fiscal 2017 to meet the demands for the program and whether the program’s statutory funding criteria will be used. Cover crop funding, and existing allocations of the Chesapeake and Atlantic Coastal Bays 2010 Trust, and canceled project funding will be used in fiscal 2017, but the funding criteria is unclear. **The Department of Legislative Services (DLS) recommends that the Maryland Department of Agriculture (MDA) comment on whether it is using the program’s funding criteria for the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund monies, and what specific projects will not be funded by the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund as a result of the funding reallocation for the MACS program.**

## ***Summary of Updates***

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***Agricultural Business Park and Food Innovation Center on Hold:*** The Agricultural Business Park and Food Innovation Center is a proposal to create a central, multipurpose facility for food processing and distribution, new farmer incubation, meat and seafood processing, warehouse space, and other identified needs for making agriculture more profitable in Southern Maryland. It was anticipated that the center would be funded by either Tobacco Transition Program (TTP) operating or pay-as-you-go (PAYGO) capital budget funding. However, the plan has been put on hold while the creation of a U.S. Department of Agriculture-certified meat slaughter/processing facility is pursued.

## Summary of Recommended PAYGO Actions

	<u>Funds</u>
1. Add budget bill language restricting funding for the Next Generation Farmland Acquisition Program.	
2. Tobacco Transition Program	\$1,000,000 SF
Delete the \$1,000,000 in special funds for the Tobacco Transition Program.	
<b>Total PAYGO Reductions</b>	<b>\$1,000,000 SF</b>

## Summary of Recommended Bond Actions

	<u>Funds</u>
1. Salisbury Animal Health Laboratory Replacement	
Approve the \$630,000 general obligation bond authorization for the Salisbury Animal Health Laboratory Replacement project.	
2. Maryland Agricultural Cost Share Program	\$2,000,000 GO
Reduce the authorization for the Maryland Agricultural Cost-Share Program by \$2.0 million.	
<b>Total De-authorization Reductions/Additions</b>	<b>\$0</b>
<b>Total General Obligation Reductions/Additions</b>	<b>\$2,000,000</b>
<b>Total Pre-authorization Reductions/Additions</b>	<b>\$0</b>

## Program Description

The MDA capital program is comprised of MALPP, TTP, and the MACS program. In addition, the 2017 *Capital Improvement Program* (CIP) includes funding for the proposed Salisbury Animal Health Laboratory Replacement project, which is a State-owned facility. The programs fit under MDA’s goals to preserve adequate amounts of productive agricultural land and woodland in Maryland and provide and promote land stewardship. Descriptions of the three programs follow.

- **MALPP** – The General Assembly created MALPP to preserve productive agricultural land and woodland, which provides for the continued production of food and fiber; limit the extent of urban development; and protect agricultural land and woodland as open space. The Maryland Agricultural Preservation Foundation (MALPF), with the assistance and cooperation of

landowners and local governments, purchases development rights easements as a means of protecting agricultural land and woodland production activities. Chapter 12 of 2014 (MALPF – Value of Easement) modified the maximum price MALPF may pay for an easement. Formerly, the maximum price was the landowner’s asking price or the easement value, whichever is lower. Chapter 12 prohibited MALPF from purchasing an easement for more than 75% or less than 25% of the fair market value of the land. MALPF is authorized to purchase an easement for less than 25% of the fair market value of the land only if the owner’s asking price is less than 25% of the fair market value of the land. The easement value is determined by subtracting the agricultural value from the appraised fair market value of the property. Once the development rights have been sold, the property is perpetually protected from further development, with certain rights available only to the owners who originally sold the easement.

- **TTP** – In 1999, the General Assembly created the Cigarette Restitution Fund (CRF). Under the legislation, one purpose of the CRF is to fund the implementation of the Southern Maryland Regional Strategy Action Plan for Agriculture adopted by the Tri-County Council (TCC) for Southern Maryland with an emphasis on alternative crop uses for agricultural land used for growing tobacco. Funds are appropriated to MDA, which then issues grants to TCC. TCC is a nonprofit, quasi-governmental body that works with the Southern Maryland Agricultural Development Commission (SMADC) to develop programs to stabilize the region’s agricultural economy as Maryland growers transition away from tobacco production. TCC’s Strategy Action Plan has three main components: the tobacco buyout (first priority), agricultural land preservation (second priority), and infrastructure/agricultural development (third priority). Final tobacco buyout funding was budgeted in fiscal 2014, and the 2017 CIP reflects final agricultural land preservation funding in fiscal 2018.
- **MACS Program** – The MACS Program provides financial assistance to Maryland farmers for installing 1 or more of 30 nationally recognized best management practices (BMP) that reduce soil and nutrient runoff from farmland. The program requires a minimum 12.5% cost-share match from grantees. Animal waste treatment and containment projects are funded up to \$200,000 per project, with a maximum of \$300,000 per farm for all animal waste management practices and up to \$450,000 per farm when combined with other BMPs, and up to \$200,000 per project under a pooling agreement to solve a pollution problem on two or more farms. All other BMPs are funded up to \$50,000 per project, with a maximum of \$150,000 per farm per person, and up to \$100,000 per project under a pooling agreement to solve a pollution problem on two or more farms.

## ***Performance Measures and Outputs***

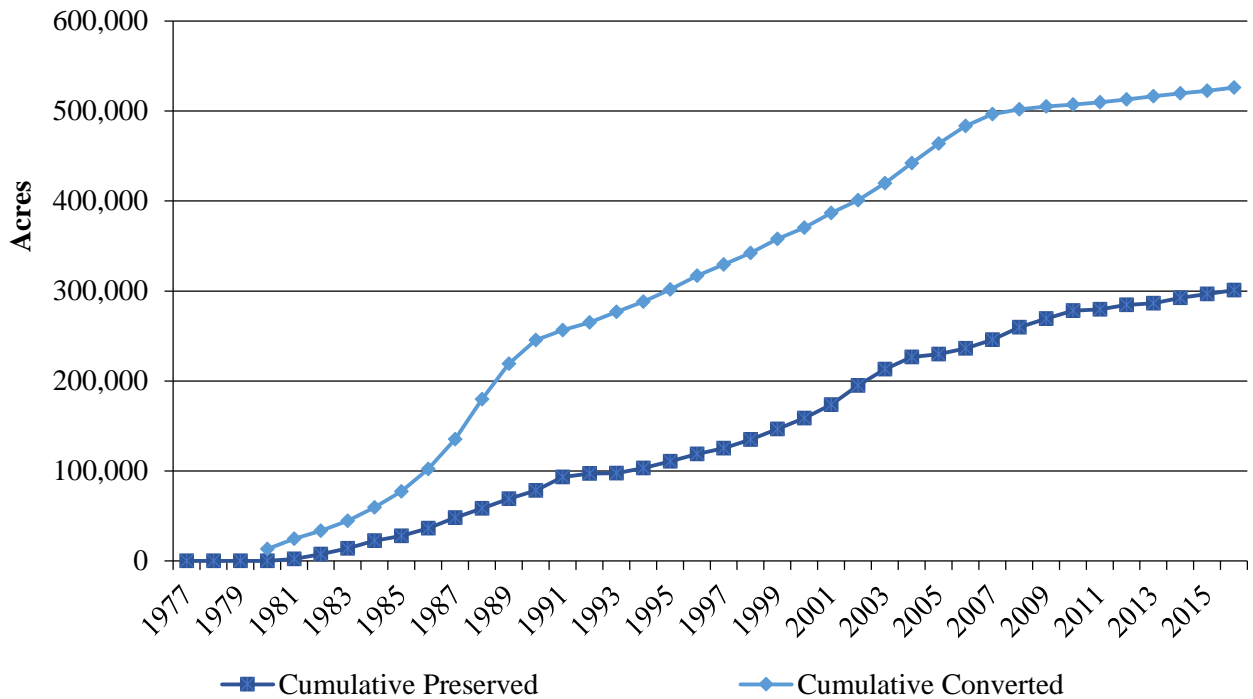
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### **MALPP**

Agricultural land is desirable for conversion to other uses, such as residential development. The MALPP is one tool for keeping farmland in agriculture, as is the agricultural use assessment for taxation purposes. **Exhibit 1** reflects the cumulative agricultural land preserved by the MALPP versus the

agricultural land converted from fiscal 1977 to 2016. During this time period, the amount of cumulative agricultural land converted has exceeded the cumulative amount conserved. **Exhibit 2** shows that, with the exception of fiscal 1991 and 2002, there was a net decrease in the annual amount of farmland preserved between fiscal 1980 and 2007. Between fiscal 2008 and 2010, there were annual net increases in farmland preserved. Since fiscal 2010, there has been no real trend, although fiscal 2016 does reflect a small increase in net annual acres preserved.

**Exhibit 1**  
**Cumulative Agricultural Land Preserved by MALPP vs.**  
**Cumulative Agricultural Land Converted**  
**Fiscal 1977-2016**

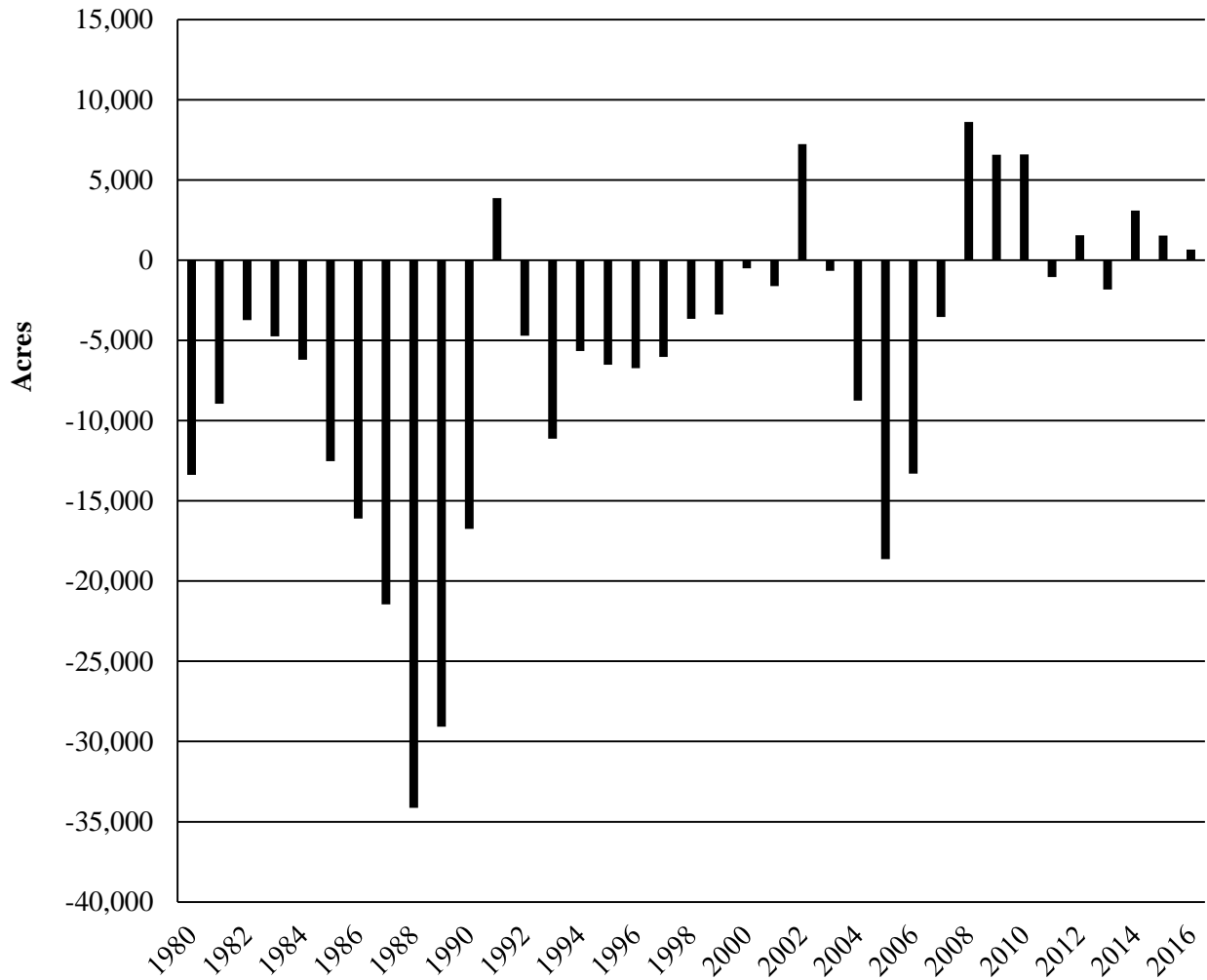


MALPP: Maryland Agricultural Land Preservation Program

Note: Includes easements under the Maryland Agricultural Land Preservation Foundation and the now defunct GreenPrint Program. State records do not exist for agricultural land converted before fiscal 1980.

Source: Maryland Department of Agriculture; Department of Legislative Services

**Exhibit 2  
Net Difference in Annual Farmland Preserved and Converted  
Fiscal 1980-2016**



Source: Maryland Department of Agriculture; Department of Legislative Services

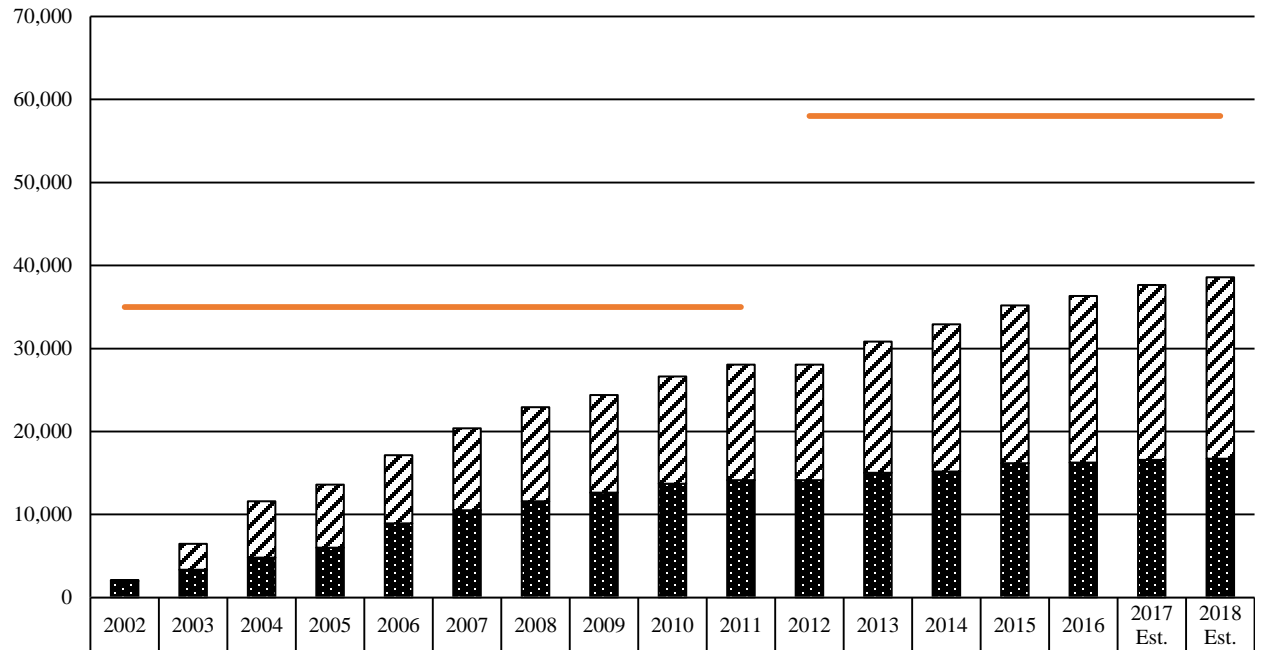
Senate Joint Resolution 10 of 2002 established a statewide land preservation goal to triple (1,030,000 acres) the number of acres of productive agricultural land preserved by MALPF, GreenPrint, the Rural Legacy Program, and local preservation programs by the year 2022. As of December 2016, a total of 619,413 acres have been preserved; thus, an additional 410,587 acres need to be preserved by fiscal 2022, or 68,431 acres annually, which does not compare well to the 15,746 acres that were preserved on average between fiscal 2008 and 2016. MDA notes that through fiscal 2016, it has conserved 300,916 acres as its contribution to the statewide goal.

## **TTP**

The TTP performance measure is the amount of agricultural land preserved. The 10-year agricultural land preservation goal established in fiscal 2001 for the TTP was to protect 35,000 acres. SMADC notes that its 10-year Strategic Plan was updated in fiscal 2012 to reflect a new goal of preserving an additional 30,000 acres by fiscal 2020, relative to the approximately 28,000 acres preserved up to that point, pending the availability of funding. This acreage preservation goal reflects acres preserved with State funding as well acreage preserved with leveraged funding from counties (Anne Arundel, Calvert, Charles, Prince George’s, and St. Mary’s). In addition, SMADC measures the number of farms preserved both with State funding as well as with county funding. SMADC indicates that as of fiscal 2016, 320 farms and 36,325 acres have been preserved using State and county funding over the 15 years of the program. SMADC’s fiscal 2017 goal is to preserve an estimated cumulative total of 334 farms on an estimated 37,650 cumulative acres, and its fiscal 2018 goal is to preserve an estimated cumulative total of 342 farms on 38,575 acres. **Exhibit 3** shows the history of agricultural land and farm preservation.



**Exhibit 3  
Tobacco Transition Program and Leveraged Agricultural Land Preservation  
Fiscal 2002-2018 Est.**



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 Est.	2018 Est.
Cumulative Leveraged Acres Preserved	110	3,119	6,794	7,591	8,226	9,850	11,338	11,761	12,922	13,915	13,915	15,806	17,709	18,998	20,068	21,068	21,868
Cumulative Tobacco Transition Program Acres Preserved	1,999	3,368	4,822	6,002	8,940	10,520	11,608	12,632	13,716	14,145	14,145	15,012	15,194	16,176	16,257	16,582	16,707
Acreage Goal	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	58,000	58,000	58,000	58,000	58,000	58,000	58,000
Cumulative Tobacco Transition Program Farms Preserved	16	29	40	58	84	102	115	125	132	137	137	143	146	156	157	161	162
Cumulative Leveraged Farms Preserved	0	20	33	34	41	62	75	78	89	100	100	120	138	150	163	173	180

Note: No funding was provided in fiscal 2012.

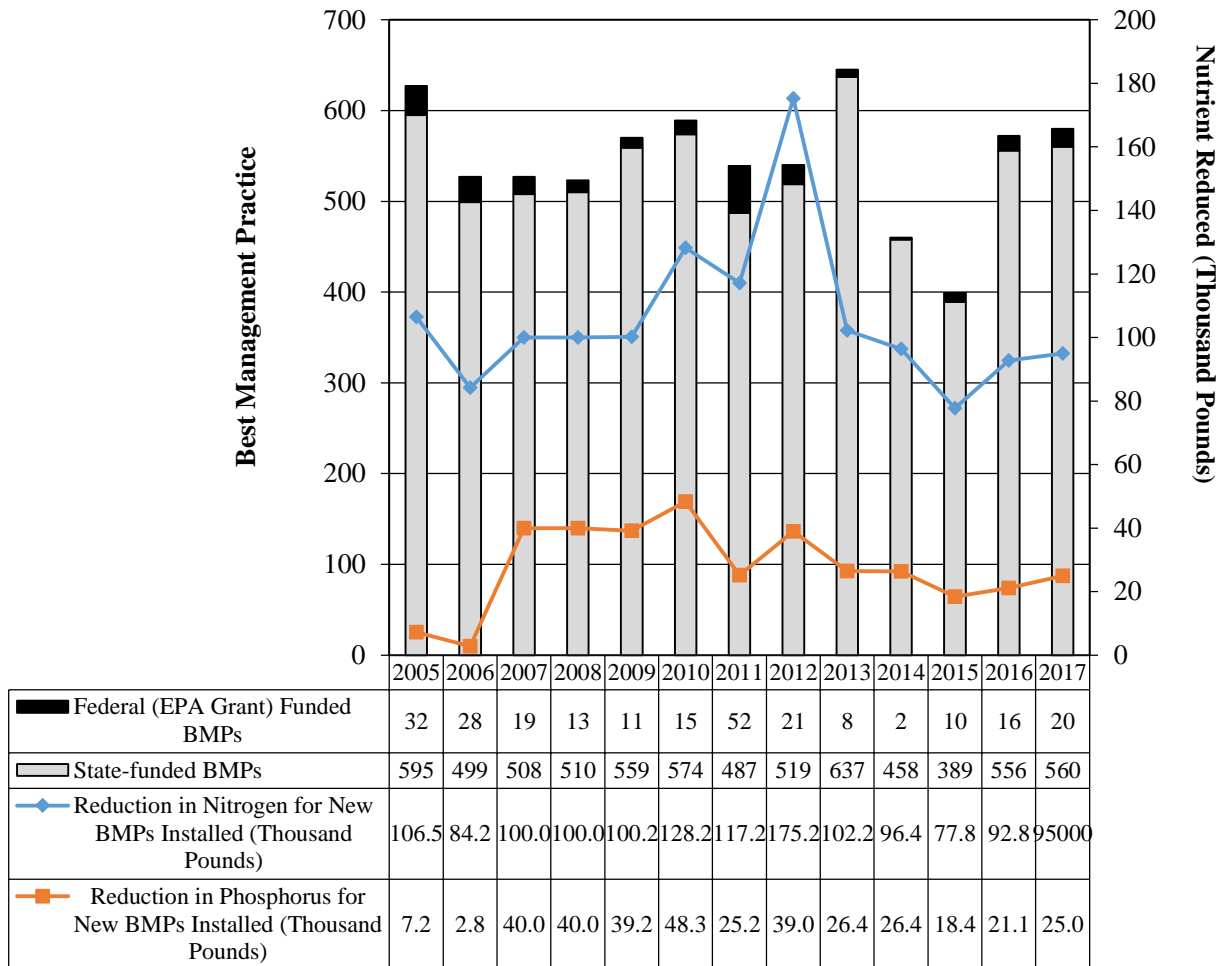
Source: Maryland Department of Agriculture

## **MACS**

MDA's Resource Conservation Grants program has the goal of controlling and reducing agriculturally related water pollution through the implementation of BMPs. MDA has implemented a tracking system that reflects both BMPs installed with State funding and federal financial assistance through the U.S. Environmental Protection Agency's Chesapeake Bay Implementation Grant and processed through MACS. In contrast, BMPs funded by the U.S. Department of Agriculture (USDA) are not tracked. MDA has noted that it backfills funding with federal cost-share dollars when federal funding is available. Outside of the State budgeting process, the 2014 Farm Bill authorized the Regional Conservation Partnership Program through the USDA's Natural Resources Conservation Service. On February 12, 2016, it was announced that the overall Regional Conservation Partnership Program funding for federal fiscal 2016 is \$220.0 million, which is to be invested in 84 projects across the nation. Maryland's share of the regional award is \$3.75 million to support BMPs over three years, of which 25% goes to the USDA – Natural Resources Conservation Service.

**Exhibit 4** reflects the new BMPs installed by MACS between fiscal 2005 and 2017; no additional information was provided for the fiscal 2018 estimate. As can be seen, the majority of BMPs are installed with State funds, and the combined State and federal projects have reduced around 100,000 pounds of nitrogen pollution per year. In terms of the maintenance of BMPs, MDA has indicated in the past that it inspects 10% of all contracts every year and that in a recent three-year period, it conducted over 500 inspections annually. Unsatisfactory reviews occur in approximately 10% of its inspections. Common reasons for unsatisfactory reviews include the lack of maintenance of BMPs or the lack of transfer of responsibility when ownership changes. Since property transfers make up 50% of the unsatisfactory reviews, MDA has instituted a policy whereby BMPs, for which the State cost share is \$5,000 or greater, are recorded as a lien on the property. If maintenance issues are not resolved within a certain period of time, then MDA may require payback of the State share.

**Exhibit 4**  
**MACS New Best Management Practices Installed**  
**Fiscal 2005-2017 Est.**



BMP: best management practice  
 EPA: Environmental Protection Agency  
 MACS: Maryland Agricultural Cost-Share Program

Source: Maryland Department of Agriculture

## ***Budget Overview***

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### **Fiscal 2018 Budget**

The fiscal 2018 allowance includes \$33.9 million in special funds and \$8.63 million in general obligation (GO) bonds.

### **Fiscal 2018 Transfer Modification**

The fiscal 2018 budget plan includes the modification of transfer tax transfers to the General Fund that were originally authorized by Chapter 425 of 2013 and then subsequently modified by Chapter 10 of 2016. In conjunction, the bills accomplish the following:

- reduce the fiscal 2018 authorized transfer by \$40.0 million from \$86.0 million to \$46.0 million;
- repurpose the \$40.0 million in fiscal 2018 for PAYGO capital programs to be appropriated as follows:
  - Program Open Space (POS) – State – \$3,412,000;
  - POS – Local – \$11,000,000;
  - Rural Legacy Program – \$9,000,000;
  - Critical Maintenance Program – \$2,000,000;
  - Natural Resources Development Fund – \$5,088,000;
  - Ocean City Beach Maintenance – \$500,000; and
  - Maryland Agricultural Land Preservation Foundation – \$9,000,000;
- provide for repayment of the \$90.0 million transferred in fiscal 2006 that will be paid out for the Next Generation Farmland Acquisition Program in fiscal 2018 (\$5.0 million); transfer tax funded capital programs for fiscal 2019 to 2021 that will be allocated through the formula (\$15.0 million per year, or \$45.0 million total); and park development and Critical Maintenance Program funding for fiscal 2019 to 2025 (\$6.0 million per year with the exception of \$4.0 million for fiscal 2025, or \$40.0 million total); and
- provide for repayment of the fiscal 2016 to 2018 transfers, minus the \$72.0 million already replaced, that is to be allocated through the transfer tax formula and repaid one-third at a time by June 30, 2021 (\$50.7 million), June 30, 2025 (\$50.7 million), and June 30, 2029 (\$50.7 million).

**Exhibit 5** shows the revenue and expenditure differences for the transfer tax between fiscal 2017 and 2018. On the revenue side, the revenue estimate increases by \$29.9 million, the overattainment (the revenue actual that is greater than the estimate for two years prior) is \$17.2 million, and the transfer to the General Fund is \$16.7 million less, which provides for a \$63.8 million increase in the funding available for distribution. On the expenditure side, there is an increase of \$55.8 million for distribution to capital programs and \$6.9 million for the Forest and Park Service as well as \$0.9 million for the 3% administrative expenses allocation and \$0.2 million for debt service on the \$70.0 million issued for the POS Acquisition and Opportunity Loan of 2009.

**Exhibit 5  
Transfer Tax Difference  
Fiscal 2017 and 2018**

	<u>2017</u>	<u>2018</u>	<u>Difference</u>
<b>Revenues</b>			
Revenue Estimate	\$184,977,000	\$214,830,392	\$29,853,392
Overattainment (Fiscal 2015 and 2016, respectively)	0	17,209,015	17,209,015
Transfer to General Fund	-62,771,000	-46,028,000	16,743,000
<b>Total Revenue</b>	<b>\$122,206,000</b>	<b>\$186,011,407</b>	<b>\$63,805,407</b>
<b>Expenditures</b>			
Administrative Expenses	\$5,549,310	\$6,444,912	\$895,602
Distribution for Capital Programs	79,513,225	135,324,442	55,811,217
Heritage Areas Authority	3,000,000	3,000,000	0
Forest and Park Service	27,567,982	34,506,853	6,938,871
Debt Service	6,575,484	6,735,201	159,717
<b>Total Expenditures</b>	<b>\$122,206,001</b>	<b>\$186,011,408</b>	<b>\$63,805,407</b>

Source: Department Budget and Management; Department of Legislative Services

**Exhibit 6** reflects the difference between the 2016 and 2017 session estimates for fiscal 2018 transfer tax funding. As can be seen, the major changes are the revenue estimate increase of \$20,147,392 and the fiscal 2016 overattainment amount of \$17,209,015. As a result, there are \$37.4 million more available for distribution in fiscal 2018 than was estimated in the 2016 session. The majority of this funding, once again, is distributed to the capital programs.

**Exhibit 6**  
**Fiscal 2018 Transfer Tax Funding**  
**2016 and 2017 Session Estimates**

	<u>2018 Est.</u> <u>2016 Session</u>	<u>2018 Allow.</u> <u>2017 Session</u>	<u>Difference</u>
<b>Revenues</b>			
Revenue Estimate	\$194,683,000	\$214,830,392	\$20,147,392
Fiscal 2016 Overattainment	0	17,209,015	17,209,015
Transfer to General Fund	-46,028,000	-46,028,000	0
<b>Total Revenue</b>	<b>\$148,655,000</b>	<b>\$186,011,407</b>	<b>\$37,356,407</b>
<b>Expenditures</b>			
Administrative Expenses	\$5,840,490	\$6,444,912	\$604,422
Distribution for Capital Programs	104,096,280	135,324,442	31,228,162
Heritage Areas Authority	3,000,000	3,000,000	0
Forest and Park Service	28,983,029	34,506,853	5,523,824
Debt Service	6,735,201	6,735,201	0
<b>Total Expenditures</b>	<b>\$148,655,000</b>	<b>\$186,011,408</b>	<b>\$37,356,408</b>

Source: Department of Budget and Management

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**Exhibit 7** shows the fiscal 2018 allocation with the enhancement. As can be seen, the \$40.0 million enhancement – allocated per Chapter 10 of 2016 – provides for \$135.3 million in capital program funding from the transfer tax in fiscal 2018.

**Exhibit 7**  
**Transfer Tax Distribution for Capital Programs Receiving Enhancements**  
**Fiscal 2018**

<u>Program</u>	<u>Statutory Allocation</u>	<u>BRFA of 2013 General Fund Transfer</u>	<u>Estimated Allowance Before Enhancement 2018</u>	<u>2018 Enhancement 2018</u>	<u>Allowance 2018</u>
DNR – Land Acquisition and Planning					
Program Open Space – State Share	\$52,821,663	-\$24,757,000	\$28,064,663	\$3,412,000	\$31,476,663
Program Open Space – Local Share	49,960,279	-23,747,000	26,213,279	11,000,000	37,213,279
Rural Legacy Program	19,279,725	-9,366,000	9,913,725	9,000,000	18,913,725
Natural Resources Development Fund	14,308,000	-7,599,000	6,709,000	5,088,000	11,797,000
Critical Maintenance Program	6,000,000	-2,000,000	4,000,000	2,000,000	6,000,000
Ocean City Beach Maintenance	1,000,000	-500,000	500,000	500,000	1,000,000
Maryland Department of Agriculture – Maryland Agricultural Land Preservation Foundation	37,982,775	-18,059,000	19,923,775	9,000,000	28,923,775
<b>Distribution for Programs with Enhancements</b>	<b>\$181,352,442</b>	<b>-\$86,028,000</b>	<b>\$95,324,442</b>	<b>\$40,000,000</b>	<b>\$135,324,442</b>

BRFA: Budget Reconciliation and Financing Act  
DNR: Department of Natural Resources

Note: The Program Open Space – State share fiscal 2018 funding includes \$3,500,000 for the Baltimore City Direct Grant. Of this amount, \$2,000,000 is required by Chapter 10 of 2016 to be used for the following purposes: Herring Run Park – \$500,000; Clifton Park – \$600,000; Druid Hill Park Trail Head – \$300,000; James Mosher Park – \$300,000; and Patterson Park – \$300,000.

Source: Department of Budget and Management; Department of Legislative Services

**Exhibit 8** shows a comparison between fiscal 2017 and 2018 funding for capital projects from the transfer tax.

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**Exhibit 8**  
**Transfer Tax Distribution for Capital Programs**  
**Fiscal 2017-2018**

<u>Program</u>	<u>2017</u>	<u>2018</u>	<u>Difference</u>
DNR – Land Acquisition and Planning			
Program Open Space – State Share	\$19,368,428	\$31,476,663	\$12,108,235
Program Open Space – Local Share	21,690,973	37,213,279	15,522,306
Rural Legacy Program	12,663,385	18,913,725	6,250,341
Natural Resources Development Fund	3,062,000	11,797,000	8,735,000
Critical Maintenance Program	6,000,696	6,000,000	-696
Ocean City Beach Maintenance	500,000	1,000,000	500,000
			0
Maryland Department of Agriculture – Maryland Agricultural Land Preservation Foundation	16,227,744	28,923,775	12,696,031
<b>Distribution for Programs</b>	<b>\$79,513,225</b>	<b>\$135,324,442</b>	<b>\$55,811,217</b>

Note: The Program Open Space – State Share includes funding for Baltimore City as follows: fiscal 2017 – \$4.0 million enhancement for a grant to the Eager Park project as part of the East Baltimore Development Initiative, \$1.5 million for the Baltimore City Direct Grant, and \$0.5 million for the Maryland Zoo in Baltimore; and fiscal 2018 – \$3.5 million for the Baltimore City Direct Grant.

Source: Department of Budget and Management; Department of Legislative Services

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**Exhibit 9** reflects the transfer tax repayment to capital programs as required by Chapter 10. The repayment covers the \$90.0 million transferred in fiscal 2006, both distributed through the transfer tax formula and provided in specific amounts to the Critical Maintenance Program and Natural Resources Development Fund, and the \$152.1 million transferred between fiscal 2016 and 2018, which accounts for the \$72.0 million already repaid.



**Exhibit 9**  
**Transfer Tax Repayment to Capital Programs**  
**Fiscal 2019-2029**  
**(\$ in Millions)**

<u>Repayment</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023-2029</u>	<u>Total</u>
Fiscal 2006 Transfer – Distributed through Formula	\$15.0	\$15.0	\$15.0	\$0.0	\$0.0	\$45.0
Fiscal 2006 Transfer – Critical Maintenance/Natural Resources Development Fund	6.0	6.0	6.0	6.0	16.0	40.0
Fiscal 2016 to 2018 Transfers – Distributed through Formula*	16.9	16.9	16.9	12.7	88.8	152.2
<b>Total</b>	<b>\$37.9</b>	<b>\$37.9</b>	<b>\$37.9</b>	<b>\$18.7</b>	<b>\$104.8</b>	<b>\$237.2</b>

\* Statute requires repayment of \$50.7 million by close of fiscal 2021. The Governor’s plan is to repay in \$16.9 million installments over three years.

Note: Chapter 10 of 2016 requires the repayment of one-third by fiscal 2021, two-thirds by fiscal 2015, and the full amount by fiscal 2029.

Source: Department of Budget and Management

**Exhibit 10** shows the differences in funding that would flow to the capital programs supported by the transfer tax for the five years covered in the 2017 CIP (fiscal 2018 through 2022). Note that the amount of replacement to the capital programs is less than the total amount of replacement funds. This results from running the additional funds from repayments through the transfer tax formula as stipulated for a portion of the repayments in Chapter 10. As a result, a portion of the funds available for local POS would be directed to support the operations of the Department of Natural Resources Park Service consistent with how the transfer tax formula funds the park service from a portion of the allocation to local POS. For fiscal 2019, as a reference, this results in \$4.8 million of funding that enhances the park service operations instead of local POS. This difference applies also to fiscal 2020 and 2021 but is reduced to only \$1.9 million in fiscal 2022, since the amount of repayment through the formula is reduced from \$37.9 million to \$18.7 million in fiscal 2022 in the repayment plan.

**Exhibit 10**  
**Transfer Tax Comparison of Capital Program Funding Levels**  
**Fiscal 2018 Governor Proposed – Fiscal 2019-2022 Programmed**  
**(\$ in Millions)**

	<u>Transfer Tax Allocation Before Chapter 10 of 2016</u>	<u>Transfer Tax Allocation After Chapter 10 of 2016</u>	<u>Difference</u>
<b>2019</b>			
POS – Stateside	\$55.4	\$68.3	\$12.9
POS – Local	48.3	55.5	7.2
Rural Legacy	18.9	20.5	1.6
Critical Maintenance Program	4.0	7.0	3.0
Ocean City – POS Share	1.0	1.0	0.0
Natural Resources Development Fund	10.5	13.5	3.0
Agricultural Land Preservation Program	36.7	42.2	5.4
<b>Total</b>	<b>\$174.9</b>	<b>\$208.0</b>	<b>\$33.1</b>
<b>2020</b>			
POS – Stateside	\$60.0	\$72.8	\$12.9
POS – Local	50.3	57.5	7.2
Rural Legacy	19.4	21.0	1.6
Critical Maintenance Program	4.0	7.0	3.0
Ocean City – POS Share	1.0	1.0	0.0
Natural Resources Development Fund	9.7	12.7	3.0
Agricultural Land Preservation Program	38.3	43.7	5.4
<b>Total</b>	<b>\$182.7</b>	<b>\$215.8</b>	<b>\$33.1</b>
<b>2021</b>			
POS – Stateside	\$64.1	\$77.0	\$12.9
POS – Local	52.2	59.4	7.2
Rural Legacy	19.8	21.4	1.6
Critical Maintenance Program	4.0	7.0	3.0
Ocean City – POS Share	1.0	1.0	0.0
Natural Resources Development Fund	9.0	12.0	3.0
Agricultural Land Preservation Program	39.7	45.1	5.4
<b>Total</b>	<b>\$189.8</b>	<b>\$222.9</b>	<b>\$33.1</b>

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	<b><u>Transfer Tax Allocation Before Chapter 10 of 2016</u></b>	<b><u>Transfer Tax Allocation After Chapter 10 of 2016</u></b>	<b><u>Difference</u></b>
<b>2022</b>			
POS – Stateside	\$67.3	\$72.4	\$5.1
POS – Local	54.0	56.9	2.9
Rural Legacy	20.2	20.8	0.6
Critical Maintenance Program	4.0	7.0	3.0
Ocean City – POS Share	1.0	1.0	0.0
Natural Resources Development Fund	9.0	12.0	3.0
Agricultural Land Preservation Program	41.1	43.2	2.2
<b>Total</b>	<b>\$196.6</b>	<b>\$213.4</b>	<b>\$16.8</b>

POS: Program Open Space

Note: The Governor’s repayment plan for diverted transfer tax as required by Chapter 10 of 2016 would provide \$37.9 million in each of fiscal 2019 through 2021. The amount that is directed to capital programs totals \$33.1 million, which reflects a portion of the repayment to POS – Local allocated to the Department of Natural Resources Forest and Park Service resulting from the replacement allocation through the transfer tax formula. For fiscal 2022, the repayment amount is \$18.7 million with \$16.8 million allocated to capital programs and the difference allocated to the Forest and Park Service.

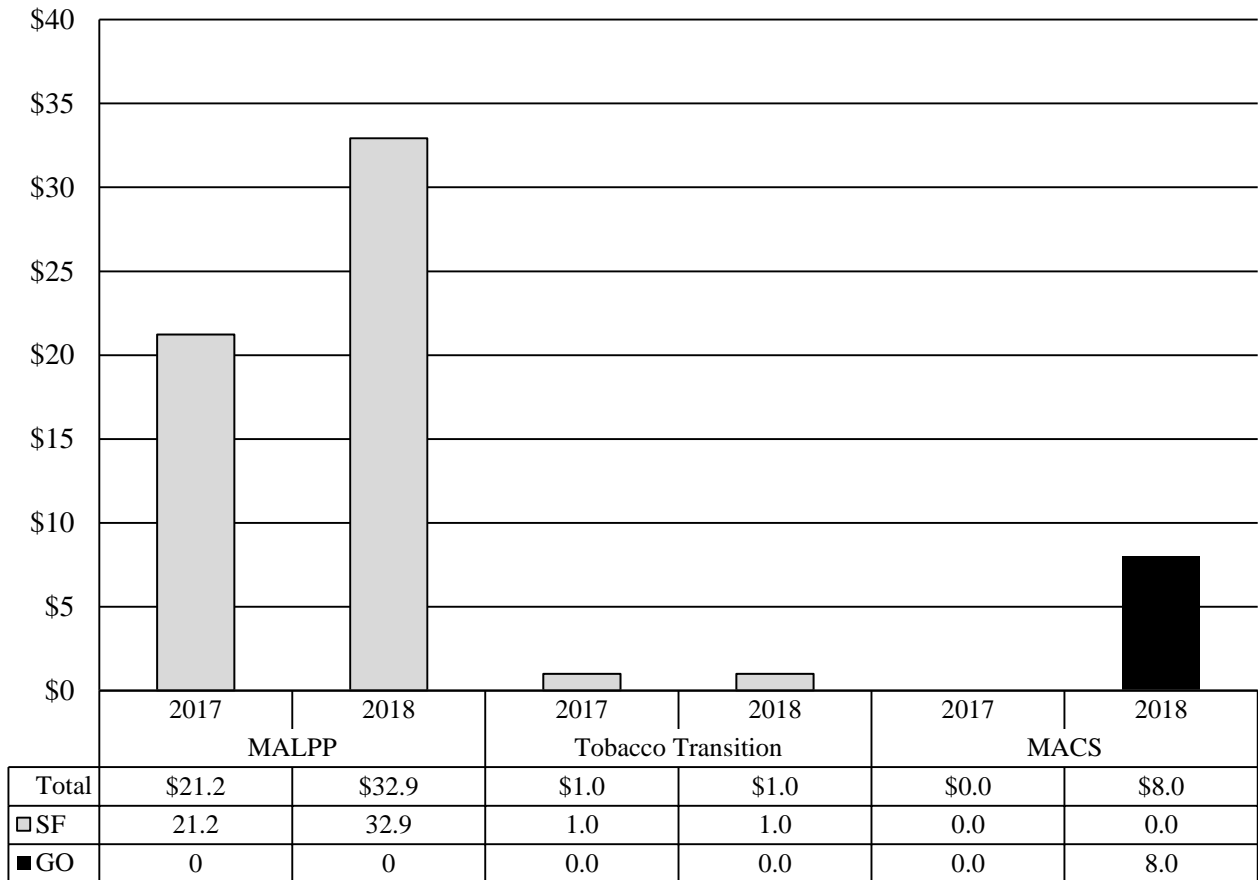
Source: Department of Budget and Management

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## **Funding in the Fiscal 2018 Allowance**

**Exhibit 11** shows the fiscal 2018 funding for the three programs in the allowance. The proposed fiscal 2018 funding level is \$19.7 million higher than what was provided in fiscal 2017. This reflects an increase of \$11.7 million in special funds for the MALPP and \$8.0 million in GO bond authorization for MACS since the Governor did not release the fiscal 2017 funding for this purpose from the RSA.

**Exhibit 11**  
**Maryland Department of Agriculture Capital Budget Changes by Fund**  
**Fiscal 2017-2018**  
**(\$ in Millions)**



GO: general obligation

MACS: Maryland Agricultural Cost-Share

MALPP: Maryland Agricultural Land Preservation Program

SF: special fund

Note: The fiscal 2018 operating budget includes a \$1.1 million general fund fiscal 2017 deficiency appropriation for the MACS Program. This funding reflects the replacement of funding for the Cover Crop Program that was used for the MACS Program projects. For fiscal 2017, the Maryland Department of Agriculture (MDA) is also planning on repurposing approximately \$1.9 million in Grants to Farmers funding for manure injection projects that is currently allocated through the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund. In addition, MDA notes that there is \$373,692 available from canceled GO bond projects. As a result, there would be approximately \$3.4 million in available funding for the MACS Program in fiscal 2017.

Source: Department of Legislative Services

## **MALPP**

MALPF’s fiscal 2018 allowance reflects \$32.9 million in special funds, which includes the \$9.0 million enhancement funding. Therefore, the fiscal 2018 funding includes \$19.9 million in transfer tax funding, \$9.0 million in enhancement funding, and \$4.0 million in county participation funding. The estimated cost per acre for MALPF easements is projected to be \$4,000 in fiscal 2018, which is \$200 less than fiscal 2017, and will allow for the preservation of 8,230 acres. No federal funding is reflected, which means that there has been no change in the restrictive requirements on the federal Farm and Ranch Lands Protection Program funding.

Of note, the county participation funding in fiscal 2018 reflects a more realistic estimate than has been budgeted in previous years. For instance, in fiscal 2016, \$9.1 million was budgeted while only \$3.8 million appears ultimately to have been available. Since fiscal 2009, MALPF has instituted two-year easement cycles in order to be able to fund easements in each participating jurisdiction. As noted prior, \$4.0 million is budgeted in fiscal 2018 for the county participation, which is in line with recent activity, and reflects the lower amount of agricultural transfer tax counties have collected and used to make commitments and the fact that fiscal 2017 to 2018 is another combined cycle for easement purchases.

## **TTP**

As in prior years, the CRFs supporting the TTP are budgeted in both MDA’s operating and PAYGO budgets. As shown in **Exhibit 12**, \$5,773,000 in CRF special funds are budgeted as follows: administrative expenses (\$600,000); noncapital grants for infrastructure/agricultural development programs (\$350,000); tobacco bond repayment (\$3,823,000); and agricultural land preservation (\$1,000,000). The overall funding level of \$5,773,000 is lower than the \$7,039,000 funding level provided in recent years and reflects cost containment actions.

**Exhibit 12**  
**Tobacco Transition Program Funding**  
**Fiscal 2017-2018**  
**(\$ in Thousands)**

<u>Fiscal Years</u>	<u>Operating Budget</u>			<u>PAYGO Capital Budget</u>		<u>Total</u>
	<u>Administration</u>	<u>Infrastructure Grants</u>	<u>Bonds Repaid</u>	<u>Buyout Payment</u>	<u>Land Preservation</u>	
2017	\$600,000	\$350,000	\$3,823,000	\$0	\$1,000,000	\$5,773,000
2018	600,000	350,000	3,823,000	0	1,000,000	5,773,000
<b>Difference</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

PAYGO: pay-as-you-go

Note: The Maryland Department of Agriculture provided the \$319,000 final tobacco buyout payment in fiscal 2014.

Source: Department of Budget and Management

Authorization of GO bonds for the TTP began in fiscal 2004 and ended with the \$5.0 million authorization in fiscal 2010; the funding was authorized by a provision in the Maryland Consolidated Capital Bond Loan of 2006, which altered the use of GO bonds for the tobacco buyout funding plan that were originally laid out in Chapter 103 of 2001. The payment schedule is \$1.8 million in fiscal 2011, \$3.3 million from fiscal 2012 through 2015, and payments of \$3.8 million from fiscal 2016 to 2018 to round out the \$26.6 million required payment. Of note, the 2017 CIP reflects final PAYGO capital funding in fiscal 2018, which is coincident with the end of the bond repayment. **DLS recommends that SMADC comment on the long-term plan for the TTP’s third priority – infrastructure/agricultural development – given the end of the first two priorities in fiscal 2018. DLS also recommends that the fiscal 2018 appropriation for land preservation be deleted given the imminent end of the program, the meeting of the original land preservation goal, and the need to defray Medicaid general fund expenses in the face of potential changes in the Affordable Care Act.**

### **MACS Program**

The fiscal 2018 allowance for MACS is \$8 million, which is \$2 million more than was programmed for fiscal 2018 in the 2016 CIP. This reflects the fact that there is pent up demand for the program since the Governor did not release the \$6 million allocated in fiscal 2017 from the RSA. It is unlikely that any fiscal 2017 funding will be available for fiscal 2018 given that the Governor has not released the fiscal 2017 funding from the RSA and that the fiscal 2017 funding that is available, as discussed as an Issue in this analysis, is fully subscribed. The 2017 CIP reflects an increased

authorization level of \$8 million for the entirety of the five-year planning period relative to the \$6 million per year that was programmed in the 2016 CIP.

### **Salisbury Animal Health Laboratory Replacement**

The fiscal 2018 allowance includes \$630,000 in GO bonds for planning the proposed 18,066 net assignable square foot (28,592 gross sq. ft.) Salisbury Animal Health Laboratory replacement project. The Department of Budget and Management (DBM) has approved the Part 1 and Part 2 program plans for the project. The Salisbury Animal Health Laboratory conducts tests that ensure the safety of the food supply and the economic viability of animal industries throughout the Delmarva Peninsula by, among other activities, providing diagnostic and investigatory services that identify and contain animal health emergencies.

The overall project is now estimated to cost \$17,251,000, an increase of \$100,000 (\$96,000 for construction and \$4,000 for planning) relative to the 2016 CIP and the funding timeline has shifted out one year to account for the June 2018 construction start date as shown in **Exhibit 13**. In addition, the project description has changed from the 2016 CIP – main facility (19,588 gross sq. ft.), incinerator (407 gross sq. ft.), necropsy (3,515 gross sq. ft.), and storage building (5,750 gross sq. ft.) – to the 2017 CIP – secure laboratory area (16,008 gross sq. ft.), public/entry administration (6,834 gross sq. ft.), and shared storage (5,750 gross sq. ft.). Although, it appears that this reflects more of a shift in characterization than a shift in functional use as DBM notes that the main difference is that some of the offices were reduced in size. MDA notes that the Animal Health program first requested the project in September 2014, but it appears that this was too late for the project to go through the 2015 CIP process. However, as far back as calendar 2006, a licensed building inspector concluded that the building could not be renovated to meet current laboratory standards.

The primary justifications for the project include the deterioration of the existing infrastructure and the inability to meet current laboratory standards. The existing building has roof, ceiling, wall, and floor failures; mechanical, electrical, and plumbing systems that do not meet current requirements; and inadequate space for many laboratory functions. In terms of laboratory standards, the laboratory lacks negative air pressure, and in fact has positive pressure, which means that the existing air system does not minimize the escape of contaminants; and the laboratory lacks biosecurity/safety features to isolate nonpublic areas.

**Exhibit 13**  
**Change in Salisbury Animal Health Laboratory Replacement Authorization Uses**  
**(\$ in Millions)**

		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
2016 CIP	Planning	\$750,000	\$626,000	\$0	\$0	<b>\$1,376,000</b>
	Construction	0	7,638,000	7,637,000	0	<b>15,275,000</b>
	Equipment	0	200,000	300,000	0	<b>500,000</b>
	<b>Total</b>	<b>\$750,000</b>	<b>\$8,464,000</b>	<b>\$7,937,000</b>	<b>\$0</b>	<b>\$17,151,000</b>
2017 CIP	Planning	\$750,000	\$630,000	0	0	<b>\$1,380,000</b>
	Construction	0	0	11,528,000	3,843,000	<b>15,371,000</b>
	Equipment	0	0	200,000	300,000	<b>500,000</b>
	<b>Total</b>	<b>\$750,000</b>	<b>\$630,000</b>	<b>\$11,728,000</b>	<b>\$4,143,000</b>	<b>\$17,251,000</b>
Difference	Planning	\$0	\$4,000	\$0	\$0	<b>\$4,000</b>
	Construction	0	-7,638,000	3,891,000	3,843,000	<b>\$96,000</b>
	Equipment	0	-200,000	-100,000	300,000	<b>\$0</b>
	<b>Total</b>	<b>\$0</b>	<b>-\$7,834,000</b>	<b>\$3,791,000</b>	<b>\$4,143,000</b>	<b>\$100,000</b>

CIP: *Capital Improvement Program*

Source: Department of Budget and Management; Department of Legislative Services

## ***Issues***

### **1. Maryland Agricultural Cost-Share Program Fiscal 2017 Funding Cobbled Together**

The fiscal 2017 budget restricted \$6 million for the MACS Program in the RSA, but the Governor plans to revert the appropriation to the General Fund. This raises the question of what funding will be used in fiscal 2017 to meet the demands for the program and whether the program’s statutory funding criteria will be used.

The fiscal 2018 operating budget includes a \$1,100,000 general fund fiscal 2017 deficiency appropriation for the program. This funding reflects the replacement of funding for the Cover Crop Program that was used for MACS Program projects. For fiscal 2017, MDA is also planning on repurposing approximately \$1,900,000 in Grants to Farmers funding for manure injection projects that



is currently allocated through the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund. In addition, MDA notes that there is \$373,692 available from canceled GO bond projects. As a result, there would be \$3,373,692 in available funding for the MACS Program in fiscal 2017. MDA notes that it already has encumbered the entirety of this funding. MDA also notes that it has \$4 million in projects being held pending approval of the fiscal 2018 budget and yet there are four months remaining in fiscal 2017 to receive applications to the program.

It is not clear whether MDA is using the program's funding criteria for the projects receiving Chesapeake and Atlantic Coastal Bays 2010 Trust Fund money. The funding criteria are as follows:

- **Matching Requirement:** the program requires a minimum 12.5% cost-share match from grantees;
- **Animal Waste Treatment and Containment Projects:** projects handling animal waste are funded up to \$200,000 per project, with a maximum of \$300,000 per farm for all animal waste management practices and up to \$450,000 per farm when combined with other BMPs, and up to \$200,000 per project under a pooling agreement to solve a pollution problem on two or more farms; and
- **Other Projects:** all other BMPs are funded up to \$50,000 per project, with a maximum of \$150,000 per farm per person, and up to \$100,000 per project under a pooling agreement to solve a pollution problem on two or more farms.

**DLS recommends that MDA comment on whether it is using the program's funding criteria for the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund monies, and what specific projects will not be funded by the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund as a result of the funding reallocation for the MACS program.**

## ***Updates***

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### **1. Agricultural Business Park and Food Innovation Center on Hold**

The Agricultural Business Park and Food Innovation Center is a proposal to create a central, multipurpose facility for food processing and distribution, new farmer incubation, meat and seafood processing, warehouse space, and other identified needs for making agriculture more profitable in Southern Maryland. It was anticipated that the center would be funded by either TTP operating or PAYGO capital budget funding.

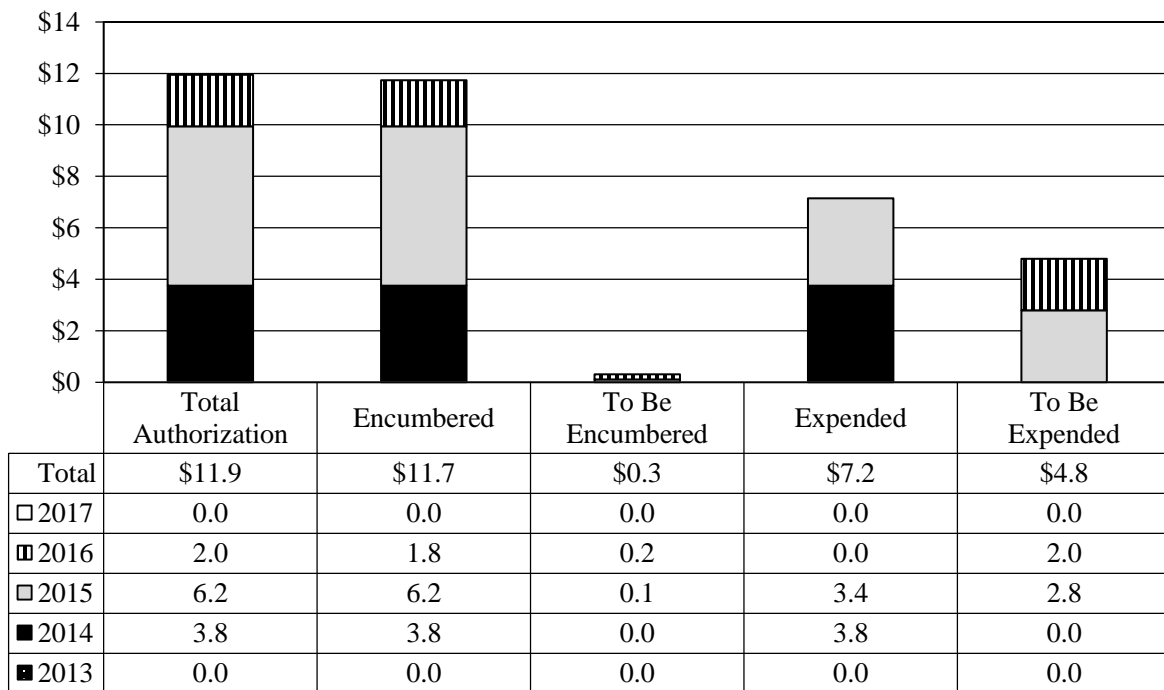
SMADC notes that in March 2016 it was directed by the Executive Board of TCC for Southern Maryland to focus exclusively on the creation of a USDA-certified meat slaughter/processing facility convenient to the region's farmers. Furthermore, the board determined that co-locating the proposed center with the meat processing facility is not practical at this time. A Request for Proposals

for the facility was issued on November 17, 2016, and the pre-bid conference was held on December 13, 2017, with 15 people in attendance; bids were due on January 27, 2017. Since no bids were received, the board and SMADC will discuss next steps.

## ***Authorization Encumbrance and Expenditure Data***

**Exhibit 15** reflects the encumbrance and expenditure history for MACS between fiscal 2013 and January 2017. The total authorization for the time period shown is \$11.9 million, of which \$0.3 million remains to be encumbered. The lack of GO bond funding in fiscal 2017 has meant MACS has encumbered more of its authorized funding that it has in previous years.

**Exhibit 15**  
**Maryland Agricultural Cost-Share Program**  
**Encumbrances and Expenditures**  
**Fiscal 2013 through January 2017**  
**(\$ in Millions)**



Source: Maryland Department of Agriculture; Department of Budget and Management

## ***Operating Budget Impact Statement***

### **Executive’s Operating Budget Impact Statement – State-owned Projects (\$ in Millions)**

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>Salisbury Animal Health Laboratory Replacement</b>					
Estimated Operating Cost	\$0.000	\$0.311	\$0.120	\$0.120	\$0.120
Estimated Staffing	0	2	2	2	2
<b>Total Operating Impact</b>					
<b>Estimated Operating Cost</b>	<b>\$0.000</b>	<b>\$0.311</b>	<b>\$0.120</b>	<b>\$0.120</b>	<b>\$0.120</b>
<b>Estimated Staffing</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>

The operating budget impact statement for the Salisbury Animal Health Laboratory Replacement project reflects 1 laboratory scientist (\$70,000) and replacement equipment (\$241,000) in fiscal 2019; and then 1 laboratory scientist and 1 administrative assistant (\$50,000) for fiscal 2020 through 2022. The laboratory scientist is necessary based on the assumption that there will be the need for increased equine testing; the current laboratory scientific expertise is in poultry diseases. An administrative assistant will be needed to support the scientific research, but it is not clear at this point whether a regular position or a contractual full-time equivalent will be needed as it depends on whether more equine testing actually occurs.

The replacement equipment funding reflects the replacement of equipment in the old laboratory. In contrast, brand new equipment that was not previously owned is funded in the equipment line of the capital budget for the project and old equipment that is still serviceable will be moved to the new laboratory and thus does not need to be replaced.

Natural gas may be used to heat the building, which would offset any increased energy use by the building because natural gas is a less expensive energy source. However, no savings are reflected because the status of natural gas as a heat source is uncertain. Revenue from additional equine testing is also uncertain because it is not clear whether the new laboratory scientist position will create more equine testing or if demand for more equine testing will create the need for the new position.

## ***PAYGO Recommended Actions***

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1. Add the following language to the special fund appropriation:

, provided that \$5,000,000 of this appropriation made for the purpose of purchasing easements on agricultural land may be used only to provide grants for the use of the Next Generation Farmland Acquisition Program authorized under Economic Development Article section 10-523(a)(3)(ii). Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall be canceled.

Further provided that the Maryland Department of Agriculture, in consultation with the Maryland Agricultural and Resource-Based Industry Development Corporation, shall report on the use of the funds under the Next Generation Farmland Acquisition Program. The report shall include the location and acreage of the agricultural properties sold, the full market value of the agricultural land sold, the development value of the agricultural land sold, the amount of the grant provided, the likely time period in which the conservation easement will be sold, and to whom the conservation easement likely will be sold.

**Explanation:** The fiscal 2018 allowance includes a \$5.0 million general fund appropriation in the Maryland Department of Agriculture’s (MDA) budget for the Next Generation Farmland Acquisition Program. In the operating budget bill as introduced, the appropriation is reduced by \$2.5 million contingent on the Budget Reconciliation and Financing Act of 2017 providing a provision to fund the program over fiscal 2018 and 2019. This action restricts Maryland Agricultural Land Preservation Foundation funding in order to provide funding for the Next Generation Farmland Acquisition Program in fiscal 2018. In addition, a report is required on the use of the Next Generation Farmland Acquisition Program funding.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Next Generation Farmland Acquisition Program funding report	MDA	December 1, 2017

**Amount  
Reduction**

- |  |                |
|--|----------------|
| 2. Delete the \$1,000,000 in special funds for the Tobacco Transition Program that provides for agricultural easement purchases. The program’s capital component is scheduled to end in fiscal 2018 in the 2017 <i>Capital Improvement</i> | \$1,000,000 SF |
|--|----------------|

*LA11 – Department of Agriculture – Capital*

*Program.* Ending the program one year earlier would help defray Medicaid general fund expenses in fiscal 2018 in the face of potential changes in the Affordable Care Act.

<b>Total Special Fund Reductions</b>	<b>\$1,000,000</b>
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## ***GO Bond Recommended Actions***

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1. Approve the \$630,000 general obligation bond authorization for the Salisbury Animal Health Laboratory Replacement project to continue design of a replacement animal health laboratory in Salisbury.
  
2. Reduce the authorization for the Maryland Agricultural Cost-Share Program by \$2 million.

LA15A	Maryland Agricultural Cost Share Program .....	\$ 6,000,000
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<u>Allowance</u>	<u>Change</u>	<u>Authorization</u>
8,000,000	-2,000,000	6,000,000

**Explanation:** Reduce the authorization for the Maryland Agricultural Cost-Share (MACS) Program by \$2 million. The Administration is using approximately \$2 million in fiscal 2017 Chesapeake and Atlantic Coastal Bays 2010 Trust Fund special funds for the purposes of the MACS Program. This action level funds the MACS Program at the \$6 million level programmed for fiscal 2017 and accounts for the availability of Chesapeake and Atlantic Coastal Bays 2010 Trust Fund special funds if additional funding is needed for projects.

<b>Total General Obligation Bonds Reductions/Additions</b>	<b>\$2,000,000</b>
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