

D30N00
Maryland Food Center Authority

Operating Budget Data

(\$ in Thousands)

	FY 05 <u>Actual</u>	FY 06 <u>Working</u>	FY 07 <u>Allowance</u>	FY 06-07 <u>Change</u>	% Change <u>Prior Year</u>
Nonbudgeted Fund	<u>\$3,709</u>	<u>\$4,221</u>	<u>\$4,394</u>	<u>\$172</u>	<u>4.1%</u>
Total Funds	\$3,709	\$4,221	\$4,394	\$172	4.1%

- This is a routine budget with no significant changes.

Personnel Data

	FY 05 <u>Actual</u>	FY 06 <u>Working</u>	FY 07 <u>Allowance</u>	FY 06-07 <u>Change</u>
Regular Positions	30.00	31.60	31.60	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	30.00	31.60	31.60	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	0.00	0.00%
Positions Vacant as of 12/31/05	0.00	0.00%

- A new information technology position was added in the Produce Market Program for fiscal 2006 but was not included in the State budget count. The personnel data has been corrected to reflect the new position added in fiscal 2006.

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

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Analysis in Brief

Issues

Maryland Food Center Authority Operating Deficit: The Maryland Food Center Authority (MFCA) has a projected operating deficit of \$227,292 in fiscal 2006 and \$385,163 in fiscal 2007.

Rock Hall Seafood Processing Plant: The plant is currently vacant. MCFA plans to turn the facility over to the town of Rock Hall.

Recommended Actions

1. Nonbudgeted.

D30N00
Maryland Food Center Authority

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. MFCA is planning to lease the now vacant Rock Hall Seafood Processing Plant in Kent County to the town of Rock Hall.

MFCA's enabling legislation will become part of a new volume of the Maryland Code entitled the Economic Development Article. The code revision review has revealed certain ambiguities and obsolete provisions which would benefit from clean-up legislation during the 2006 session. Legislation is currently being drafted.

Performance Analysis: Managing for Results

MFCA meets with all businesses within the 400-acre Maryland Food Center (MFC) to discuss issues and/or problems that may arise and discuss plans to improve food center operations. These issues often relate to matters such as increased crime, snow emergency situations, security, and traffic.

In September 2005, the XXIV Congress of the World Union of Wholesale Markets was hosted by MFCA and the United States Department of Agriculture in Baltimore. This international event showcased the Maryland wholesale food industry and examined food distribution issues of importance worldwide. It attracted participants from approximately 30 countries. The executive director of MFCA is the first American to be elected vice-chairman of the World Union and will assume the chairmanship of this global organization in the spring of 2006.

Maryland Food Center Traffic Study

In order to address recent concerns regarding traffic congestion, MFCA in conjunction with the Baltimore Metropolitan Council, URS Corporation, and Howard County performed a traffic study to evaluate strategies for improvement of conditions in and around the food center, including anticipated impacts of future expansion activity which could exacerbate existing conditions.

A truck parking lot constructed by MFCA on Tar Bay Drive is being utilized by warehousing companies in MFC. Use of this parking lot has eliminated some of the serious congestion and traffic issues on roads within the MFC.

University of Maryland Supply Chain Management Study

The wholesale food distribution industry in the United States is in transition. MFCA recognized the need for a comprehensive evaluation of emerging trends before risking substantial future investment in expanded market facilities. At the initiative of MFCA, the University of Maryland, Robert H. Smith School of Business, Supply Chain Management Center has undertaken a national study of the role of the major wholesale markets in the United States in the future of wholesale food distribution. Other organizations have participated, including United States Department of Agriculture and the National Association of Produce Market Managers.

This study has two elements: to perform a base-line analysis to identify how markets operate today and to identify companies which exemplify best practices. One goal of this study is to evaluate obstacles to best practices in the ownership structures and in the way current wholesale markets are managed, designed, and operated. These studies can serve the ongoing effort to provide the most efficient, effective use of the produce market facilities and make informed decisions about further investment.

Renovation and Expansion of Facilities

MFCA has continued meetings with tenants of both the produce and seafood markets regarding redevelopment options. These include expansion of the existing facilities; interior renovation and retrofitting of the facilities; or building new facilities. New facilities include the development of the acreage adjacent to and east of the seafood market – a 5.5-acre and .75-acre site on Oceano Avenue.

MFCA has retained the services of a local engineering firm to perform civil engineering services relating to improved and unimproved parcels. These services include site planning and analysis, surveys, layout and design specifications, construction drawings, engineering studies, environmental studies, utility design, sanitation design and assessments, cost estimates, reports, presentations, comprehensive submittal, review, revision and coordination with jurisdictional permitting agencies, assistance with procurement or contractors, construction/project management including on-site supervision, and inspections for the above mentioned sites.

MFCA has also retained the services of an architectural firm to perform general architectural, structural, mechanical, plumbing, and electrical design services relating to improved and unimproved parcels including but not limited to design and specifications, construction drawings, analysis and surveys, cost estimates, reports, presentations, comprehensive submittal, review, revision and coordination with jurisdictional permitting agencies, assistance with procurement of contractors, construction/project management including on-site supervision and inspections.

MFCA Fiscal 2006 Actions

There was a significant 19.5% increase of \$300,210 in salaries and wages in fiscal 2006 over fiscal 2005. The significant items include a new position added in fiscal 2006, employee health insurance, retirement contribution, employee deferred compensation to be paid in fiscal 2006, and the employee pay increase for fiscal 2006. MFCA added an information technology position (\$45,000) in fiscal 2006 to maintain its computer network. Health insurance costs increased \$66,286. The retirement contribution increased \$17,409. The employee 401(k) deferred compensation match is \$9,000; there were no payments made in 2005. The fiscal 2006 budget was adjusted to include the 1.5% general pay increase given to all State employees.

MFCA Fiscal 2007 Proposed Budget

MFCA, a nonbudgeted fund agency, submits its budget to the General Assembly for informational purposes only. **Exhibit 1** indicates MFCA has a \$172,347 increase in fiscal 2007. The significant item in salaries is the \$25,743 for salary increments and pay adjustments. The MFCA budget does not include the Governor's proposed 2% salary increase for State employees. If the proposed pay increase is adopted, MFCA will amend its fiscal 2007 budget to include the increase.

The \$27,550 increase in travel and \$58,550 increase in utilities are the significant items in other operating expenses. In the administration program travel budget, in-state conference expense is increased \$14,000 from \$16,000 in fiscal 2006 and out-of-state conference expense is increased \$12,650 from \$42,150 in fiscal 2006. The utility increase reflects a \$1,896 increase in natural gas from \$10,100, \$13,411 in electricity from \$66,911, and a \$43,243 increase in water and sewer rates from \$106,700 in fiscal 2006. The actual sewer and water expense was \$136,113 in fiscal 2005. The amount budgeted for natural gas is probably not realistic as there has been a substantial increase in natural gas rates since fiscal 2005. While natural gas prices have retreated somewhat, from the Hurricane Katrina driven increases in September 2005, they are still expected to be between 30% and 50% higher than last winter.

Exhibit 1
Governor's Proposed Budget
Maryland Food Center Authority
(\$ in Thousands)

How Much It Grows:	Nonbudgeted	
	<u>Fund</u>	<u>Total</u>
2006 Working Appropriation	\$4,221	\$4,221
2007 Governor's Allowance	<u>4,394</u>	<u>4,394</u>
Amount Change	\$172	\$172
Percent Change	4.1%	4.1%
 Where It Goes:		
Personnel Expenses		
Increments and other compensation		\$26
Employee and retiree health insurance		9
Employee retiree contribution		5
Deferred compensation contribution		3
Overtime and other adjustments		6
Other Changes		
Technical and special fees		-22
Travel.....		28
Fuel and utilities		59
Motor vehicle operations		14
Depreciation and taxes.....		33
Insurance coverage		8
Other adjustments.....		3
Total		\$172

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

MFCA Financial Statement

The MFCA modified statement of operations projects an operating deficit for fiscal 2006 and 2007 as shown in **Exhibit 2**. The following is a discussion of the MCFA items as they relate to the financial statement.

Wholesale Produce Market Leases

MFCA executed new five-year leases with 20 tenants at the Maryland Wholesale Produce Market beginning January 1, 2003. The \$2.81 per square foot rental rate was increased to \$3.65 per square foot on January 1, 2003, with graduated increases each year over the term of the lease. At the end of the five-year term, the rental rate will be \$4.11 per square foot. This translates into an average rent of \$13,177.85 per unit in fiscal 2006 and \$13,573.19 per unit in fiscal 2007 for the 100.5 produce market units. The produce market rent indicated in Exhibit 2 anticipates revenue of \$1,317,780 for fiscal 2006 and \$1,357,320 in fiscal 2007 from tenants. The market remains at full occupancy. Income from the leases is critical to covering maintenance projects and initial development plans for new capital facilities.

Operating expenses are charged back to tenants. Operating expenses not covered by entrance fees allocated to the produce market are charged back to tenants. Exhibit 2 anticipates that operating expenses will be \$452,076 for produce market tenants, but it is likely this will be increased. The fiscal 2005 charge back amount was \$597,769.

Maryland Wholesale Seafood Market

MCFA has leases with 11 tenants for the 35 seafood market units with a lease term through December 31, 2010. The per unit lease for the 35 seafood units in calendar 2006 is \$13,177.85 and \$13,573.19 in 2007. Exhibit 2 anticipates \$447,791 in fiscal 2006 and \$468,143 in fiscal 2007 from seafood market tenants. Income from the leases is critical to covering maintenance projects and initial development plans for new capital projects for the seafood market. Like the produce market, operating expenses for the seafood market are charged back to tenants. Exhibit 2 anticipates that \$719,040 will be charged back to tenants in fiscal 2006 and 2007, but this will be adjusted to reflect actual expenses. The fiscal 2005 charge back was \$664,827. The seafood market is fully occupied.

Cross Dock Facility and Truck Parking

MCFA has entered into an agreement with Seacap, a local seafood distribution company, to lease the newly constructed 11,550 square foot Cross Dock Facility. The \$87,780 rental income will be used to maintain this facility and to increase operating revenue.

Adjacent to the Cross Dock Facility is an approximate 4-acre truck parking lot for the primary use of food center companies. MCFA has licensing agreements for the parking lot to provide necessary trailer spaces for business within the food center. Exhibit 2 anticipates \$94,800 each year from truck user fees.

Exhibit 2
Modified Statement of Operations
Maryland Food Center Authority
Fiscal 2005 – 2007

	<u>Actual</u> <u>FY 2005</u>	<u>Estimated</u> <u>FY 2006</u>	<u>Estimated</u> <u>FY 2007</u>	<u>Change</u> <u>FY 2006/2007</u>
Revenue				
Produce Market Rent	\$1,246,393	\$1,317,780	\$1,357,320	3.00%
Seafood Market Rent	445,427	447,791	468,143	4.54%
Charge Back Tenant Taxes	25,663	25,788	25,788	0.00%
SYSCO Rent	122,745	122,745	122,745	0.00%
Seacap	87,780	87,780	87,780	0.00%
Truck Parking Rent	6,000	94,800	94,800	0.00%
Charge Back Tenant Expenses				
Produce Market	597,769	452,076	452,076	0.00%
Seafood Market	664,827	719,040	719,040	0.00%
Rock Hall Seafood Plant	5,812	-	-	
Rental Income	\$3,202,416	\$3,267,800	\$3,327,692	1.83%
Entrance Fees	567,736	579,091	590,673	2.00%
Miscellaneous	10,000	0	0	0.00%
Interest	98,546	90,000	90,000	0.00%
Total Operating Revenue	\$3,878,698	\$3,936,891	\$4,008,365	1.82%
Expenses				
Operating Budget	\$3,431,397	\$3,945,249	\$4,112,811	4.25%
Capital Facilities Maintenance	52,780	48,516	51,049	5.22%
Taxes	224,599	225,165	229,668	2.00%
Debt Service (Sun Trust)	0	0	-	
Total Expenses	\$3,708,776	\$4,218,930	\$4,393,528	4.14%
Net Income	\$169,922	-\$282,039	-\$385,163	36.56%
Nonrecurring Revenue from Land Covenant Agreement*	\$710,769			
Adjusted Net Income	\$880,691			

*MFCFA treats revenue from a land covenant agreement as nonrecurring \$710,769 revenue equal to the present value of \$1,000,000 paid in annual installments of \$100,000 over 10 years.

Source: Maryland Food Center Authority

SYSCO Distribution Center

MFCA continues to provide assistance to SYSCO, 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. Exhibit 2 indicates \$122,745 revenue from the SYSCO lease.

Former Burlington Coat Factory Site

The 14-acre site located in the food center, formerly owned by Burlington Coat Factory was purchased by Atlantic Realty Companies of Vienna, Virginia. This was previously an underutilized facility attracting crime and was an objectionable eyesore to the community. Redevelopment of the site by Atlantic Realty should accomplish the following benefits: (1) clean up the derelict and nonconforming condition of the site which presented an invitation for criminal activity; (2) thoroughly renovate the prominent corner property consistent with Route 1 revitalization efforts in Howard County; (3) resolve open litigation over the recorded covenants on the site by dismissal of the action; (4) support ongoing programs of MFCA; (5) stimulate new jobs and economic activity; (6) provide ancillary retail and service operations at the renovated facilities of benefit to the public and to the thousands of employees working at MFC; and (7) generally improve the public attractiveness and convenience of MFC.

As a part of this agreement to dismiss the covenant lawsuit and permit development of this site targeted to beneficial retail and service operations, MFCA expects to receive annual financial support for MFCA operations in the amount of \$100,000 over a period of 10 years. MFCA has included revenue from the land covenant agreement at the present value of \$100,000 annual payments over the next 10 years as a nonrecurring \$710,769 item. MFCA is currently investigating and considering options for applying these funds to enhanced security for the entire food center.

MFCA Fiscal 2005 Actual Expenditures as Reported in the Financial Statement

The MCFA financial statement indicates operating expenses were \$3,906,598 in fiscal 2005. MCFA has indicated to the Department of Legislative Services (DLS) that this amount is incorrect due to accounting errors in the financial statement. The financial statement should have indicated actual expenditures of \$3,708,776 for 2005, consistent with the expenditures recorded in the State budget. MCFA has provided documentation to DLS as indicated in **Exhibit 3** to reconcile and adjust the \$3,906,598 to the correct number, \$3,708,776. The MCFA auditor, Clifton Gunderson LLP, included capital expenses of \$220,537 in the operating budget. Deducting the capital expenses and adding in \$1,719 in salaries and contractual services not included in the audited statement, brings the 2005 actual to \$3,708,776.

Exhibit 3
Reconcile Modified Statement of Operation to State Budget
Maryland Food Center Authority
Fiscal 2005 – 2007

	Fiscal 2005	Fiscal 2006	Fiscal 2007
	<u>Actual</u>	<u>Amended</u>	<u>Request</u>
Number of Authorized Positions	30	31.6	31.6
Salaries, Wages, and Fringe Benefits	\$1,542,572	\$1,842,782	\$1,891,257
Technical and Special Fees	20,548	56,998	34,981
Operating Expenses			
Communication	54,589	58,000	56,420
Travel	60,928	63,650	91,200
Fuel and Utilities	205,260	170,300	228,850
Motor Vehicle Operation and Maintenance	107,326	136,886	150,900
Contractual Services	792,709	911,250	895,592
Supplies and Materials	52,780	48,516	51,049
Equipment/Replacement	5,329	25,950	25,658
Equipment/Additional	4,462	12,850	32,528
Fixed Charges	862,273	894,001	935,094
Subtotal Other Operating Expenses	\$2,145,655	\$2,321,403	\$2,467,291
Total Expenditures	\$3,708,776	\$4,221,183	\$4,393,529
MFCA Salary Adjustment			
Workers' Compensation	-\$20,996		
<i>Capital Improvements Included</i>			
<i>Incorrectly on Financial Statement as</i>			
<i>Administrative Expenses</i>			
Fuel and Utilities	890		
Contractual Services	176,742		
Equipment/Additional	42,905		
<i>MFCA Difference with Auditor</i>			
Salaries	-1,493		
Contractual Services	-325		
Other	99		
Total	\$3,906,598		

Source: Maryland Food Market Authority, January 2006

Market Capital Improvements, Maintenance and Development Projects

At the close of fiscal 2005 MFCA had no long-term debt and a cash balance of \$1,942,185. **Exhibit 4** provides a summary of MFCA capital improvements, maintenance, and development projects. There were two significant capital projects in fiscal 2005. In 2005, MFCA replaced the roof of a large section on each of the produce market buildings (\$672,979) and completed the Cross Dock/Truck Parking Facility (\$134,302).

In fiscal 2006, the Man Door Replacement (\$210,000) and security camera/perimeter lighting (\$240,000) are the significant projects. MFCA has engaged the services of a security company to replace existing cameras and access system for the entrance into this market. Additionally, MFCA has contracted with Verizon to install fiber optics throughout the market in order to provide security cameras throughout the market property, including the extensive docks. The security/perimeter lighting project will be completed in fiscal 2007. There are no other significant capital projects scheduled for fiscal 2007 at this time.

Exhibit 4
Capital Improvements, Maintenance, and Development Budget
Maryland Food Center Authority
Summary
Fiscal 2005–2007

<u>Project</u>	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Budget</u>	<u>FY 07</u> <u>Budget</u>
Landscaping	\$13,700	\$15,000	\$16,000
Normal Maintenance	18,575	163,025	54,525
Consulting/Engineering Fees	4,950	285,000	14,500
Cross Dock/Trailer Parking Facility	134,302	-	-
Security Cameras/Enhanced Lighting	16,680	240,000	30,000
Market Lighting	-	125,000	-
Seal Concrete Docks/Floor Repair	21,297	-	-
Garage Doors	2,300	-	-
Ramps	44,043	-	-
Rail Removal/Asphalt Repair and Sealant	12,574	-	-
Roof Replacement	672,979	-	-
Food Industry Study	89,030	40,000	-
T1 lines – HLH Building	6,380	-	-
Cameras – HLH Building	-	45,000	-
Traffic Study	9,650	-	-
Man Door Replacement	-	210,000	-
Welding Equipment	2,499	-	-
Fire Damage Restoration	43,882	-	-
Seafood Market Expansion	1,669	-	-
Total	\$1,094,510	\$1,123,025	\$115,025

Note: Operating Statement.

Source: Maryland Food Center Authority budget for fiscal 2005, October 20, 2003

Issues

1. MCFA Operating Deficit

The MFCA operating statement, Exhibit 2, indicates MFCA will have a projected operating deficit of \$227,292 in fiscal 2006 and \$229,668 in fiscal 2007.

Current revenues covered current expenses in fiscal 2005 but are not expected to cover operating expenses in fiscal 2006 and 2007 when depreciation is included. Depreciation expenses were \$315,247 in fiscal 2005, and budgeted for \$622,257 in fiscal 2006 and \$652,805 in fiscal 2007. **It is recommended that the charge back of expenses to tenants include full recovery of depreciation expenses.**

2. Rock Hall Seafood Processing Plant

The Rock Hall Sea Food Processing Plant is currently vacant. In the past, the cost of administration and operation of the plant were offset by fees charged to watermen for processing and, in part, subsidized by MCFA funds. Currently, due to the depressed crab and oyster harvesting economy on the bay, the facility is no longer used as a seafood processing plant. MFCA is preparing to lease the former Rock Hall Seafood Processing Plant to the town of Rock Hall. The town of Rock Hall will accept responsibility for subleasing and operation of the facility in accordance with all applicable laws and regulations, and MFCA will participate in rent revenues received. **It is recommended that MCFA brief the committees on the plans for the future use of this now vacant facility.**

Recommended Actions

1. Nonbudgeted.

Audit Findings

Audit Period for Last Audit:	July 1, 2001 – December 20, 2004
Issue Date:	May 2005
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	None

Finding 1: MFCA had not established sufficient accountability and control over collections to ensure all funds were deposited.

Finding 2: Proper internal control was not established over the authority's regular payroll.

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

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	30.00	31.60	31.60	0	0%
Total Positions	30.00	31.60	31.60	0	0%
Objects					
01 Salaries and Wages	\$ 1,542,573	\$ 1,842,783	\$ 1,891,257	\$ 48,474	2.6%
02 Technical & Spec Fees	20,548	56,998	34,982	-22,016	-38.6%
03 Communication	54,590	58,000	56,420	-1,580	-2.7%
04 Travel	60,927	63,650	91,200	27,550	43.3%
06 Fuel & Utilities	205,260	170,300	228,850	58,550	34.4%
07 Motor Vehicles	107,326	136,886	150,900	14,014	10.2%
08 Contractual Services	792,709	911,250	895,592	-15,658	-1.7%
09 Supplies & Materials	52,780	48,516	51,049	2,533	5.2%
10 Equip – Replacement	5,329	25,950	25,658	-292	-1.1%
11 Equip – Additional	4,462	12,850	32,528	19,678	153.1%
13 Fixed Charges	862,273	894,000	935,094	41,094	4.6%
Total Objects	\$ 3,708,776	\$ 4,221,183	\$ 4,393,530	\$ 172,347	4.1%
Funds					
07 Nonbudgeted Fund	\$ 3,708,776	\$ 4,221,183	\$ 4,393,530	\$ 172,347	4.1%
Total Funds	\$ 3,708,776	\$ 4,221,183	\$ 4,393,530	\$ 172,347	4.1%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.

**Fiscal Summary
Maryland Food Center Authority**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
41 Administration	\$ 1,857,096	\$ 2,109,298	\$ 2,151,981	\$ 42,683	2.0%
42 Maryland Wholesale Produce Market	1,026,864	1,231,294	1,290,393	59,099	4.8%
46 Rock Hall Seafood Processing Plant	353	0	0	0	0%
47 Maryland Wholesale Seafood Market	803,466	880,591	951,156	70,565	8.0%
Total Expenditures	\$ 3,687,780	\$ 4,221,183	\$ 4,393,530	\$ 172,347	4.1%
Nonbudgeted Fund	\$ 3,708,776	\$ 4,221,183	\$ 4,393,530	\$ 172,347	4.1%
Total Appropriations	\$ 3,708,776	\$ 4,221,183	\$ 4,393,530	\$ 172,347	4.1%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.