

L00A
Department of Agriculture

Operating Budget Data

(\$ in Thousands)

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$27,117	\$28,783	\$35,348	\$6,565	22.8%
Adjustments	0	1,030	-2,572	-3,602	
Adjusted General Fund	\$27,117	\$29,813	\$32,776	\$2,963	9.9%
Special Fund	30,893	34,371	34,790	420	1.2%
Adjustments	0	0	-25	-25	
Adjusted Special Fund	\$30,893	\$34,371	\$34,765	\$394	1.1%
Federal Fund	3,893	4,340	3,604	-736	-17.0%
Adjustments	0	0	-3	-3	
Adjusted Federal Fund	\$3,893	\$4,340	\$3,600	-\$740	-17.0%
Reimbursable Fund	20,526	24,023	23,372	-651	-2.7%
Adjusted Reimbursable Fund	\$20,526	\$24,023	\$23,372	-\$651	-2.7%
Adjusted Grand Total	\$82,428	\$92,547	\$94,513	\$1,966	2.1%

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The Maryland Department of Agriculture (MDA) budget includes deficiency appropriations that would provide for a net of \$1,030,000 in general funds. The Resource Conservation Grants program would receive \$1,100,000 in order to replace funding for the Cover Crop Program that was used for the Maryland Agricultural Cost-Share Program projects, which is offset partially by a reduction of \$70,000 in the Office of Plant Industries and Pest Management in order to realize fiscal 2017 salary savings.

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

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- The overall adjusted change in the MDA fiscal 2018 allowance is an increase of \$2.0 million, or 2.1%. The major changes are an increase of \$2.5 million in general funds in the Maryland Agricultural and Resource-Based Industry Development Corporation for the Next Generation Farmland Acquisition Program, and an increase of \$2.0 million for the Rural Maryland Council to improve rural Maryland working and living conditions.
- The \$5.0 million statutory mandate for the Next Generation Farmland Acquisition Program is proposed to be reduced by \$2.5 million via the Budget Reconciliation and Financing Act of 2017. Instead, the Administration proposes to fund \$2.5 million in fiscal 2018 and \$2.5 million in fiscal 2019.

Personnel Data

	<u>FY 16 Actual</u>	<u>FY 17 Working</u>	<u>FY 18 Allowance</u>	<u>FY 17-18 Change</u>
Regular Positions	380.10	356.10	355.10	-1.00
Contractual FTEs	<u>44.90</u>	<u>47.30</u>	<u>47.70</u>	<u>0.40</u>
Total Personnel	425.00	403.40	402.80	-0.60

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	21.91	6.17%
Positions and Percentage Vacant as of 12/31/16	30.10	8.45%

- MDA regular positions decrease by 1.0 in the fiscal 2018 allowance. Overall, positions have decreased from 380.1 in the fiscal 2016 actual to 355.1 in the fiscal 2018 allowance as a result of the following: 4.0 filled regular positions in Plant Protection and Weed Control positions abolished in the fiscal 2017 allowance; 10.0 vacant regular positions abolished in the Section 20 actions in the fiscal 2017 budget bill; 10.0 positions transferred to the Department of Information Technology during calendar 2016 for the Information Technology Enterprise Initiative as authorized by Section 21 of the fiscal 2017 budget bill; and 1.0 position abolished in the fiscal 2018 allowance – a vacant designated administration manager senior III position. MDA notes that it will use available resources, including hiring contractual employees, to best meet its mission goals.
- MDA has 30.1 regular positions that are vacant as of December 31, 2016, of which 9.0 have been vacant for more than a year. MDA notes that there are currently 29.0 vacant positions of which 10.0 positions are in the recruitment process.

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- MDA contractual full-time equivalents (FTE) increase by a net of 0.4 FTEs in the fiscal 2018 allowance. MDA notes that contractual FTEs are used to balance workloads on an as-needed basis.
- The MDA turnover rate decreased slightly from 6.4% in the fiscal 2017 working appropriation to 6.17% in the fiscal 2018 allowance, which reflects a decrease from 22.79 necessary vacancies to 21.91 necessary vacancies. MDA has 30.1 positions vacant as of December 31, 2016, which is relatively high at 8.45%, but this will allow MDA to meet turnover.
- MDA notes that 2.0 regular positions were transferred from the Office of Resource Conservation to the Office of Plant Industries and Pest Management in fiscal 2017 in order to resume part of the Weed Control Program function that was abolished as part of the fiscal 2017 actions – reduction of 4.0 filled positions and \$346,911. A third regular position is moved out of the Office of Resource Conservation to the Office of the Secretary in the Governor’s *Maryland Budget Highlights FY 2018*, but MDA notes that this is an error.

Analysis in Brief

Major Trends

Impact of Spay/Neuter Fee Uncertain: The number of livestock feed and pet food products registered decreased from 17,628 in fiscal 2014 to 9,732 in fiscal 2016, which roughly coincides with the period in which the \$100 spay/neuter fee was instituted. MDA notes that pet food registrations have declined due to the following: the retirement of a key staff member in December 2015, company mergers, and product removal. **The Department of Legislative Services (DLS) recommends that MDA comment on the trends in pet food registrations.**

Personnel Challenges Continue: MDA has experienced declines in the following performance measures, due at least partially to personnel challenges, including the number of plant inspections conducted, the determination of State Board of Veterinary Examiner cases within 120 days, and the percentage of pesticide licenses and permittees inspected. **DLS recommends that MDA comment on the ability to staff its regulatory programs.**

Shrinking Agricultural Land Base: Maryland is experiencing a shrinking agricultural land base. This is reflected in the following performance measures: the number of new acres under conservation plans and the cumulative average of plan summaries filed with MDA as of June 30 each year. **DLS recommends that MDA comment on the inevitability of farmland conversion to developed land.**

Issues

Compliance and Enforcement Inspections and Positions Report Not Submitted: The 2016 *Joint Chairmen's Report* included a request for a report on compliance and enforcement inspections and positions in MDA and the Maryland Department of the Environment. The budget committees were concerned that the 2017 Phase III Watershed Implementation Plan development period is nearing, and the Administration has not demonstrated sufficient inspector positions and funding to meet the needs of Chesapeake Bay restoration. However, to date, the report has not been submitted. **DLS recommends that MDA comment on why the compliance and enforcement inspections and positions report has not been submitted.**

Cover Crop Signup Exceeds Funding Availability: For both fiscal 2017 and 2018, there appears to be insufficient funding from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund, the Bay Restoration Fund, and available fund balance to pay for the estimated 491,169 acres of cover crops in fiscal 2017. MDA notes that cover crop funding is not received until the August following the fiscal year budgeted, fiscal 2018 payment per acre will be adjusted in order to handle deficits in the program. Cover crop mapping to improve the efficiency of funding allocation is a future possibility. **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.**

Rural Maryland Prosperity Investment Fund Allocation Addresses Microscale and Macroscale Concerns: The fiscal 2017 working appropriation includes \$2,167,000 in general funds that are provided to the Rural Maryland Prosperity Investment Fund to be allocated according to statute. The Rural Maryland Council allocated the funding as allowed for in statute with funding being targeted to both microscale and macroscale needs. On the macroscale side, the Rural Maryland Council provided funding for rural health improvement, youth retention, wealth transfer tapping, and business financing. In the future, the Rural Maryland Council would also like to research declining education enrollment in rural areas. **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.**

Soil Conservation District Personnel and Funding Assumed Adequate: The budget committees were concerned about the long-term funding stability for the field staff of the 24 soil conservation district offices around the State and therefore requested a report on soil conservation district personnel and funding. The submitted report does not include a formal projected budget plan but does note that it is assumed that over the fiscal 2018 to 2022 time period program activities, and thus staffing level needs, are assumed to stay consistent with fiscal 2016. **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.**

Recommended Actions

	<u>Funds</u>
1. Delete the Rural Maryland Council nonmandated additional funding.	\$ 2,000,000
2. Delete the funding for the Next Generation Farmland Acquisition Program.	2,500,000
Total Reductions	\$ 4,500,000

Updates

MDA Repeat Audit Findings Resolved: Funding had been withheld in each of the MDA fiscal 2015 and 2016 budgets in order to compel resolution of MDA’s repeat audit findings. For fiscal 2015, \$100,000 in general funds were withheld and then not released because the findings were not resolved to the satisfaction of the Office of Legislative Audits (OLA). Similarly, \$200,000 in general funds were withheld in the MDA fiscal 2016 appropriation. OLA determined that MDA cumulatively resolved four of the six repeat recommendations that comprise the audit findings and noted that progress has been made on the remaining findings. Therefore, the budget committees released to MDA the \$200,000 in withheld general fund appropriation.

Phosphorus Management Tool Data Inches Closer to 100%: The Phosphorus Management Tool was developed by scientists at the University of Maryland and is used to identify agricultural lands where the soil is saturated with phosphorus and has a high risk of runoff. Data provided in a presentation to the Senate Education, Health, and Environmental Affairs Committee on January 18, 2017, indicates that phosphorus data for 84.8% of the 1,277,931 regulated acres have been submitted and that 20.7% of agricultural fields are subject to additional phosphorus management restrictions based on the Phosphorus Fertility Index value.

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Department of Agriculture

Operating Budget Analysis

Program Description

The Maryland Department of Agriculture (MDA) supervises, administers, and promotes agricultural activities throughout the State. Its mission is to provide leadership and support to agriculture and the citizens of Maryland by conducting regulatory, service, and educational activities that ensure consumer confidence, protect the environment, and promote agriculture. MDA is organized into four administrative units as described as follows.

- ***Office of the Secretary:*** Provides administrative support services, advises the Secretary of Agriculture on agricultural issues, and administers agricultural land preservation.

- ***Office of Marketing, Animal Industries, and Consumer Services:*** Provides weights and measures supervision; conducts inspection, grading, monitoring, and testing of agricultural product quality; generates agricultural statistics; protects animal health; regulates veterinarians; promotes the equine industry; assists in the development of agricultural markets; promotes agriculture through agricultural fairs, shows, and youth activities; supports the transition from tobacco production in Southern Maryland; addresses issues affecting rural quality of life through the Rural Maryland Council; and helps develop resource-based industries through the Maryland Agricultural and Resource-Based Industry Development Corporation, an independent agricultural development agency that is budgeted within MDA. The office also administers the Spay/Neuter Program.

- ***Office of Plant Industries and Pest Management:*** Manages forest pests; implements mosquito control services; regulates pesticides and pesticide applicators; administers nursery inspections, noxious weed control, nuisance bird control, and honeybee registration programs; regulates seed and sod labeling; and regulates the chemical components of pesticides, commercial fertilizers, feeds, pet foods, compost, soil conditioners, and liming materials.

- ***Office of Resource Conservation:*** Advises the Secretary on agricultural soil conservation and water quality; provides financial, technical, and staffing support to the State's 24 soil conservation districts; provides cost-share funding for best management practice (BMP) implementation, manure transport, and nutrient management plan development; trains, certifies, and licenses nutrient management plan consultants; and oversees Maryland's agricultural certainty and nutrient trading programs as part of Chesapeake Bay restoration.

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The primary goals of MDA are to:

- promote profitable production, use, and sale of Maryland agricultural products (goal 1);
- protect the health of the public, plant resources, and animal resources in Maryland (goal 2);
- preserve adequate amounts of productive agricultural land and woodland in Maryland (goal 3);
- provide and promote land stewardship, including conservation, environmental protection, preservation, and resource management (goal 4); and
- provide health, safety, and economic protection for Maryland consumers (goal 5).

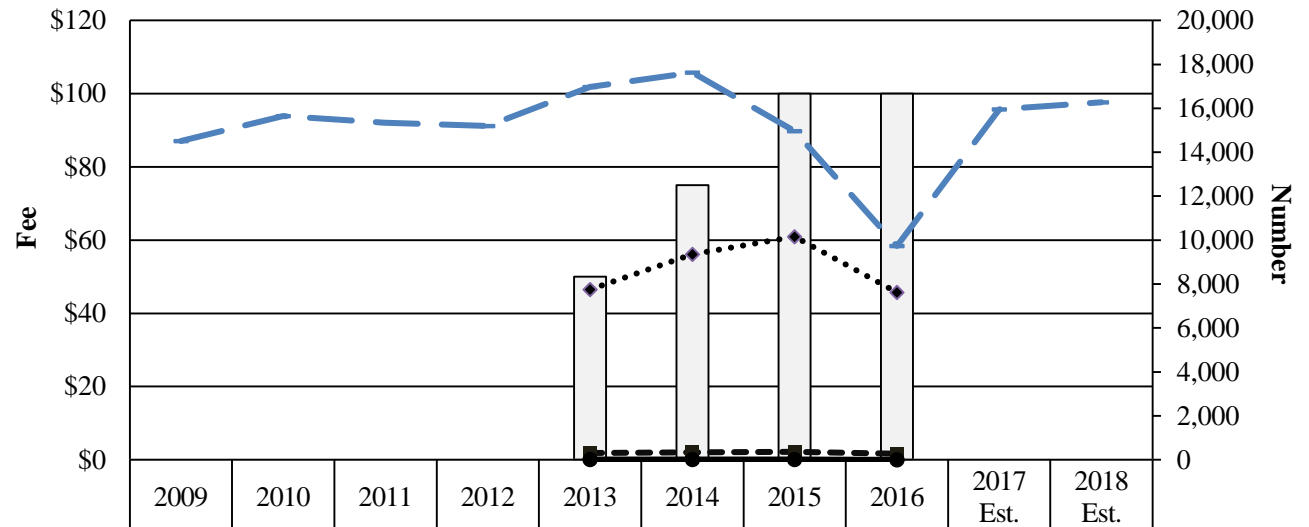
Performance Analysis: Managing for Results

The analysis of the MDA fiscal 2018 Managing for Results submission reflects the uncertainty of the impact of the pet food registration fee on pet food products registered, the continuation of personnel challenges in the agency, and the long-term trend of a shrinking agricultural land base.

1. Impact of Spay/Neuter Fee Uncertain

MDA's fifth goal is to provide health, safety, and economic protection for Maryland consumers. Under this goal is the performance measure of the number of livestock feed and pet food products registered. Chapter 561 and 562 of 2013 (Animal Welfare – Spay/Neuter Fund – Establishment) established a fee on dog and cat commercial feed registered in the State and created a Spay/Neuter Fund in MDA to reduce animal shelter overpopulation and cat and dog euthanasia rates by financing grants for programs that facilitate and promote spay and neuter services. As can be seen in **Exhibit 1**, the number of livestock feed and pet food products registered decreased from 17,628 in fiscal 2014 to 9,732 in fiscal 2016, which roughly coincides with the period in which the \$100 spay/neuter fee was instituted. MDA notes that pet food registrations have declined due to the following: the retirement of a key staff member in December 2015, company mergers, and product removal. MDA notes that most of the impact to companies has been to small businesses that wanted to produce treats or pet food. **The Department of Legislative Services (DLS) recommends that MDA comment on the trends in pet food registrations.**

**Exhibit 1
Pet Food Registrations
Fiscal 2009-2018 Est.**



Fee per Product*					\$50	\$75	\$100	\$100		
• Number of Livestock Feed and Pet Food Products Registered	14,512	15,653	15,336	15,201	16,969	17,628	14,959	9,732	15,951	16,270
■ Number of Companies					309	338	364	276		
◆ Number of Products					7,758	9,350	10,158	7,623		
● Companies That Closed, No Longer Sell in Maryland, or Whose Products Do Not Meet Criteria					15	22	13	9		

* The fee per product is reflected for the Animal Health Program, but it should be noted that the State Chemist also charges \$50 per pet food product to be registered in Maryland. Fiscal 2016 funds are still being collected, so the numbers may increase.

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

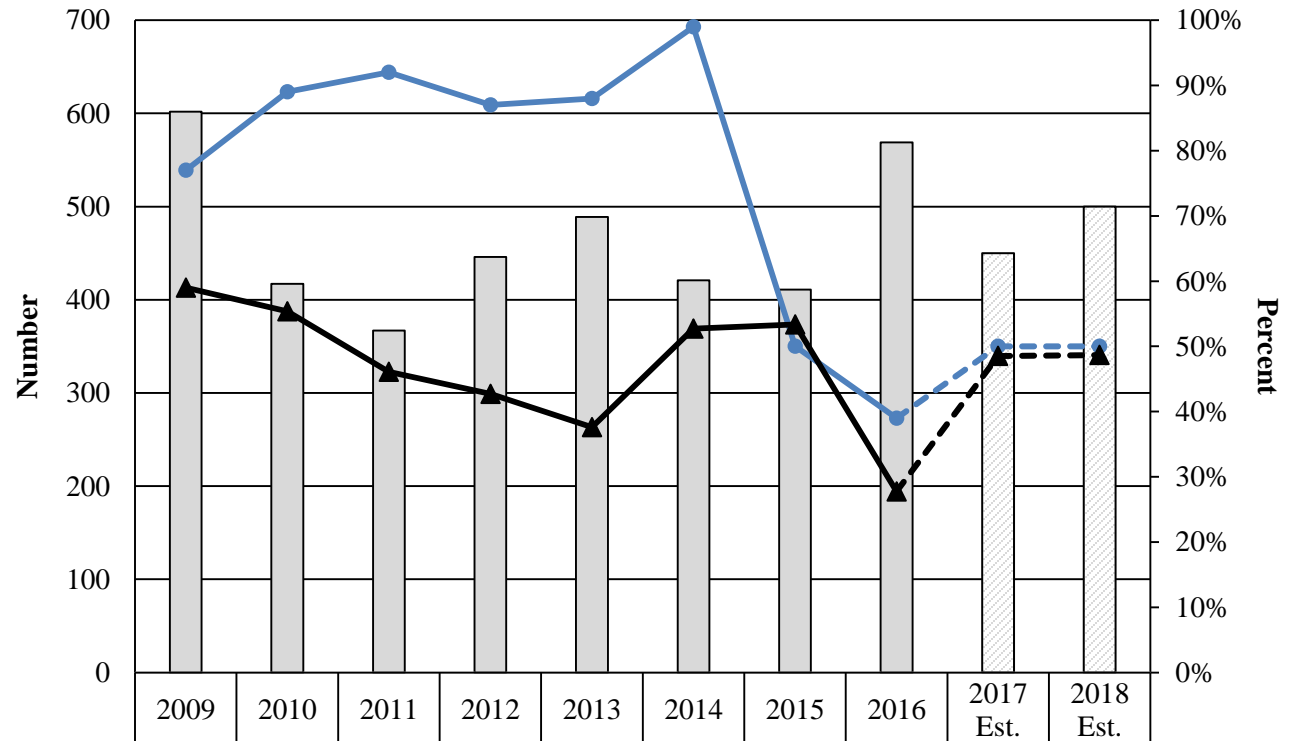
2. Personnel Challenges Continue

MDA's mission is to provide leadership and support to agriculture and the citizens of Maryland by conducting regulatory, service, and educational activities that ensure consumer confidence, protect the environment, and promote agriculture. In order to meet this mission, MDA must be adequately staffed. As shown in **Exhibit 2**, MDA has experienced declines in specific performance measures for the following reasons.

- ***Number of Plant Inspections Conducted:*** The number of plant inspections increased from 411 in fiscal 2015 to 569 in fiscal 2016. The fiscal 2015 inspection numbers are low because 2 employees retired in the nursery inspection program. Contractual staff was hired to fill these 2 positions in order to increase the number of inspections in fiscal 2016.
- ***Determination of State Board of Veterinary Examiner Cases within 120 Days:*** The determination of cases within 120 days decreased from 99% in fiscal 2014 to 50% in fiscal 2015 and then decreased again to 39% in fiscal 2016, due to short staffing (an administrator left in December 2014 and had not been replaced in fiscal 2016, and the longtime executive director left in May 2016); an unusually high volume of complicated cases, including referrals to the Office of the Attorney General (OAG) and rabies cases requiring outside expert review; the hiring of a new detail-oriented inspector that generated more complex cases; and a cooperative model that requires substantial follow-up visits from the inspector and investigator with the regulated entities.
- ***Percent of Pesticide Licensees and Permittees Inspected:*** The percent of pesticide licensees and permittees inspected decreased from 53.4% in fiscal 2015 to 27.8% in fiscal 2016 because of staffing issues in fiscal 2016 for 2 of MDA's 7 inspector positions. As a result, pesticide licensees and permittees inspected were not able to be done at the same rate as in fiscal 2015. In addition, the Pesticide Regulation Section prioritizes the investigation of complaints over routine business inspections, which also reduced the percent of pesticide licensees and permittees inspected.

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

**Exhibit 2
Personnel Challenges Continue
Fiscal 2009-2018 Est.**



Number of Plant Inspections Conducted	602	417	367	446	489	421	411	569	450	500
Determination of Cases within 120 Days (Percentage)	77%	89%	92%	87%	88%	99%	50%	39%	50%	50%
Percent of Pesticide Licensees and Permittees Inspected	59.0%	55.4%	46.1%	42.7%	37.6%	52.7%	53.4%	27.8%	48.5%	48.7%

Source: Department of Budget and Management

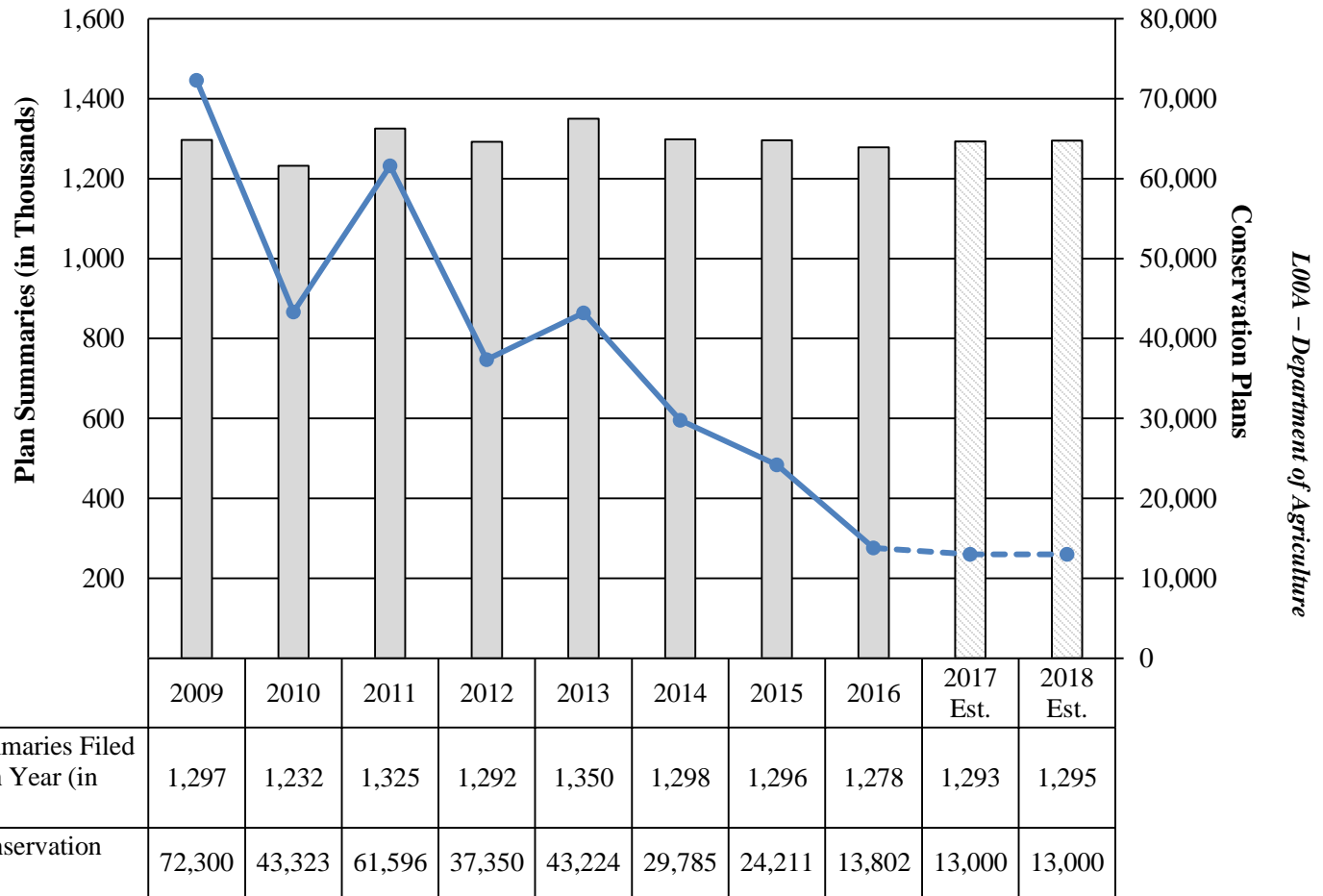
3. Shrinking Agricultural Land Base

MDA's fourth goal is to provide and promote land stewardship, including conservation, environmental protection, preservation, and resource management. To this end, it has objectives to develop and promote soil conservation and water quality plans and BMPs to meet local water quality goals for nitrogen and phosphorus and the objective to ensure all applicable Maryland farmers have and implement their nutrient management plans developed by certified consultants, keep records pertaining to their plan, update their plan as needed, and file a copy of their plan with the department. As shown in **Exhibit 3**, performance measures for these two objectives are experiencing declines as follows:

- ***Number of New Acres under Conservation Plans:*** the number of new acres under conservation plans generally has been decreasing since fiscal 2011, which MDA notes is due to a matter of diminishing returns as the finite agricultural land needs fewer plans, and thus there is more of an emphasis placed on keeping existing plans in compliance; and
- ***Cumulative Acreage of Plan Summaries Filed with MDA as of June 30 Each Year:*** the cumulative acreage of plan summaries filed with MDA has been decreasing since fiscal 2013, due to the decline in farmland acreage and the commensurate decline in the number of acres on which nutrient management plans are needed.

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

**Exhibit 3
Diminishing Farmland
Fiscal 2009-2018 Est.**



MDA: Maryland Department of Agriculture

Source: Department of Budget and Management

Fiscal 2017 Actions

Two actions impact the MDA fiscal 2017 budget: a proposed deficiency and Section 20 position abolitions.

Proposed Deficiency

The Governor has submitted deficiency appropriations for two programs in fiscal 2017, which would increase MDA's operating budget appropriation by a net of \$1,030,000 in general funds. The Resource Conservation Grants program would receive \$1,100,000 in order to replace funding for the Cover Crop Program that was used for Maryland Agricultural Cost-Share Program projects since the funding restricted for the Maryland Agricultural Cost-Share Program in the Rainy Day Fund as part of the fiscal 2017 budget deliberation was not released by the Administration. This is offset partially by a reduction of \$70,000 in the Office of Plant Industries and Pest Management in order to realize fiscal 2017 salary savings.

Section 20 Position Abolitions

Section 20 of the fiscal 2017 budget bill authorized the Governor to abolish 657.0 regular vacant positions, reduce general fund appropriations by at least \$20 million, and reduce special fund appropriations by at least \$5 million. On June 22, 2016, the Board of Public Works abolished 10.0 MDA positions, as shown in **Exhibit 4**. MDA notes that all 10.0 positions are vacant. The data provided by the Department of Budget and Management (DBM) indicates total salaries funding of \$365,000 for the abolished positions, while the agency reduction was only \$120,000 in general funds. MDA notes that the remaining funding will allow for a reduction in turnover and the ability to hire more people.

Exhibit 4
Section 20 Position Abolitions
June 22, 2016

<u>Program</u>	<u>Title</u>	<u>Fiscal 2017 Salary</u>	<u>Section 20 Reduction</u>	<u>Difference</u>
Central Services	Maintenance Supervisor I Non-licensed	\$38,880		
Maryland Agricultural Land Preservation Foundation	Office Secretary III	30,472		
Weights and Measures	Administrator I	44,017		
Weights and Measures	Metrologist II	38,880		
Food Quality Assurance	Administrative Officer I	36,557		
Food Quality Assurance	Agricultural Commodity Grader	24,056		
Plant Protection and Weed Management	Office Secretary I	32,167		
Resource Conservation Operations	Agricultural Resource Conservation Specialist	36,557		
Resource Conservation Operations	Soil Conservation Associate III	36,557		
Watershed Implementation	Information Technology Staff Specialist	46,857		
Total		\$365,000	\$120,000	\$245,000

Source: Department of Legislative Services

Proposed Budget

The MDA fiscal 2018 adjusted allowance increases by \$2.0 million, or 2.1%, relative to the fiscal 2017 working appropriation, as shown in **Exhibit 5**. The changes by fund in Exhibit 5 reflect an increase of \$3.0 million in general funds, an increase of \$0.4 million in special funds, a decrease of \$0.7 million in federal funds, and a decrease of \$0.7 million in reimbursable funds. The major changes are an increase of \$2.5 million in general funds in the Maryland Agricultural and Resource-Based Industry Development Corporation for the Next Generation Farmland Acquisition Program, and an increase of \$2.0 million for the Rural Maryland Council to improve rural Maryland working and living conditions. Changes in personnel funding are discussed first and then other changes.

Exhibit 5
Proposed Budget
Department of Agriculture
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2016 Actual	\$27,117	\$30,893	\$3,893	\$20,526	\$82,428
Fiscal 2017 Working Appropriation	29,813	34,371	4,340	24,023	92,547
Fiscal 2018 Allowance	<u>32,776</u>	<u>34,765</u>	<u>3,600</u>	<u>23,372</u>	<u>94,513</u>
Fiscal 2017-2018 Amount Change	\$2,963	\$394	-\$740	-\$651	\$1,966
Fiscal 2017-2018 Percent Change	9.9%	1.1%	-17.0%	-2.7%	2.1%

Where It Goes:

Personnel Expenses

Turnover adjustments.....	\$163
Other fringe benefit adjustments.....	-12
Reclassification.....	-32
Social Security contribution.....	-62
Abolished position.....	-214
Retirement contribution including the fiscal 2018 negative deficiency.....	-230
Salaries decrease for Section 20 funding and positions budgeted at base.....	-389
Employee and retiree health insurance.....	-600

Other Changes

Agricultural Policy

Next Generation Farmland Acquisition Program.....	2,500
Rural Maryland Prosperity Investment Fund grants.....	1,781
Animal Waste Technology Fund.....	1,000
High-resolution mass spectrometer purchase.....	300
Spay/Neuter program grants decrease and shift.....	-178
Mosquito control Zika funding.....	-237
Shank/Anderson stream bank restoration project in Antietam Creek.....	-444
Maryland Agricultural Cost-Share Program fiscal 2017 deficiency.....	-1,100

Routine Operations

Travel.....	123
Vehicle purchases.....	91

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Where It Goes:

Soil conservation district computer and software upgrades	50
Credit card processing fees	49
Contractual full-time equivalents	-97
Agricultural land easement costs	-130
Indirect cost reduction in Weights and Measures, State Chemist, and Veterinary Board	-184
Statewide controlled subobjects	-190
Other	8
Total	\$1,966

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

Personnel

The MDA overall personnel expenditures decrease by \$1,376,486 in the fiscal 2018 adjusted allowance. This decrease accounts for an across-the-board contingent reduction for a supplemental pension payment. The personnel changes are as follows.

- **Turnover Adjustments:** There is an increase of \$163,211 as a result of the turnover rate being reduced from 6.40% to 6.17%.
- **Reclassification:** There is a reduction of \$31,935 for reclassification of positions.
- **Social Security Contributions:** Social Security contributions decrease by \$62,341.
- **Abolished position in Plant Industries and Pest Management:** There is a reduction of \$214,398 for 1.0 abolished position in the fiscal 2018 allowance: a vacant designated administration manager senior III position. The position is vacant because the employee moved to the vacant Assistant Secretary position in the Office of Plant Industries and Pest Management program. The assistant secretary position was vacant because of a retirement last year.
- **Salaries Decrease for Section 20 Funding and Positions Budgeted at Base:** Regular earnings decrease by \$388,699 in the fiscal 2018 allowance. This reflects the abolition of 10.0 positions in fiscal 2017, as well as the budgeting of positions at the base level since a number of positions are being actively recruited, which sets the positions back to base. The budgeting of positions at the base level accounts for a greater reduction than might otherwise be the case because it reduces the increment funding for the vacant positions that was provided in fiscal 2017.

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- ***Retirement Contribution Including the Fiscal 2018 Negative Deficiency:*** Retirement contribution costs decrease by \$229,578, which assumes the fiscal 2018 across-the-board contingent reduction of \$100,330 for a supplemental pension payment.
- ***Employee and Retiree Health Insurance:*** Employee and retiree health insurance costs decrease by \$599,663.

Other Changes

Overall, the nonpersonnel portion of the MDA fiscal 2018 adjusted allowance increases by \$3,342,963. The areas of change may be broadly categorized as agricultural policy and routine operations. The biggest changes are an increase of \$2,500,000 in general funds for the Next Generation Farmland Acquisition Program and an increase of \$2,000,000 in general funds for the Rural Maryland Council.

Agricultural Policy

- ***Next Generation Farmland Acquisition Program:*** The fiscal 2018 allowance includes an increase of \$5.0 million in general funds for the Next Generation Farmland Acquisition Program administered by the Maryland Agricultural and Resource-Based Industry Development Corporation, as mandated by Chapter 10 of 2016 (Program Open Space – Transfer Tax Repayment – Use of Funds). However, the funding is reduced by \$2.5 million, contingent upon the enactment of the Budget Reconciliation and Financing Act (BRFA) of 2017 providing funding over two years for the Next Generation Farmland Acquisition Program. As a result, the fiscal 2018 allowance is adjusted to reflect only a \$2.5 million increase for the program.
- ***Rural Maryland Prosperity Investment Fund Grants:*** The Rural Maryland Council receives a \$1,780,956 nonmandated increase in general funds in the fiscal 2018 allowance for grants to improve rural Maryland working and living conditions. This funding is budgeted in the Rural Maryland Prosperity Investment Fund to implement Chapters 469 and 470 of 2014 (Rural Maryland Prosperity Investment Fund – Revisions and Extension of Termination Date). Overall, the Rural Maryland Council funding increases by \$2,000,000 and includes additional funding for contractual full-time equivalents (FTE), travel, and contractual services in addition to the funding for grants. The fiscal 2017 funding is discussed as an issue in this analysis.
- ***Animal Waste Technology Fund:*** The funding for the Animal Waste Technology Fund increases by \$1.0 million in fiscal 2018 in conservation grants to provide incentives to companies that demonstrate ways to manage animal manure. Overall, there is \$2.0 million from the Exelon waste-to-energy alternative compliance payment for this purpose, which replaces the \$1.0 million from the Strategic Energy Investment Fund provided in fiscal 2017. For fiscal 2018, there is also \$1.7 million from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund.

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- ***High-resolution Mass Spectrometer Purchase:*** An increase of \$300,000 in special funds in the State Chemist is budgeted for the planned purchase of a new high-resolution mass spectrometer to replace aging equipment.
- ***Spay/Neuter Programs Decrease and Shift:*** The Spay/Neuter program grant funding decreases by \$178,000 in special funds. There is also a shift in funding: a decrease of \$440,000 in special funds for grants to government agencies and an increase of \$262,000 in special funds for grants to nongovernmental entities.
- ***Mosquito Control Zika Funding:*** Funding in Mosquito Control decreases by \$236,900 in reimbursable funds as the result of the timing of the receipt of Zika virus funding from the Department of Health and Mental Hygiene.
- ***Shank/Anderson Property Stream Bank Restoration Project in Antietam Creek:*** There is a reduction of \$443,960 in reimbursable funds transferred from the Maryland Department of the Environment (MDE) to Resource Conservation Operations due to the completion of Phase III construction of the stream bank restoration of the Shank/Anderson property in the Antietam watershed.
- ***Maryland Agricultural Cost-Share Program Fiscal 2017 Deficiency:*** The fiscal 2018 budget plan includes a fiscal 2017 deficiency for \$1.1 million in general funds in order to replace funding for the Cover Crop Program that was used for the Maryland Agricultural Cost-Share Program. This is one-time funding and so there is a decrease of \$1.1 million in fiscal 2018.

Routine Operations

- ***Travel:*** Travel expenses increase by \$123,133 across the agency. The largest increase is \$50,212, which is associated with the additional funding received by the Rural Maryland Council.
- ***Vehicle Purchases:*** Vehicle purchase costs increased by \$90,946 in fiscal 2018. MDA notes that it receives limited general funds for the purpose of buying vehicles; available funds are budgeted based on age, mileage of vehicles, and mission critical needs.
- ***Soil Conservation District Computer and Software Upgrades:*** The fiscal 2018 allowance includes an increase of \$50,173 in reimbursable funds for upgrades necessary for soil conservation district field staff to access the U.S. Department of Agriculture – Natural Resources Conservation Service computer systems and to update the AutoCAD software for all districts in order to attain economies of scale.
- ***Credit Card Processing Fees:*** There is an increase of \$49,000 in general funds in Administrative Services to reflect the increased use of the company NIC for online payments and thus the increased amount of credit card fees that need to be paid.

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- **Contractual FTEs:** Funding for contractual FTEs decreases by \$97,450 while overall there is a net increase of 0.4 FTEs. MDA notes that contractual FTEs are used to balance workloads on an as-needed basis and fluctuations may be partially explained by the timing of grants. The changes in FTEs by program are shown in **Exhibit 6**.

Exhibit 6
Contractual Full-time Equivalent Changes
Fiscal 2018 Allowance

<u>Program</u>	<u>Change</u>
Food Quality Assurance – Grading	1.90
Food Quality Assurance – Egg Inspection	0.20
Animal Health – Headquarters	-1.20
Forest Pest Management	1.50
Mosquito Control – Administration	-1.10
Mosquito Control – Salisbury	1.10
Plant Protection and Weed Management – Laboratory and Integrated Pest Management	1.60
Plant Protection and Weed Management – Field Operations	-0.10
State Chemist – Administration	-2.00
Resource Conservation Grants – Administration	-1.00
Watershed Implementation Program – Agriculture Certainty	-0.25
Watershed Implementation Program – Special Projects and Research	-0.25
Total	0.40

Source: Department of Budget and Management

-
- **Agricultural Land Easement Costs:** Maryland Agricultural Land Preservation Foundation operating costs for agricultural land easement purchases decreased by \$130,484 due to the fluctuations in the two-year easement acquisition cycle.
 - **Indirect Cost Reduction in Weights and Measures, State Chemist Section, and Veterinary Board:** There was a reduction \$184,394 for indirect charges levied by Central Services for the Weights and Measures program, the State Chemist, and the State Board of Veterinary Medical Examiners.
 - **Statewide Controlled Subobjects:** Statewide controlled subobjects decrease overall by \$189,788. The changes include decreases for DBM paid telecommunications (\$76,627), the

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Enterprise Budgeting System (\$58,018), the statewide personnel system (\$35,670), the Department of Information Technology Services Allocation (\$32,697), and the Office of Administrative Hearings (\$562), which are offset partially by increases for the Retirement administrative fee (\$7,543), OAG administrative fee (\$5,080), and the Annapolis Data Center charges (\$1,163).

Across-the-board Reductions

The fiscal 2018 budget bill includes a \$54.5 million (all funds) across-the-board contingent reduction for a supplemental pension payment. Annual payments are mandated for fiscal 2017 through 2020 if the Unassigned General Fund balance exceeds a certain amount at the close of the fiscal year. This agency's share of these reductions is \$71,847 in general funds, \$25,171 in special funds, and \$3,312 in federal funds. This action is tied to a provision in the BRFA of 2017.

Issues

1. Compliance and Enforcement Inspections and Positions Report Not Submitted

The 2016 *Joint Chairmen's Report* (JCR) included a request for a report on compliance and enforcement inspections and positions in MDA and MDE. The budget committees were concerned that the 2017 Phase III Watershed Implementation Plan (WIP) development period is nearing, and the Administration has not demonstrated sufficient inspector positions and funding to meet the needs of Chesapeake Bay restoration. However, to date, the report has not been submitted. **DLS recommends that MDA comment on why the compliance and enforcement inspections and positions report has not been submitted.**

2. Cover Crop Signup Exceeds Funding Availability

Cover crops are one of the most effective BMPs for reducing nitrogen loads to the Chesapeake Bay and are a substantial portion of the MDA operating budget. Given the funding level in the budget, it is imperative that funding be efficiently applied to the available cover crop acreage opportunities.

Cover Crop Planting History

The Cover Crop Program appears to keep climbing in terms of initial acres but has plateaued at about 500,000 final paid acres. The 2016 to 2017 planting season, which reflects fiscal 2017 funding, has yielded an estimated final acreage of 491,169 acres. **Exhibit 7** shows the cover crop history. Since fiscal 2005, there has been more than an 800% increase in the amount of cover crop acres planted.

Exhibit 7
Cover Crop History
Fiscal 2005-2018 Est.

<u>Fiscal Years</u>	<u>Initial Acres</u>	<u>Approved Acres</u>	<u>Fall Certification</u>	<u>Final Paid Acres</u>	<u>Final Paid Acres as a % Initial Acres</u>
2005	106,934	113,522	56,852	53,515	50.0%
2006	208,932	205,268	135,328	128,638	61.6%
2007	454,881	290,000	243,945	238,674	52.5%
2008	336,780	303,363	203,144	187,479	55.7%
2009	398,225	387,022	237,144	238,870	60.0%
2010	330,468	330,468	205,347	203,796	61.7%
2011	508,304	492,757	400,331	381,257	75.0%
2012	571,427	567,525	429,818	402,000	70.4%
2013	607,433	604,186	415,437	414,558	68.2%
2014	608,427	602,481	423,212	423,079	69.5%
2015	631,375	617,714	475,839	473,790	75.0%
2016	656,173	652,504	501,205	500,022	76.2%
2017 Est.	691,787	689,389	520,000	491,169	71.0%
2018 Est.	680,000	n/a	n/a	482,800	71.0%

Note: The data is as of January 2017. For fiscal 2017, initial, approved, and fall certification acres are actuals but could still be adjusted. Final paid acres for fiscal 2017 is still an estimate. Fiscal 2018 figures are estimates.

Source: Maryland Department of Agriculture; Department of Legislative Services

Fiscal 2017 and 2018 Funding

Exhibit 8 reflects the estimated fiscal 2017 and 2018 funding need and availability. For both fiscal 2017 and 2018, there appears to be insufficient funding from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund, the Bay Restoration Fund, and available fund balance to pay for the estimated 491,169 acres of cover crops in fiscal 2017 and 482,800 in fiscal 2018. MDA notes that cover crop funding is not received until the August following the fiscal year budgeted and that the fiscal 2018 payment per acre will be adjusted in order to handle deficits in the program.

**Exhibit 8
Cover Crop Funding
Fiscal 2017-2018**

	<u>Current 2017</u>	<u>Projected 2018</u>
Projected Signup Acres	\$691,787	\$680,000
Retention Rate	71%	71%
Net Acres	491,169	482,800
Payment Per Acre	50	45
Total Projected Cost	24,558,439	21,726,000
Beginning Fund Balance	\$860,160	-\$1,239,441
Revenues		
Projected Bay Restoration Fund	\$11,562,877	\$11,562,877
Projected 2010 Trust Fund	11,250,000	11,250,000
Total Resources Available	\$23,673,037	\$21,573,436
Expenditures		
Projected Cover Crop Cost	\$24,558,439	\$21,726,000
Administrative Cost	354,039	369,981
Surplus/Deficit	-\$1,239,441	-\$522,545

Source: Maryland Department of Agriculture; Department of Legislative Services

Cover Crop Targeting

MDA noted that in December 2015, it completed a task order with Towson University for the next phase of the online cover crop database, which will allow for the migration of historical cover crop and other Maryland Agricultural Cost-Share Program data into a Microsoft structured query language database. This database will allow for entering application data by soil conservation district with implementation expected for the 2017 to 2018 cover crop program year. MDA notes that it is in the midst of beta testing the mapping of cover crop applications since the software includes Geographic Information Systems mapping capabilities. Training for the Maryland Agricultural Cost-Share Program staff and Soil Conservation Districts is scheduled for February and March 2017. **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.**

3. Rural Maryland Prosperity Investment Fund Allocation Addresses Microscale and Macroscale Concerns

The 2016 JCR included a request for a report on July 1, 2016, on the criteria and rationale for the allocation of the Rural Maryland Prosperity Investment Fund fiscal 2017 funding and a report on January 1, 2017, specifying the actual allocation of funding. The fiscal 2017 working appropriation includes a \$2,000,000 general fund appropriation to the Rural Maryland Prosperity Investment Fund. Chapters 469 and 470 of 2014 (Rural Maryland Prosperity Investment Fund – Revisions and Extension of Termination Date) specify how the funding is to be allocated. The budget committees noted that this was a substantial amount of new funding and found that it would be helpful to understand how the funding received by each of the Rural Maryland Council, and the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDAF) would be used.

The Rural Maryland Council submitted the requested reports, which reflect the overall allocation of funding shown in **Exhibit 9**. Of note, the Rural Maryland Council included both the \$2,000,000 enhancement funding and the \$167,000 base allocation in its budget when it calculated the funding for the Rural Maryland Prosperity Investment Fund for a total allocation of \$2,167,000.

Exhibit 9
Rural Maryland Prosperity Investment Fund Distribution
Fiscal 2017

<u>Calculation</u>	<u>Recipient</u>	<u>Purpose</u>	<u>Amount</u>
Initial \$500,000	Rural Maryland Council/MAERDAF	\$250,000 for operations and \$250,000 for the MAERDAF	\$500,000
One-third of remaining funding (\$1,667,000)	Five Regional Councils	\$111,133 for each regional council	555,667
Two-thirds of remaining funding (\$1,667,000) divided equally	Regional Infrastructure Projects		277,833
	Rural Entrepreneurship Development		277,833
	Rural Community Development, Programmatic Assistance	\$138,917 for Rural Maryland Council and \$138,917 for the MAERDAF	277,834
	Rural Health Care Organizations		277,833
Total			\$2,167,000

MAERDAF: Maryland Agricultural Education and Rural Development Assistance Fund

Source: Maryland Department of Agriculture

Exhibit 10 shows the funding received by the Rural Maryland Council and the MAERDAF. Of note, MAERDAF’s funding reflects the allocation from the Rural Maryland Prosperity Investment Fund and the \$167,000 in general funds that was provided as part of its base budget allocation.

Exhibit 10
Rural Maryland Council and MAERDAF Funding
Fiscal 2017

<u>Program/Allocation Calculation</u>	<u>RMPIF Allocation</u>	<u>Additional Budget Allocation</u>	<u>Total</u>
Rural Maryland Council			
Initial \$500,000	\$250,000		\$250,000
Two-thirds of remaining funding (\$1,667,000) divided equally	138,917		138,917
Subtotal	\$388,917	\$0	\$388,917
MAERDAF			
Initial \$500,000	\$250,000		\$250,000
Two-thirds of remaining funding (\$1,667,000) divided equally	138,917		138,917
Additional Budget Allocation		\$167,000	167,000
Subtotal	\$388,917	\$167,000	\$555,917
Total	\$777,834	\$167,000	\$944,834

MAERDAF: Maryland Agricultural Education and Rural Development Assistance Fund
RMPIF: Rural Maryland Prosperity Investment Fund

Source: Maryland Department of Agriculture; Department of Legislative Services

In terms of the allocation of funding, the Rural Maryland Council provided an additional \$47,056 for Rural Entrepreneurship and \$47,104 for Rural Health Care Organizations relative to what was contemplated in statute and reduced the amount provided for Regional Infrastructure Projects by \$94,158, as shown in **Exhibit 11**. However, the Rural Maryland Council is authorized by statute to reallocate the funds that are provided for Rural Entrepreneurship, Rural Health Care Organizations, and Region Infrastructure Project if there is a lack of sufficient applications requesting the use of money.

Exhibit 11
Statutory Allocation vs. Actual Allocation
Fiscal 2017

<u>Entity</u>	<u>Statutory Allocation</u>	<u>Actual</u>	<u>Difference</u>
Rural Maryland Council	\$388,917	\$388,917	\$0
MAERDAF	388,917	388,917	0
Five Regional Councils	555,667	555,655	-12
Regional Infrastructure Projects	277,833	183,675	-94,158
Rural Entrepreneurship Development	277,833	324,889	47,056
Rural Health Care Organizations	277,833	324,937	47,104
Total	\$2,167,000	\$2,166,990	-\$10

MAERDAF: Maryland Agricultural Education and Rural Development Assistance Fund

Source: Maryland Department of Agriculture; Department of Legislative Services

Overall, the allocation of Rural Maryland Prosperity Investment Fund funding reflects both microscale and macroscale considerations about rural life. On the microscale are the grants to various organizations to support initiatives particular to the organization requesting funding. On the macroscale are grants that involve research on the larger scale drivers of change in rural life. These larger scale concerns are reflected in the following funding.

- **Health Improvement:** Quality health care is a concern in rural areas given the challenges of providing a health care infrastructure for a widely dispersed population. The Rural Maryland Council granted \$30,000 from its own allocation, to the Maryland Rural Health Association to provide partial funding for a Maryland Rural Health Plan. One of the considerations is the impact of the potential repeal of the federal Affordable Care Act.
- **Youth Retention:** High school and college graduates often find gainful employment in short supply in rural areas and many opt for relocation to urban areas where more options are available. A Rural Entrepreneurship Development grant of \$6,500 was provided to Towson University in order to determine the effectiveness of the University of Kansas Red Tire (Redefine Your Retirement) program – a business owner successor program. The idea is to match college graduates interested in running a business with the owners of small/medium sized businesses in rural areas who are planning on retiring. As a result, more rural youth may decide to live close to home.

- **Wealth Transfer Tapping:** The transfer of wealth from the baby boomers to the following generations is estimated to be on the order of \$30 trillion over the next 30 to 40 years and where this wealth is transferred may have a large impact on rural communities. Therefore, rural communities are interested in the charitable giving options that would allow some of this wealth transfer to remain in rural areas. The Rural Maryland Council budgeted \$45,000 for a transfer of wealth study in order to inform solutions to mitigate the burden transferred wealth has on rural communities and to encourage rural philanthropy and investment.
- **Business Financing:** Western Maryland is not served by a Community Development Financial Institution – a specialized community-based financial institution that operates in underserved communities, particularly in low-income communities. Instead, the Tri-County Council for Western Maryland received a grant of \$111,133 in order to support its loan fund program – Summit Financing Solutions – to provide for the business and entrepreneurial communities. Summit Financing Solutions is comprised of two programs: the Western Maryland Revolving Loan Fund, which provides gap financing for small businesses interested in locating to or expanding in Western Maryland, and the State Lottery Terminal Fund, which provides loans to small, minority-, women-, and veteran-owned businesses located within 10 miles of Maryland’s five casinos – Rocky Gap Casino in Western Maryland and elsewhere in the State.

In the future, the Rural Maryland Council would also like to research declining education enrollment in rural areas. **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.**

4. Soil Conservation District Personnel and Funding Assumed Adequate

The budget committees were concerned about the long-term funding stability for the field staff of the 24 soil conservation district offices around the State. These staff undertake important functions in assisting farmers in the preparation and implementation of various plans, including water quality and soil conservation plans, the review and approval of sediment and erosion plans for development and redevelopment projects, and other functions established by law. The budget committees desired more information on the recent history of staffing levels and budgeted amounts, and a longer term plan to ensure adequate staffing for the districts. Therefore, the budget committees requested MDA, as the primary and lead agency responsible for funding assistance to the districts, in active consultation with DBM and the Department of Natural Resources (DNR), to undertake the following assessment and report to the budget committees and the Governor by September 1, 2016:

- the identification of the approved annual funding levels for soil conservation district staffing, the number and types of staff funded, and the funding sources used in each year from fiscal 2008 through 2016, including an explanation of the reasons for annual changes in the amounts and sources of funding for each fiscal year and to what extent these annual appropriations vary from those amounts established under Agriculture Article Section 8-405 and the reasons for any variations;

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- a projected budget plan for fiscal 2018 through 2022, which describes (1) the demand for any additional staff by area and type based on projected workload; and (2) the amounts and sources of funding to support any additional staff along with projected salary and benefit increases; and
- any other pertinent information the agencies believe would be important to include in the report.

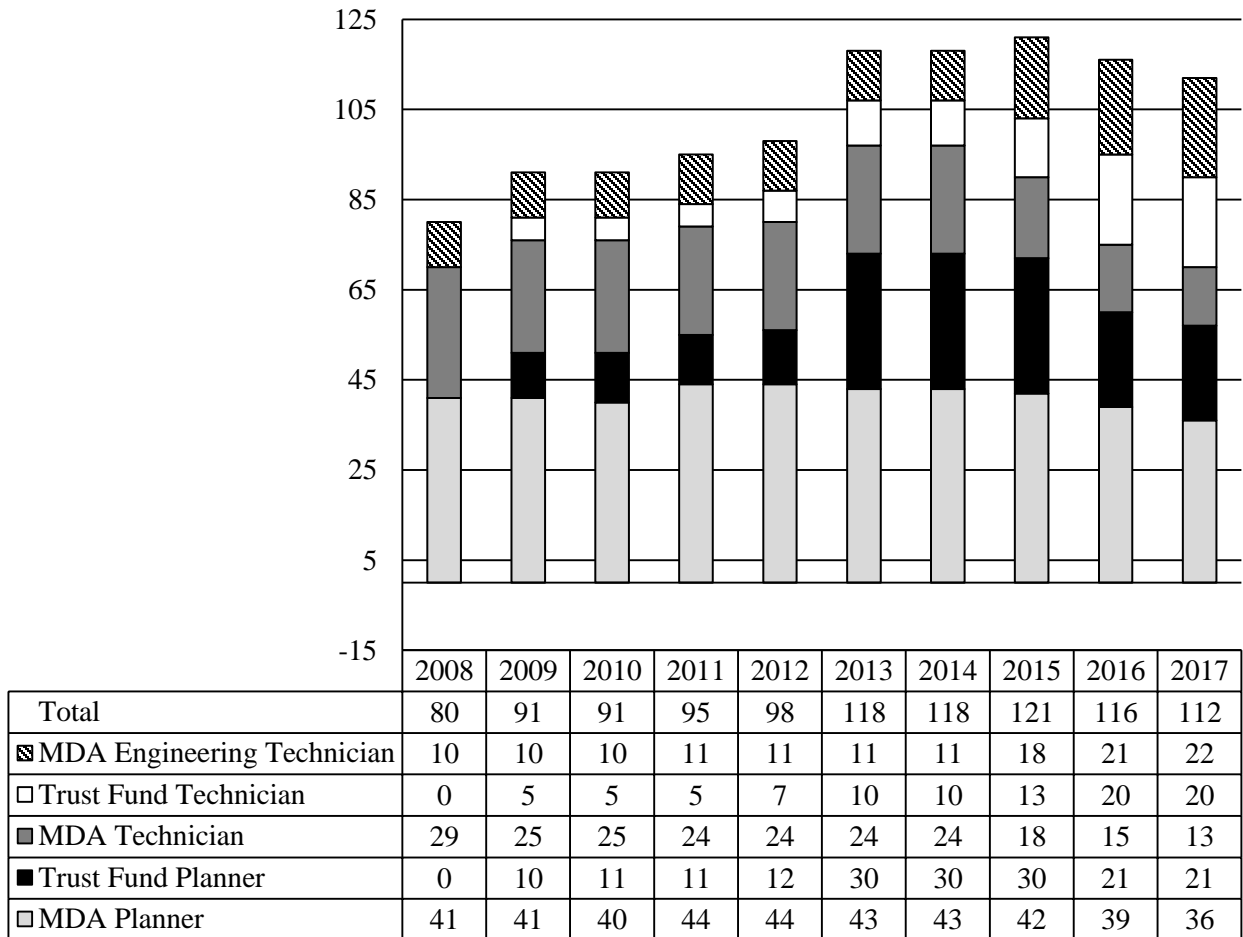
Background

Agriculture Article Section 8-405 requires the Governor to include certain sums in annual proposed budgets over four fiscal years to provide adequate funding for 110 soil conservation district field staff. These funding levels ranged from \$8.8 million in fiscal 2008 up to \$10.0 million in fiscal 2011 and each fiscal year thereafter. In addition to requesting an assessment and report of both the recent history of staffing levels and budgeted amounts, and a longer term plan to ensure adequate staffing for the districts, the budget committees recognized the significant and increasing contribution the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund makes to support district staff. For instance, the budget committees noted that in the proposed fiscal 2017 budget, the amount of this support had increased to \$3.29 million for approximately 50 staff. As a result, the budget committees cautioned that any additional support from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund may erode the purpose of the fund, which is to focus on funding the most cost-effective nonpoint source BMPs in areas targeted geographically or by practice.

Historical Positions and Funding

Exhibits 12 and **Exhibit 13** show historical Soil Conservation District positions and funding. In general, positions peaked at 121 in fiscal 2015, and funding peaked at \$11.7 million in fiscal 2014. Over time, the major change is an increase in reliance on the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund to provide funding for positions. For instance, while not specifically for field positions, \$690,000 of Chesapeake and Atlantic Coastal Bays 2010 Trust Fund appropriation was restricted in DNR's budget in order to fund 14 district managers and 11 secretarial positions in soil conservation districts due to a commensurate funding reduction in MDA's budget. In addition to positions funded with general funds, the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund has also replaced lost federal funds as well. However, the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund has not always replaced lost funding from other sources, so budget constraints and the Voluntary Separation Program have often reduced positions, thus eroding position gains.

Exhibit 12
Soil Conservation District Technical Positions
Fiscal 2008-2017

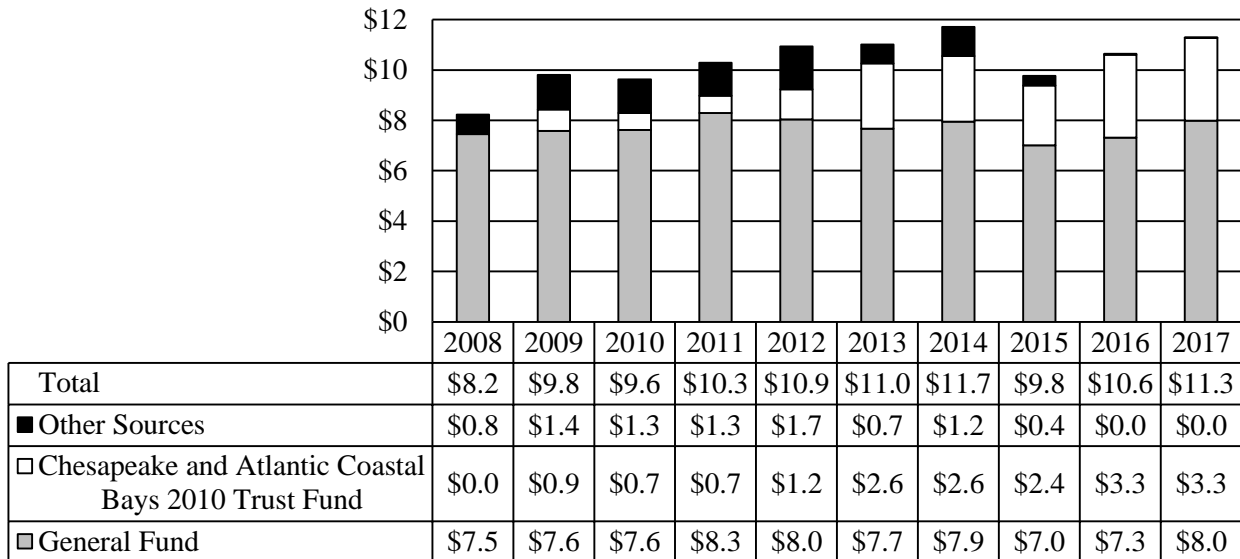


MDA: Maryland Department of Agriculture

Note: Trust Fund reflects a position funded by the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund.

Source: Maryland Department of Agriculture

Exhibit 13
Soil Conservation District Funding
Fiscal 2008-2017
(\$ in Millions)



Note: Other Sources includes special, federal, and reimbursable funds.

Source: Department of Agriculture

Projected Budget Plan

A formal projected budget plan was not provided with the report. Instead, a summary statement was included that indicates that the fiscal 2018 through 2022 workload will be equivalent to fiscal 2017 production levels, which was based on the assumption that the Cover Crop Program, Manure Transport Program, Maryland Agricultural Cost-Share Program BMP status reviews, Concentrated Animal Feeding Operation, and miscellaneous programs stay consistent with fiscal 2016. With this statement, it is implied that no new staffing or funding is needed between fiscal 2018 through 2022. What is not clear is whether it is reasonable to assume that the workloads for the programs noted above will stay consistent with fiscal 2016. For instance, the report notes that the workload associated with the Conservation Reserve Enhancement Program is related to the number of expiring contracts each year and then mentions that there is a substantial increase in expiring contracts over the next three years. In addition, while not noted in the report, interest in nutrient trading may spur additional BMP implementation and the need for verification. Similarly, a change in the Chesapeake Bay water quality model may require additional agricultural BMPs in order to meet the Total Maximum Daily Load (TMDL). MDA notes in the report that a reassessment of staff is anticipated in fiscal 2022.

Other Pertinent Information

The report noted that MDA estimates approximately 700 BMPs and 147,000 acres of soil conservation and water quality plans would be necessary per year to meet the 2025 WIP goal for agriculture as part of the Chesapeake Bay TMDL. In addition, MDA noted that all BMPs will have to be verified to receive initial “credit” and that approximately 10% of BMPs will need to be reverified to receive continued credit. As a result, 22,923 BMPs will be verified starting in July 2017.

DLS recommends that MDA comment on why it is assumed that 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 BMP implementation for nutrient trading, and a change in the Chesapeake Bay water quality model requiring additional agricultural BMPs in order to meet the TMDL. 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 for this purpose should be instituted.

Recommended Actions

	<u>Amount Reduction</u>	
1. Delete the Rural Maryland Council additional funding. The Rural Maryland Council receives an additional \$2,000,000 in general funds in fiscal 2018. This action deletes the \$2,000,000 amount due to the fiscal condition of the State.	\$ 2,000,000	GF
2. Delete the funding for the Next Generation Farmland Acquisition Program. The fiscal 2018 allowance includes \$5,000,000 in general funds for the Next Generation Farmland Acquisition Program as mandated by Chapter 10 of 2016 (Program Open Space – Transfer Tax Repayment – Use of Funds). However, the funding is reduced by \$2,500,000 contingent on the Budget Reconciliation and Financing Act of 2017 providing a provision to fund the program over fiscal 2018 and 2019. This action reduces the remaining \$2,500,000 general fund appropriation due to the fiscal condition of the State.	2,500,000	GF
Total General Fund Reductions	\$ 4,500,000	

Updates

1. MDA Repeat Audit Findings Resolved

Funding had been withheld in each of the MDA fiscal 2015 and 2016 budgets in order to compel resolution of MDA's repeat audit findings. For fiscal 2015, \$100,000 in general funds was withheld and then not released because the findings were not resolved to the satisfaction of the Office of Legislative Audits (OLA). Similarly, \$200,000 in general funds was withheld in MDA's fiscal 2016 appropriation.

OLA submitted its review of the actions taken by MDA to resolve repeat audit findings identified in the April 2013 audit report. Pursuant to OLA's judgment reflected in its March 1, 2016 letter, MDA cumulatively resolved four of the six repeat recommendations that comprised the findings. OLA noted that progress had been made on the remaining findings. Therefore, the budget committees released the \$200,000 in withheld general fund appropriation to MDA.

2. Phosphorus Management Tool Data Inches Closer to 100%

The Phosphorus Management Tool (PMT) was developed by scientists at the University of Maryland and is used to identify agricultural lands where the soil is saturated with phosphorus and has a high risk of runoff. The PMT is a component in the State's Watershed Implementation Plan for Chesapeake Bay restoration and is being used to reduce phosphorus loads. Regulations incorporated the University of Maryland PMT into the State's existing nutrient management planning process effective June 8, 2015. The regulations also added recordkeeping and reporting requirements and established the PMT Transition Advisory Committee within MDA.

Collecting the Phosphorus Management Tool data has been a challenge for MDA; first, because of the reluctance of some nutrient management planners to release the data for their client farmers and second, because of the need to do field level evaluations to collect data to fill information gaps. In general, fields with a Phosphorus Fertility Index value of less than 150 are not subject to additional phosphorus management restrictions while fields with values greater than 150 are subject to increasing restrictions on the management of phosphorus.

Code of Maryland Regulations 15.20.08.11(e) requires MDA to submit an annual report beginning December 1, 2016, and each year thereafter providing a summary of the data collected from farms related to the operational changes created by implementing the PMT; the status of certain programs related to or supporting the transition to the PMT; resource needs considered critical for the effective transition to the PMT; and policy recommendations to enhance the implementation of the

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PMT. The PMT data available as of January 11, 2017, and made available in a presentation to the Senate Education, Health, and Environmental Affairs Committee on January 18, 2017, follows:

- Total Regulated Acres – 1,277,931;
- Total Acres Submitted – 1,038,552;
- Percentage Reported – 84.8%;
- Number of Fields Submitted – 73,647; and
- Phosphorus Fertility Index Value
 - Less than 150 – 79.3% of fields;
 - Between 150 and 499 – 19.1% of fields; and
 - Greater than 500 – 1.6% of fields.

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**Appendix 1
Current and Prior Year Budgets
Department of Agriculture
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2016					
Legislative Appropriation	\$26,645	\$32,081	\$3,984	\$22,736	\$85,446
Deficiency Appropriation	355	0	55	0	410
Budget Amendments	326	852	557	3,449	5,184
Reversions and Cancellations	-210	-2,040	-704	-5,659	-8,612
Actual Expenditures	\$27,117	\$30,893	\$3,893	\$20,526	\$82,428
Fiscal 2017					
Legislative Appropriation	\$29,264	\$34,009	\$3,626	\$23,342	\$90,240
Cost Containment	0	0	0	0	0
Budget Amendments	-480	361	714	681	1,276
Working Appropriation	\$28,783	\$34,371	\$4,340	\$24,023	\$91,517

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2016

The general fund appropriation increased by \$471,311. The changes are as follows.

- **Deficiency Appropriation:** An increase of \$354,960 in Animal Health to reimburse expenses related to preparation for a highly pathogenic avian influenza outbreak, including funding for equipment replacement, supplies and materials, and travel.
- **Budget Amendments:** An increase of \$326,172 due to budget amendments that allocate the funding in Section 48 of the fiscal 2016 budget bill that restored the 2% State salary reduction (\$322,000); and realign appropriations between State agencies based on fiscal 2016 estimated expenditures for telecommunications as provided for in Section 17 of the fiscal 2017 budget bill (\$4,172).
- **Reversions:** A decrease of \$209,821 as a result of reversions, primarily in Plant Protection and Weed Management (\$65,802), Office of Resource Conservation – Nutrient Management (\$51,395), Office of Resource Conservation – Watershed Implementation (\$49,898), the Office of the Secretary – Administrative Services (\$29,610), and other programs (\$13,116).

The special fund appropriation decreased by \$1,187,709. The changes are as follows.

- **Budget Amendments:** An increase of \$851,865 due to budget amendments that allocate the Bay Restoration Fund balance to make cover crop program payments to farmers in Resource Conservation Grants (\$437,865); increased county and other participation revenue in Mosquito Control to increase Zika virus monitoring activities (\$200,000); the funding in Section 48 of the fiscal 2016 budget bill that restored the 2% State salary reduction (\$114,000); and increased license and registration fee revenue in Pesticide Regulation to cover pest data survey costs (\$100,000).
- **Cancellations:** A decrease of \$2,039,574 due to cancellations in Resource Conservation Grants as a result of Bay Restoration Fund revenue coming in after the budget was closed (\$1,018,294); Maryland Agricultural Land Preservation Foundation due to revenue being lower than expected, a position being kept open, and other expenditure reductions (\$209,366); Weights and Measures due to small scale registration revenue being lower than expected and expenditure reductions (\$194,626); Marketing and Agriculture Development due to the Spay/Neuter Grants Program issuing less grant funding than expected (\$158,305); Mosquito Control revenue being lower than expected and thus expenditures were reduced (\$109,582); and other programs (\$349,401).

The federal fund appropriation decreased by \$91,761. The changes are as follows.

- **Deficiency Appropriation:** An increase of \$55,283 in federal funds to reimburse expenses related to preparation for a highly pathogenic avian influenza outbreak, including funding for equipment replacement, supplies and materials, and travel from the U.S. Department of

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Agriculture (USDA) – Animal and Plant Health Inspection Service’s Plant and Animal Disease, Pest Control, and Animal Care funding.

- **Budget Amendments:** An increase of \$556,614 due to budget amendments for technical fees, grants and subsidies, contractual services, and supplies and materials in the Office of Resource Conservation – Watershed Implementation for innovative and emerging technologies that reduce nutrient and sediment runoff into the Chesapeake Bay (\$263,291); for Office of Resource Conservation – Program Planning and Development disbursement of Regional Conservation Partnership Program funding to the Virginia Department of Conservation and Recreation and the Delaware Department of Natural Resources and Environmental Control for accelerating the implementation of Chesapeake Bay watershed conservation measures (\$222,323); for reflecting anticipated USDA Pesticide Data Program grant funding (\$59,000); and for allocating the funding in Section 48 of the fiscal 2016 budget bill that restored the 2% State salary reduction (\$12,000).
- **Cancellations:** A decrease of \$703,658 due to cancellations in Program Planning and Development due to a three-state regional program delay (\$222,323); Watershed Implementation projects not being completed in fiscal 2016 (\$127,535); Pesticide Regulation due to federal grant timing and completion not occurring in fiscal 2016 (\$118,967); Plant Protection and Weed Management due to federal grant timing and completion not occurring in fiscal 2016 (\$95,534); Central Services due to federal indirect billings not meeting projections (\$68,847); State Chemist due to U.S. Department of Agriculture Pesticide Data Program grant funding being billed less than anticipated (\$55,653); and other programs (\$14,799).

The reimbursable fund appropriation decreased by \$2,210,122. The changes are as follows.

- **Budget Amendments:** An increase of \$3,449,014 due to budget amendments that transfer funding from Maryland’s Department of Natural Resources (DNR) to the Maryland Department of Agriculture (MDA) Resource Conservation Grants reflecting carryover balances from fiscal 2015 Chesapeake and Atlantic Coastal Bays 2010 Trust Fund funding that is to be spent by the Animal Waste Technology Fund over the next two years and that is to be spent by the Manure Transport Program over the next year (\$1,877,400); from DNR to MDA’s Watershed Implementation Plan for the web-based Chesapeake Bay Nutrient Trading/Tracking Tool and Adapting Innovative Technologies to Mitigate Phosphorus from Dairy Effluent Grant (\$430,517); from the Maryland Department of the Environment (MDE) for MDA’s Nutrient Management program to cover contractual services related to the Nutrient Management Program Enhancement and Nutrient Management Compliance Specialist projects (\$418,551); internally for indirect cost recovery by Central Services to cover janitorial, building repair, and utilities expenses since the building is over 30 years old (\$350,000); internally from both the State Board of Veterinary Examiners and Weights and Measures programs to the Central Services program to backfill the utilities funding reduced by the 2% cost containment in Section 19 of the fiscal 2016 budget bill (\$150,000); from the Department of Health and Mental Hygiene (DHMH) for surveillance of the *Aedes albopictus* and *Aedes aegypti* mosquitoes and the Zika

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virus (\$100,000); transfer from MDE to MDA’s Watershed Implementation program (WIP) from the grants titled Agricultural Best Management Practice Verification and Agricultural WIP Coordination (\$59,631); from the Department of Commerce to MDA’s Rural Maryland Council for providing the balance of the fiscal 2012 \$250,000 grant that supports development grants to nongovernment entities in rural Maryland jurisdictions (\$43,077); from the Maryland State Department of Education to MDA’s Marketing and Agricultural Development program for events promoting State agriculture and farm products to Maryland school children (\$15,000); and from the State Highway Administration to the MDA’s Plant Protection and Weed Management program for rearing, releasing, and monitoring biological controls for invasive species (\$4,838).

- ***Cancellations:*** A decrease of \$5,659,136 due to cancellations in Resource Conservation Grants, due to projects not being completed and billed in fiscal 2016 (\$4,364,211); Watershed Implementation due to projects not being completed and billed in fiscal 2016 (\$340,405); Central Services due to revenue being lower than anticipated and thus the reduction of expenses (\$313,286); Nutrient Management due to projects not being completed and billed in fiscal 2016 (\$244,220); Resource Conservation Operations due to a Chesapeake Bay Regulatory and Accountability Program project not being completed (\$218,885); Mosquito Control due to a Zika virus agreement being received too late to complete projects (\$100,000); and other programs (\$78,129).

Fiscal 2017

MDA’s general fund appropriation decreases by a net of \$480,312 due to budget amendments. The budget amendments reflect a decrease due to the transfer of funding to the Department of Information Technology related to 10 full-time equivalents (FTE) transferred during calendar 2016 for the Information Technology Enterprise Initiative, as authorized by Section 21 of the fiscal 2017 budget bill (\$791,311), which is offset partially by an increase for the allocation of fiscal 2017 increment funding as authorized in the fiscal 2017 budget bill (\$310,999).

MDA’s special fund appropriation increases by \$361,435 due to budget amendments. The budget amendments provide funding from the National Fish and Wildlife Foundation, which was received in the Private Grants fund for a pilot program to provide grants to farmers for nitrogen incentive payments (\$250,000), and allocate fiscal 2017 increment funding as authorized in the fiscal 2017 budget bill (\$111,435).

MDA federal fund appropriation increases by \$714,377 due to budget amendments. The budget amendments reflect appropriation increases from two agreements under USDA – Natural Resources Conservation Service’s Environmental Quality Incentives Program reflecting an extension of funding until September 30, 2016, for creating a voluntary Agricultural Certainty Program for producers per Chapter 339 of 2013 (Maryland Agricultural Certainty Program) by using an on-farm nutrient assessment and best management credit tool that is consistent with Maryland’s WIP and from new funding that would be used for adapting innovative technologies to eliminate phosphorus from dairy

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manure, primarily in Western Maryland (\$699,544); and allocating the fiscal 2017 increment funding as authorized in the fiscal 2017 budget bill (\$14,833).

MDA's reimbursable fund appropriation increases by \$680,860 due to budget amendments. The budget amendments transfer funding from MDE to MDA's Resource Conservation Operations for Phase III construction of the stream bank restoration of the Shank/Anderson property in the Antietam watershed via work coordinated through the Washington County Soil Conservation District Office (\$443,960), and from DHMH for surveillance of the *Aedes albopictus* and *Aedes aegypti* mosquitoes and the Zika virus, although \$68,450 of the total amount reflects duplicate appropriation (\$236,900).

**Appendix 2
Audit Findings**

Audit Period for Last Audit:	July 16, 2012 – August 20, 2015
Issue Date:	May 2016
Number of Findings:	2
Number of Repeat Findings:	2
% of Repeat Findings:	100%
Rating: (if applicable)	n/a

Finding 1: Adequate controls were not established over cash receipts and the related registrations issued in one unit (two repeat recommendations).

Finding 2: Control deficiencies exist over equipment records and physical inventories (one repeat recommendation).

*Bold denotes item repeated in full or part from preceding audit report.

**Appendix 3
Object/Fund Difference Report
Department of Agriculture**

<u>Object/Fund</u>	<u>FY 16 Actual</u>	<u>FY 17 Working Appropriation</u>	<u>FY 18 Allowance</u>	<u>FY 17 - FY 18 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	380.10	356.10	355.10	-1.00	-0.3%
02 Contractual	44.90	47.30	47.70	0.40	0.8%
Total Positions	425.00	403.40	402.80	-0.60	-0.1%
Objects					
01 Salaries and Wages	\$ 28,551,822	\$ 30,275,973	\$ 28,929,817	-\$ 1,346,156	-4.4%
02 Technical and Spec. Fees	1,555,912	1,543,554	1,446,104	-97,450	-6.3%
03 Communication	730,708	752,605	682,169	-70,436	-9.4%
04 Travel	457,685	360,669	483,802	123,133	34.1%
06 Fuel and Utilities	692,716	802,812	810,301	7,489	0.9%
07 Motor Vehicles	907,038	1,136,564	1,193,542	56,978	5.0%
08 Contractual Services	6,045,746	6,169,070	5,766,151	-402,919	-6.5%
09 Supplies and Materials	1,599,060	1,363,667	1,333,924	-29,743	-2.2%
10 Equipment – Replacement	806,773	207,309	580,140	372,831	179.8%
11 Equipment – Additional	18,068	64,199	35,500	-28,699	-44.7%
12 Grants, Subsidies, and Contributions	35,870,321	43,443,481	50,780,242	7,336,761	16.9%
13 Fixed Charges	5,028,605	5,061,181	4,866,683	-194,498	-3.8%
14 Land and Structures	163,606	335,484	205,000	-130,484	-38.9%
Total Objects	\$ 82,428,060	\$ 91,516,568	\$ 97,113,375	\$ 5,596,807	6.1%
Funds					
01 General Fund	\$ 27,116,530	\$ 28,783,416	\$ 35,348,106	\$ 6,564,690	22.8%
03 Special Fund	30,892,907	34,370,557	34,790,064	419,507	1.2%
05 Federal Fund	3,892,560	4,339,949	3,603,519	-736,430	-17.0%
09 Reimbursable Fund	20,526,063	24,022,646	23,371,686	-650,960	-2.7%
Total Funds	\$ 82,428,060	\$ 91,516,568	\$ 97,113,375	\$ 5,596,807	6.1%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

**Appendix 4
Fiscal Summary
Department of Agriculture**

<u>Program/Unit</u>	<u>FY 16 Actual</u>	<u>FY 17 Wrk Approp</u>	<u>FY 18 Allowance</u>	<u>Change</u>	<u>FY 17 - FY 18 % Change</u>
11 Office Of The Secretary	\$ 8,389,627	\$ 8,248,024	\$ 7,806,668	-\$ 441,356	-5.4%
12 Office Of Marketing, Animal Industries, and Consumer Services	21,378,960	23,962,416	30,386,337	6,423,921	26.8%
14 Office Of Plant Industries And Pest Management	10,623,256	11,019,431	11,116,361	96,930	0.9%
15 Office Of Resource Conservation	42,036,217	48,286,697	47,804,009	-482,688	-1.0%
Total Expenditures	\$ 82,428,060	\$ 91,516,568	\$ 97,113,375	\$ 5,596,807	6.1%
General Fund	\$ 27,116,530	\$ 28,783,416	\$ 35,348,106	\$ 6,564,690	22.8%
Special Fund	30,892,907	34,370,557	34,790,064	419,507	1.2%
Federal Fund	3,892,560	4,339,949	3,603,519	-736,430	-17.0%
Total Appropriations	\$ 61,901,997	\$ 67,493,922	\$ 73,741,689	\$ 6,247,767	9.3%
Reimbursable Fund	\$ 20,526,063	\$ 24,022,646	\$ 23,371,686	-\$ 650,960	-2.7%
Total Funds	\$ 82,428,060	\$ 91,516,568	\$ 97,113,375	\$ 5,596,807	6.1%

Note: Does not include targeted reversions, deficiencies, and contingent reductions.