

D30N00
Maryland Food Center Authority

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>Change</u>	<u>% Change</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>		<u>Prior Year</u>
Nonbudgeted Funds	\$2,461	\$3,001	\$2,923	-\$77	-2.6%
Total Funds	\$2,461	\$3,001	\$2,923	-\$77	-2.6%

- This is a routine budget with no significant changes.

Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>Change</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	
Regular Positions	29.00	29.00	29.00	0.00
Contractual FTEs	0.00	0.00	0.00	0.00
Total Personnel	29.00	29.00	29.00	0.00

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

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Analysis in Brief

Issues

Cost Containment: The Maryland Food Center Authority should eliminate the State 401(k) match consistent with the rest of State government.

Rock Hall Seafood Processing Plant: The clam and oyster processing area of the plant is vacant.

Recommended Actions

1. Nonbudgeted.

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Operating Budget Analysis

Program Description

The Maryland Food Center Authority (MFCA) is a nonbudgeted agency, which develops and oversees authority projects. These projects include the wholesale produce and wholesale seafood markets at the Maryland Food Center in Howard County and the Rock Hall Seafood Processing Plant in Kent County. MFCA's general administration department provides the projects with financial accounting, promotional activities, and expansion opportunities. Land sales, leases, and interest income pay for these services and other authority expenses. MFCA uses market tenant rent and gate fees collected from customers to pay for 24-hour security, grounds keeping, and other maintenance activities at the markets. One Kent County seafood company leases and operates a portion of the Rock Hall plant. MFCA applies plant revenues to additional plant maintenance and improvements.

Performance Analysis: Managing for Results

MFCA continues to pursue new business and expansion of existing facilities to meet the needs of existing tenants of MFCA. Current capital projects include plans for a mixed use food complex adjacent to the seafood market. MFCA continues to pursue several agri-business opportunities.

Wholesale Produce Market Leases

MFCA has recently executed new leases with tenants at the Maryland Wholesale Produce Market. The market remains at full occupancy. Leases were approved by the Board of Public Works (BPW) at the December 4, 2002, meeting as Item #9 on the Secretary's Agenda.

The new leases are effective January 1, 2003, for a five-year term. The \$2.81 per sq. ft. rental rate was increased to \$3.65 per sq. ft. and has a graduated increase each year over the term of the lease. At the end of the five-year term, the rental rate will be \$4.11 per sq. ft. Income from the new leases is critical to covering maintenance projects and initial development plans for new capital facilities. The new leases will produce \$1,211,479 the first year, increasing to \$1,363,533 in the fifth year.

During lease negotiations with the produce tenants, several of the major tenants in the market requested MFCA to build a new market inside the food center to provide a market facility that will meet the future needs of the food industry. Coupled with MFCA's existing plans for the area adjacent to the Maryland Wholesale Seafood Market, the building of new market facilities is planned, with construction to begin within the next three years. Completion of these new market facilities should provide expansion opportunities for growing food businesses currently located in the food center as well as attracting additional market activities to these modern facilities.

Maryland Wholesale Seafood Market

Lease terms continue through June 30, 2004. The seafood market is fully occupied with expressed interest from several tenants to expand within the food center. The expansion of markets adjacent to the seafood market should prove beneficial to house the expansion needs of existing seafood tenants and to make room for new seafood businesses.

Agri-business Incubator Facility

MFCA continues to have a strong interest in providing an agri-business incubator facility. MFCA continues to work with the U.S. Department of Agriculture (USDA), the Maryland Department of Agriculture (MDA), and Howard County government, as well as interested parties throughout the State in the development of a food incubator project. This decision was made based on studies funded by the USDA that determined a demand for the creation of a food incubator processing facility. The inclusion of an incubator facility within the food center remains part of MFCA's plans for future development. Part of this plan includes developing additional food incubator processing facilities in strategic locations throughout Maryland to provide assistance to the farming community. MFCA has been working with the Tri-County Council for Southern Maryland; the Maryland Agricultural Development Commission, and MDA in support of the Cheltenham Market, located in Prince George's County, as the site for a conceptual Southern Maryland Regional Processing Kitchen/Agricultural Business Incubator Park. The Cheltenham Market is currently owned by MDA and is a prime location for a food business incubator.

Flower Market Facility

MFCA leads the initiative and remains active with the Baltimore/Washington International airport cargo division and the Department of Business and Economic Development in planning for the future of the horticultural industry as part of Maryland's agri-business opportunities. Once the new market facilities are complete adjacent to the seafood market, units should become available in the existing produce market for the long talked about need for a facility to warehouse and distribute fresh flowers and other horticultural products.

Cross Dock Facility/Truck Parking

This dual project is located on a 6.6 ± acre site located in the food center. Construction started in September 2002 on the Cross Dock Facility/truck parking lot. MFCA has obtained the necessary building permits, sediment ponds have been installed, and the grading has begun. Due to severe weather conditions, the work was suspended and will resume in the spring when the weather is more favorable. MFCA has entered into an agreement to lease 11,550 sq. ft. cross dock facility to a local seafood distribution company. The majority of products received for distribution will be frozen seafood.

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The truck parking lot, which will be secured and managed by MFCA, should provide relief for the hazardous trailer parking situation on the public roads of the food center. MFCA has commitments from four companies, within the food center that lack adequate on-site parking, to utilize the truck parking lot.

Distribution Center on 5.48-Acre Site

MFCA continues to provide assistance to a food storage distribution company that has leased warehouse space within the food center for over 20 years. The company is expanding and is interested in retaining its operations in Maryland. MFCA, in an effort to meet that company's expansion needs, is working closely with that company in pursuing various options in an effort to purchase two warehouse facilities and to develop an adjacent 5.4-acre site owned by MFCA.

Storm Water Management Pond

The storm water management pond located in the food center has been completely revamped, with over 7,800 cubic yards of unsuitable material removed from the site. Areas surrounding the berm have been cleaned up and regraded. This pond receives the storm water run off for the majority of the 400 ± acre food center. Reseeding and stabilization will be done in the spring of 2003 to complete this project.

Burlington Coat Factory

The Executive Director is currently working with several brokers who have expressed an interest in developing the property.

Market Maintenance Projects

After installing new garage type doors at the seafood market and on the front docks of the produce market, MFCA entered into an agreement to replace the overhead garage type doors on the rear docks of the produce market. The completion date for this project is the end of January 2003.

The paving, sealant, and line striping project at the seafood market was successfully completed in the fall of 2002. This project replaced damaged asphalt and regraded certain areas to provide better drainage.

The railroad replacement, paving, sealant, and line striping projects at the produce market are still underway. 2,400 linear feet of rail was removed adjacent to Building A at the produce market, and 1,200 linear feet of new rail was installed. Several drainage systems were added and/or cleaned out. The open areas will be filled with asphalt as soon as weather permits. The remainder of the project will be completed in the spring. This project covers about one quarter of the 38 acres that surround the produce market. Based on plans to make changes in future building uses at the produce market, a new maintenance program will be designed to meet the needs of MFCA's tenants.

Fiscal 2003 Actions

MFCA operates independently of the State budget process as a nonbudgeted fund agency and, therefore, was not subject to the cost containment to balance the State budget. However, it should be noted, as a part of the budget action approved in the Budget Reconciliation and Financing Act of 2002 (BRFA), MFCA was required to transfer \$3.0 million to the general fund. BRFA also wrote off \$6,371,905 in debt obligations due to the State. The debt obligations were for general obligation bonds issued on behalf of MFCA that had been repaid by the State so the \$3 million went directly into the general fund. This action will enable the authority to get a clean bond counsel opinion necessary to secure financing on any new capital projects. After the transfer, MFCA had cash reserves of \$4,911,645 for maintenance and capital projects.

MFCA Proposed Budget

MFCA as a nonbudgeted fund agency, submits its budget to the General Assembly for informational purposes only. **Exhibit 1** indicates MFCA has a decrease of \$77,421, or 2.6%. The fiscal 2004 budget includes \$10,000 for the State 401(k) match employee deferred compensation. The budget action proposed to eliminate the State 401(k) match does not apply to MFCA because MFCA is not a State budget funded agency included in the budget appropriation bill. The significant item is the \$14,312 decrease in the health insurance contribution when State agencies are seeing substantial increases in this item. Actual expenditures were \$144,699 in fiscal 2002, and the current fiscal 2003 budget for this item is \$175,359; therefore, the \$175,359 budget for fiscal 2004 may be accurate. Still, MFCA should review this item to be sure that they do not come up short at the end of the fiscal year.

Exhibit 1

**Governor's Proposed Budget
Maryland Food Center Authority
(\$ in Thousands)**

	<u>FY 03</u> <u>Budgeted</u>	<u>FY 04</u> <u>Actual</u>	<u>FY 03-04</u> <u>Change</u>	<u>FY 03-04</u> <u>% Change</u>
Nonbudgeted Funds	\$3,001	\$2,993	-\$77	-2.6%
Adjusted Grand Total	\$3,001	\$2,993	-\$77	-2.6%

Where It Goes:

Personnel Expenses

Health Insurance.....				-\$14
401(k) match.....				1
Workers' compensation.....				-44
Increased turnover expectancy.....				-32
Other adjustments.....				1
Sub-total Salaries and Wages 2004 increase			-88	

Contractual:

Authority member expenses.....				2
Contractual payroll.....				7

Operating expenses:

Telecommunications contract mgt.....				11
Telecommunications.....				5
Utilities.....				-10
Advertising and promotional.....				-18
Landfill charges.....				17
Temporary labor.....				14
Miscellaneous services.....				-24
Other contractual services.....				-2
Equipment replacement.....				3
Association and membership dues.....				3
Insurance.....				2
Other changes.....				1

Total				-\$77
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Note: Numbers may not sum to total due to rounding.

Source: Maryland Food Center Authorities Financial Statements

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Financial Position of MFCA

Exhibit 2 indicates that current revenues cover current expenses with MFCA expecting a \$387,311 net income from operations in fiscal 2003 and \$536,200 in fiscal 2004. Actual net income was \$482,204 in fiscal 2002 compared with a projected \$64,740 this time last year. While this is a big improvement, net income of the authority still does not adequately cover for replacement of aging assets.

Exhibit 2

**Modified Statement of Operations
Maryland Food Center Authority
Fiscal 2002 through 2004**

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Estimated</u>	<u>FY 04</u> <u>Estimated</u>	<u>FY 03/04</u> <u>Change</u>
Revenue				
Rental Income	\$2,529,371	\$2,810,599	\$2,945,342	4.8%
Entrance Fees	691,962	695,000	705,000	1.4%
Miscellaneous	10,419	6,000	6,000	0.0%
Interest Income	265,906	123,275	50,000	-59.4%
Total Revenue	\$3,497,658	\$3,634,874	\$3,706,342	2.0%
Expenses				
Operating Budget	\$2,461,353	\$3,000,621	\$2,923,200	-2.6%
Maintenance	30,674	50,000	50,000	0.0%
Taxes	196,427	196,942	196,942	0.0%
Debt Service (Sun Trust)	327,000	0	0	0.0%
Total Expenses	\$3,015,454	\$3,247,563	\$3,170,142	-2.4%
Net Income	\$482,204	\$387,311	\$536,200	38.4%

Source: Maryland Food Center Authority

As noted earlier, MFCA negotiated new leases with tenants of the produce market and current leases for the seafood market expire June 30, 2004. However, operating expenses do not include an allowance for depreciation. MCFA financial statements indicate that several projects will result in increased operating revenue such as: the cross-dock facility, a truck/car parking facility, and other parcels within the food center that are planned. At the close of fiscal 2002 MCFA had no long-term debt and a cash balance of \$4,911,645 with planned capital expenditures, maintenance, and development expenditures of \$3,878,242 in fiscal 2003 and \$1,074,000 in fiscal 2004. **Exhibit 3** provides a summary of MCFA Capital Improvements, Maintenance, and Development projects.

Exhibit 3

**Capital Improvements, Maintenance, and Development Budget
Maryland Food Center Authority
Summary**

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>
Project	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>
Landscaping	\$12,788	\$13,000	\$14,000
Normal maintenance	30,674	50,000	50,000
Consulting/engineering fees	197,006	335,000	335,000
Resource based industries task force study	22,500	-	-
Cross dock/trailer parking		2,090,000	-
Garage doors	115,920	50,000	-
Ramps		140,000	-
Seal concrete decks	-	15,000	-
Canopy netting	-	60,000	60,000
Guardhouse replacement	-	0	40,000
Security cameras/enhanced lighting	-	115,000	75,000
Asphalt repair and sealant	-	226,000	0
Rail removal/asphalt repair and sealant		711,742	500,000
Pick-up truck	24,809	-	-
Packer	42,030	-	-
Dump truck	-	15,000	-
Incubator (southern Maryland)	-	50,000	-
Paint exterior of building	-	7,500	-
Seafood market bond pay-off	281,516	-	-
Transfer to general fund	3,000,000	-	-
Total	\$3,727,243	\$3,878,242	\$1,074,000

Source: MFCA Capital, Maintenance, and Development Budget Fiscal 2004, October 1, 2002

Issues

1. Cost Containment

MFCA is not a State budget in the appropriations bill. Therefore, the budget bill cost containment reductions do not apply to MCFA. MCFA currently has \$10,000 in its fiscal 2004 budget for the State 401(k) employee match. MFCA does not provide an employee transit subsidy so this is not an issue in its current budget.

It is recommended that MFCA terminate the State 401(k) match consistent with the action required of State agencies.

2. Rock Hall Seafood Processing Plant

The plant, one of the last surviving seafood processing plants on the upper Eastern Shore, was rescued and renovated with assistance from a Federal Economic Development Administration (FEDA) grant. Currently, only a portion of the facility is utilized. Notwithstanding aggressive advertising, the clam/oyster processing area is not leased. While MFCA leases boat slips and cold storage to generate additional income, it does not make up the difference. MFCA is considering a waiver request to FEDA to allow the plant to be leased to other food industries.

It is recommended that MFCA advise the budget committees on the status of the waiver and what other industries MFCA is proposing for the facilities.

Recommended Actions

1. Nonbudgeted

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Object/Fund Difference Report
Maryland Food Center Authority

Object/Fund	FY 02 Actual	FY 03 Working Appropriation	FY 04 Allowance	FY 03 - FY 04 Amount Change	Percent Change
Positions					
01 Regular	29.00	29.00	29.00	0	0%
02 Contractual	0	0	0	0	0%
	30.60	30.60	30.60	0	0%
Total Positions	29.00	29.00	29.00	0	0%
Objects					
01 Salaries and Wages	\$ 1,312,705	\$ 1,653,581	\$ 1,565,636	-\$87,945	-5.3%
02 Technical & Spec Fees	32,910	40,980	50,717	9,737	23.8%
03 Communication	39,469	36,650	53,045	16,395	44.7%
04 Travel	49,596	63,950	63,950	0	0%
06 Fuel & Utilities	147,724	163,500	153,350	10,150	6.2%
07 Motor Vehicles	108,128	116,154	117,855	1,701	1.5%
08 Contractual Services	691,842	814,213	801,553	-12,660	-1.5%
09 Supplies & Materials	36,584	49,505	49,438	-67	-0.1%
10 Equip - Replacement	7,516	17,650	20,650	3,000	17.0%
11 Equip - Additional	3,687	14,200	13,800	-400	-2.8%
13 Fixed Charges	31,192	30,238	33,206	2,968	9.8%
Total Objects	\$ 2,461,353	\$ 3,000,661	\$ 2,923,200	\$ 77,421	-2.6%
Funds					
07 Nonbudgeted fund	\$ 2,461,353	\$ 3,000,661	\$ 2,923,200	-\$ 77,421	-2.6%
Total Funds	\$ 2,461,353	\$ 3,000,661	\$ 2,923,200	-\$ 77,421	-2.6%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.

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Unit/Program	FY02 Actual	Original Budget	Working Budget	FY02 -03 % Change	FY04 Allowance	FY03 - FY04 % Change
41 Administration	\$ 781,226	\$1,130,050	\$ 1,186,364	51.9%	\$ 1,088,589	-8.2%
42 Maryland Wholesale Produce Market	1,052,666	1,134,633	1,153,589	9.6%	1,148,301	-0.5%
46 Rock Hall Seafood Processing Plant	15,558	24,929	25,056	61.0%	15,465	-38.3%
47 Maryland Wholesale Seafood Market	611,898	613,890	635,612	3.9%	670,845	5.5%
Total Expenditures	\$ 2,461,348	\$2,903,502	\$ 3,000,621	21.9%	\$ 2,923,200	-2.6%
Nonbudgeted Fund	\$ 2,461,348	\$2,903,502	\$ 3,000,621	23.3%	\$ 2,923,200	-2.6%
Total Appropriations	\$ 2,461,348	\$ 2,903,502	\$ 3,000,621	23.3%	\$ 2,923,200	-2.6%