

L00A
Department of Agriculture

Operating Budget Data

	(\$ in Thousands)				
	<u>FY 10</u> <u>Actual</u>	<u>FY 11</u> <u>Working</u>	<u>FY 12</u> <u>Allowance</u>	<u>FY 11-12</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$25,236	\$27,578	\$27,530	-\$48	-0.2%
Contingent & Back of Bill Reductions	0	0	-2,152	-2,152	
Adjusted General Fund	\$25,236	\$27,578	\$25,378	-\$2,200	-8.0%
Special Fund	24,643	32,979	36,655	3,676	11.1%
Contingent & Back of Bill Reductions	0	0	-84	-84	
Adjusted Special Fund	\$24,643	\$32,979	\$36,571	\$3,592	10.9%
Federal Fund	4,498	4,569	4,301	-268	-5.9%
Contingent & Back of Bill Reductions	0	0	-13	-13	
Adjusted Federal Fund	\$4,498	\$4,569	\$4,288	-\$281	-6.1%
Reimbursable Fund	2,358	11,143	3,804	-7,339	-65.9%
Contingent & Back of Bill Reductions	0	0	-10	-10	
Adjusted Reimbursable Fund	\$2,358	\$11,143	\$3,794	-\$7,349	-66.0%
Adjusted Grand Total	\$56,736	\$76,270	\$70,032	-\$6,238	-8.2%

- The budget withdraws (negative deficiency) \$250,000 of fiscal 2011 general funds for the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) as a cost saving measure.
- The Maryland Department of Agriculture's (MDA) budget decreases \$6.2 million, or 8.2%. The major change is a reduction of \$7.3 million in reimbursable funds, which reflects an unneeded reimbursable fund appropriation of \$8.2 million from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund since funding was brought in via a special fund budget amendment. A reduction contingent on the Budget Reconciliation and Financing Act of 2011 would reduce MARBIDCO's appropriation by \$1.75 million in general funds.
- Adjusting for the withdrawal of \$250,000 in general funds and the unneeded \$8.2 million in reimbursable fund appropriation, both in fiscal 2011, the budget increases 3.3% between fiscal 2011 and 2012.

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

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Personnel Data

	<u>FY 10 Actual</u>	<u>FY 11 Working</u>	<u>FY 12 Allowance</u>	<u>FY 11-12 Change</u>
Regular Positions	405.50	404.50	404.50	0.00
Contractual FTEs	<u>48.85</u>	<u>49.55</u>	<u>44.85</u>	<u>-4.70</u>
Total Personnel	454.35	454.05	449.35	-4.70

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	28.36	7.01%
Positions and Percentage Vacant as of 12/31/10	31.90	7.89%

- Contractual full-time equivalent positions are reduced by 4.7 due to reduced emerald ash borer eradication needs.
- MDA’s turnover rate is reduced from 7.49 to 7.01%.

Analysis in Brief

Major Trends

No Major Change Yet in Number of Aquaculture Ventures: A number of reasons for a lack of substantial progress in the number of aquaculture ventures exist including a complicated permitting process, upfront capital funding needs, and a lack of technical expertise.

Federal Crop Disaster Designations: In November 2010, the U.S. Department of Agriculture designated 22 counties in Maryland as federal crop disaster areas.

Issues

How to Deal with Cover Crop Variability: The cover crop program had a record sign-up of 508,304 acres in fiscal 2011, which has translated to 395,902 in fall certification acres. This will require additional funding and leads to the issues of how to handle the variability of cover crop implementation and funding levels and how to judge overall program effectiveness. **DLS recommends that MDA comment on the impact of weather and commodity markets on cover crop implementation levels, the breakdown of commodity versus traditional cover crops, the use of targeting to maximize nutrient uptake, and the future of cover crop funding given the Watershed Implementation Plan mandating cover crop application. In addition, DLS recommends that MDA provide an annual report on cover crops discussing the above information.**

Brown Marmorated Stink Bug Causing Crop Losses and Overwintering in Homes: The Asian exotic, brown marmorated stink bug is ruining fruit trees and commodity crops and overwintering en masse in residential homes. The potential for pesticide use at levels not seen in years, in order to control the brown marmorated stink bug, is imminent with potentially dire consequences for Maryland's organic farming community. **DLS recommends that MDA comment on the severity of the threat to agriculture posed by the brown marmorated stink bug.**

Soil Conservation District Field Personnel Summary Information Not Forthcoming: A report on soil conservation district field personnel was requested in the 2010 *Joint Chairmen's Report* but was not available at the time this analysis was completed. **DLS recommends that MDA discuss why the report was not submitted with the fiscal 2012 allowance as requested. In addition, DLS recommends restrictive budget bill language to require that MDA submit the report for the fiscal 2013 budget submission.**

Recommended Actions

	<u>Funds</u>
1. Delete funding for additional assistance in Food Quality Assurance.	\$ 140,000
2. Reduce the Maryland Agricultural Fair Board special fund appropriation to reflect lower revenue expectations.	560,000
3. Strike the Maryland Agricultural and Resource-Based Industry Development Corporation general fund appropriation reduction that is contingent upon enactment of legislation reducing the mandated amount of funds.	
4. Reduce the Maryland Agricultural and Resource-Based Industry Development Corporation operating budget grant, as proposed in the Budget Reconciliation and Financing Act of 2011.	1,750,000
5. Add budget bill language requesting a report on soil conservation district field personnel summary information.	
6. Delete funding for programs funded by Chesapeake and Atlantic Coastal Bays 2010 Trust Fund revenues due to uncertainty about the final allocation and double counting of the funds in the State budget.	12,827,441
7. Adopt committee narrative requesting a report on cover crop implementation and funding levels.	
Total Reductions	\$ 15,277,441

Updates

Renewable Fuels Promotion Act of 2005 Update: Chapter 332 of 2005 (The Renewable Fuels Promotion Act of 2005) pledged funding for a production tax credit earned by any company generating a certain number of gallons of biofuel per year. At this point, no one has claimed the credit; however, as of December 1, 2010, Chesapeake Renewable Energy, LLC is still actively pursuing the financing for a barley ethanol facility and biomass co-generation power plant.

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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 assure consumer confidence, protect the environment, and promote agriculture. MDA is organized into four administrative units as described below.

- **Office of the Secretary:** Provides administrative support services; advises the Secretary 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; encourages development of aquaculture and supports the seafood 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; and helps develop resource-based industries through the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO), an independent agricultural development agency that is budgeted within MDA.
- **Plant Industries and Pest Management:** Manages forest pests; implements mosquito control services; regulates pesticides and pesticide applicators; administers nursery inspection, noxious weed control, nuisance bird control, and honey bee registration programs; regulates seed and sod labeling; and regulates the chemical components of pesticides, commercial fertilizers, feeds, 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 implementation, manure transport, and nutrient management plan development; and trains, certifies, and licenses nutrient management plan consultants.

MDA's primary goals are:

- to promote profitable production, use, and sale of Maryland agricultural products;
- to protect the health of the public, plant, and animal resources in Maryland;

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- to preserve adequate amounts of productive agricultural land and woodland in Maryland;
- to provide and promote land stewardship, including conservation, environmental protection, preservation, and resource management; and
- to provide health, safety, and economic protection for Maryland consumers.

Performance Analysis: Managing for Results

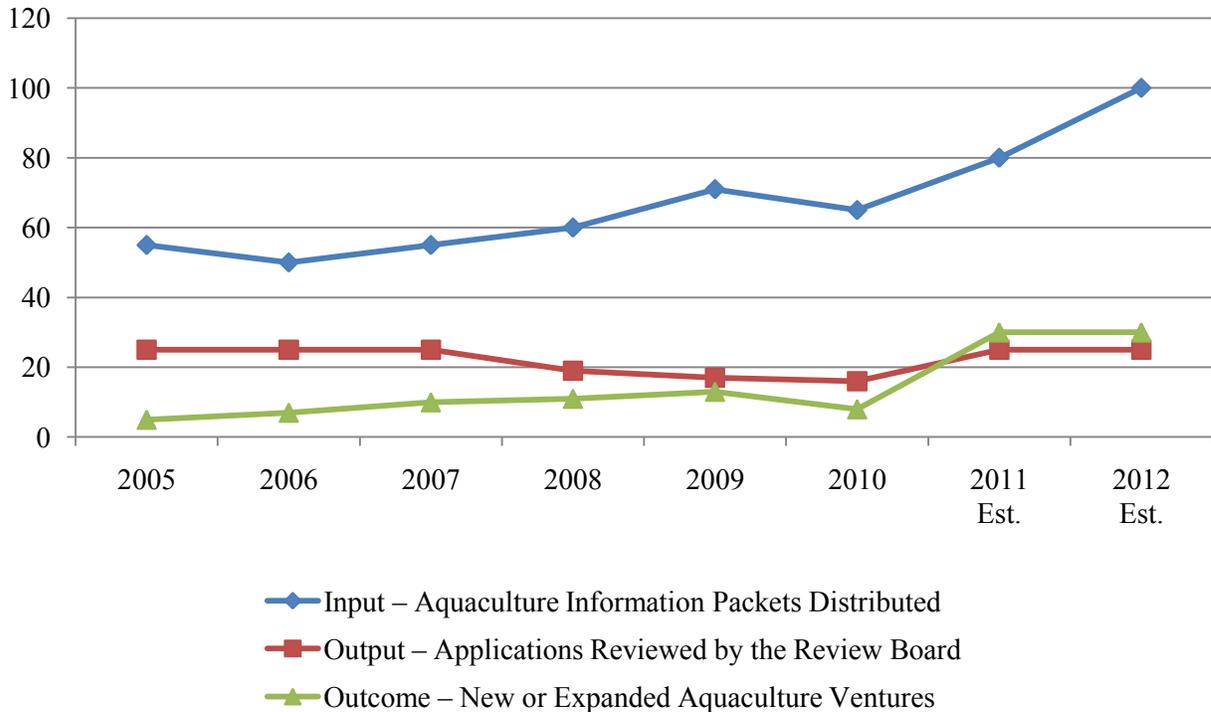
The analysis of MDA’s fiscal 2012 Managing for Results (MFR) submission reflects upon the expected but still absent upward trend in aquaculture development, the status of crop insurance, and the need for the government to develop nutrient management plans.

Lack of an Upward Trend in Aquaculture Status

MDA’s Aquaculture Development and Seafood Marketing Program distributes aquaculture information packets (an input), the Aquaculture Review Board reviews applications (an output), and the expected outcome is an increase in new or expanded aquaculture ventures.

A number of reasons for a lack of substantial progress in **Exhibit 1** exist, including a complicated permitting process, upfront capital funding needs, and a lack of technical expertise. In the works are a streamlined permitting process, the development of Aquaculture Enterprise Zones, a new Maryland Shellfish Aquaculture Loan Fund set up by MARBIDCO, and a training and education program. On the funding side, MARBIDCO is using \$2.2 million in federal money and State bond funds to issue loans to aquaculture entrepreneurs. The first round of loans ended in November 2010 and yielded 17 responses, of which MARBIDCO expects to make loans to 15 applicants totaling \$943,723. This leaves \$1.3 million in funding available for a second round of applications.

**Exhibit 1
Aquaculture Status
Fiscal 2005-2012**



Source: Governor’s Budget Books, Fiscal 2008-2012

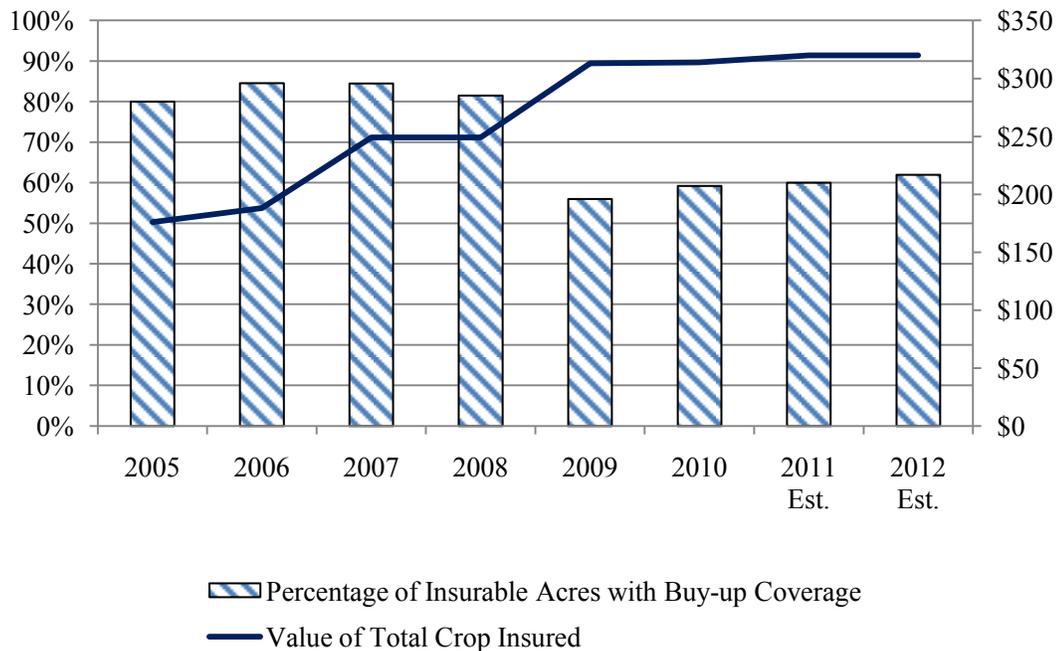
MDA notes that there are 10 water column shellfish aquaculture businesses awaiting final approvals and 6 more finalizing applications. In terms of bottom leased for aquaculture, there are 23 businesses that have submitted applications for 2,000 acres of lease area. Therefore, MDA may yet meet its fiscal 2011 and 2012 estimates for new or expanded aquaculture ventures. **The Department of Legislative Services (DLS) recommends that MDA comment on the particular actions it is taking to increase the number of new or expanded aquaculture ventures.**

Crop Insurance Status

In November 2010, the U.S. Department of Agriculture designated 22 counties in Maryland as federal crop disaster areas. This was caused by drought and excessive heat between June 1 and August 31, 2010, and affected Allegany, Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Cecil, Charles, Dorchester, Frederick, Garrett, Howard, Kent, Montgomery, Prince George’s, Queen Anne’s, Somerset, St. Mary’s, Talbot, Washington, Wicomico, and Worcester counties. The disaster designation underscores the variability of the weather and the importance of crop insurance. Overall, MDA reports that Maryland farmers have received approximately \$31 million for losses that occurred as a result of the drought in calendar 2010.

The trends in crop insurance have been mixed, as shown in **Exhibit 2**. While the total crop insured has increased substantially since 2005, the percentage of insurable acres with buy-up coverage has actually declined. The buy-up level of crop insurance is defined as greater than 50%, and the highest level of coverage is 75% since for the most part the federal government will not insure above the 75% level. The reason for these trends is that the 2008 Farm Bill required crop insurance on all insurable acres for disaster assistance program eligibility. This had the effect of increasing the overall number of acres enrolled in crop insurance and, consequently, the overall amount of crop insurance premiums. A substantial amount of this increased cropland was insured at the lowest level, or catastrophic level, of 50%, which reduced the percentage of insurable acres with buy-up coverage.

Exhibit 2
Crop Insurance Trends
Fiscal 2005-2012
(\$ in Millions)



Source: Governor’s Budget Books, Fiscal 2008-2012

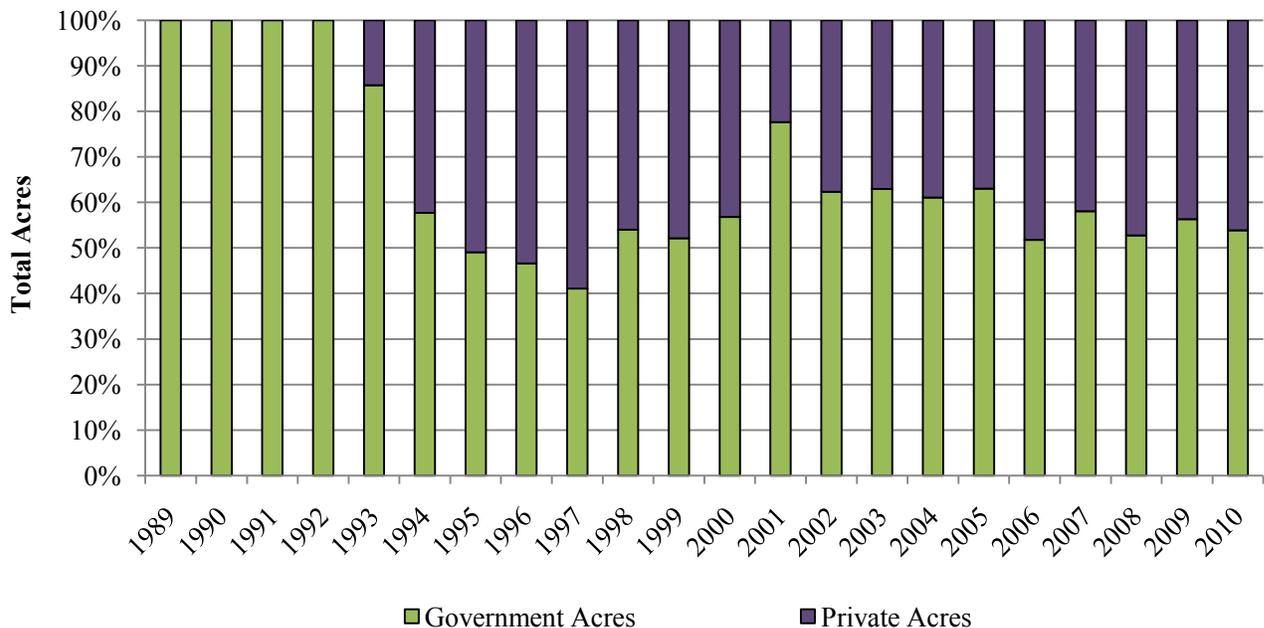
In general, MDA reports that adverse weather encourages greater use of crop insurance and that the increased amount of funding farmers have invested per acre means that they cannot afford a crop loss and thus need crop insurance. **DLS recommends that MDA comment on the actions it is taking to increase the percentage of insurable acres with buy-up coverage.**

Need for Nutrient Management Plans Written by the Government

A core question about government service is whether an activity would be more appropriately handled by the private sector. The writing of nutrient management plans is one such potentially privatized activity. Nutrient management plans include information about where, how much, and when fertilizers are used on farms and are written by the government, University of Maryland Cooperative Extension, and private consultants.

As shown in **Exhibit 3**, the University of Maryland Cooperative Extension has been writing nutrient management plans since 1989 and the private sector since 1993. After a monopoly on nutrient management plan drafting between 1989 and 1992, University of Maryland Cooperative Extension involvement dropped to a low of 41% of nutrient management plan development in 1997 before settling at approximately 55% of the total between fiscal 2002 and 2010. Perhaps coincidentally, 1997 is about the time period in which the micro-organism *Pfiesteria piscicida* briefly made the headlines of newspapers and, in response, the Water Quality Improvement Act of 1998 was passed.

Exhibit 3
Nutrient Management Plans Written by Government vs. Private Sector
Total Acres of Plans Written
Fiscal 1989-2010



Note: The micro-organism *Pfiesteria piscicida* briefly made the headlines of newspapers in 1997 and, in response, the Water Quality Improvement Act of 1998 was passed.

Source: Maryland Department of Agriculture

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MDA indicates that the geographic distribution of private nutrient management plan development capacity is insufficient to meet statewide demand, which appears to be borne out by the numbers. While it is an open question as to whether the government is stifling the private sector from taking on more, if not all, of the responsibility for nutrient management plan development, for the time being it appears that the government plays an important role in nutrient management plan development. In addition, MDA notes that the University of Maryland Cooperative Extension plays an important role in providing information to and sharing data with farmers. **DLS recommends that MDA comment on the statewide capacity of private sector plan writers and on whether a long-term balance between University of Maryland Cooperative Extension plan writing and private sector plan writing has been reached or if there is a role for greater private sector involvement.**

Fiscal 2011 Actions

Proposed Deficiency

The Governor has withdrawn an appropriation for the fiscal 2011 operating budget (through a negative deficiency) that would decrease MDA's general fund appropriation by \$250,000. The funding decrease affects MARBIDCO and is a cost-saving measure. This leaves MARBIDCO with \$2.5 million in fiscal 2011.

Impact of Cost Containment

Section 44 of the fiscal 2011 budget bill required the Governor to abolish 500 positions in the Executive Branch as of June 30, 2011. The positions and the funds associated with them have been removed from the fiscal 2011 working appropriation. MDA's share of the reduction was 6 full-time equivalent positions and \$132,522 dollars in fiscal 2011, which represents an ongoing annualized savings of \$364,762 for employee salary and fringe benefit expenditures.

In total, 8 positions were abolished in MDA's fiscal 2011 working appropriation. MDA has characterized these reductions as 5 long-term vacant positions as part of the Section 44 reductions. These positions were vacant due either to insufficient funding to fill them or the need to meet MDA's turnover rate. Three additional positions are proposed to be abolished: 1 long-term vacancy and 2 filled positions. The filled positions are a Program Manager IV position, which reflects the elimination of the Rural Maryland Council, and an Administrative Officer III position in Plant Protection and Weed Management – Weed Control. The 1 additional long-term vacant position was abolished due to the minimal impact on existing services. The overall impact of the filled positions being abolished is the elimination of Rural Maryland Council's rural development activities and reduced focus on weed control activities.

While not yet reflected in the fiscal 2011 appropriation, it is anticipated that reduced horse racing special funds will be expended in MDA's budget due to the closing of the Rosecroft Raceway in July 2010 and the declining revenues at Laurel Park. This is anticipated to be allocated as a modification of the statutory allocation of funding in the Business Regulation Article § 11.403. The

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estimated proportional reductions for fiscal 2011 and 2012 are shown in **Exhibit 4** and are anticipated to be handled as end-of-year cancellations of special fund appropriation. As noted in the exhibit, MDA advises that it anticipates receiving approximately \$900,000 in special fund revenues in fiscal 2012, reflecting a further decline, despite the fiscal 2012 allowance of \$1,460,000. **DLS recommends that the fiscal 2012 allowance special fund appropriation in the Maryland Agricultural Fair Board be reduced by \$560,000 to reflect the reduced level of anticipated revenue.**

Exhibit 4
Maryland Agricultural Fair Board Racing Revenue Projected Allocation Change
Fiscal 2010-2012

<u>Recipient</u>	<u>Purpose of Funding</u>	<u>Statutory and 2010 Allocation</u>	<u>Percent Allocation</u>	<u>2011 Projected Allocation</u>	<u>2012 Projected Allocation</u>
Maryland Agricultural Fair Board	Promote State and county agricultural fairs and exhibits	\$825,000	56.5%	\$593,350	\$508,600
Maryland State Fair and Agricultural Society, Inc.	Promote and enhance Maryland State Fair and maintain groups such as 4H Clubs and Future Farmers of America	500,000	34.3%	359,575	308,200
Maryland Agricultural Education Foundation, Inc.	Promote and enhance statewide agricultural education	75,000	5.1%	53,926	46,216
Great Frederick Fair	Support exhibition harness racing with money for construction and maintenance of new stalls, track maintenance, and purses	40,000	2.7%	28,766	24,656
Great Pocomoke Fair, Inc.	Support exhibition harness racing with money for construction and maintenance of new stalls, track maintenance, and purses	20,000	1.4%	14,383	12,328
Total		\$1,460,000	100.0%	\$1,050,000	\$900,000

Note: The Maryland Department of Agriculture's revenue estimate for fiscal 2011 is \$1,050,000 and \$900,000 for fiscal 2012.

Source: Maryland Department of Agriculture

Budget Reconciliation and Financing Act of 2011

Proposed Fund Balance Transfer

Section 7 of the Budget Reconciliation and Financing Act (BRFA) of 2011 would transfer fund balance from one of MDA’s operating budget special funds to the general fund in fiscal 2011. The \$150,000 proposed transfer from the State Board of Veterinary Medical Examiners Fund is shown in **Exhibit 5**. Expenditures are anticipated to exceed revenues in fiscal 2011 by approximately \$28,000, which is why the estimated contingent closing fund balance is lower than just the original balance minus the contingent transfer. The transfer of \$150,000 will require an increase in fees as soon as fiscal 2012 due to expenditures exceeding revenues in recent years.

Exhibit 5 Proposed Fiscal 2011 Special Fund Balance Transfer

<u>Fund</u>	<u>Revenue Source</u>	<u>Purpose</u>	<u>Original 2011 Closing Balance</u>	<u>Contingent Transfer</u>	<u>Estimated Contingent 2011 Closing Fund Balance</u>
Board of Veterinary Medical Examiners Fund	Various veterinary registration, application, and licensing fees	Fund direct and indirect costs of the State Board of Veterinary Medical Examiners	\$220,857	\$150,000	\$43,000

Note: The closing balance does not reflect interest transfers.

Source: Department of Legislative Services

Proposed Reduction

The fiscal 2012 allowance proposes a contingent reduction of \$1.75 million in general funds for MARBIDCO. This action is made contingent upon the enactment of a provision in the BRFA of 2011 allowing for the reduction in the mandated appropriation. The contingent reduction would reduce MARBIDCO’s appropriation from \$2.75 million to \$1.0 million. MARBIDCO does not need to be funded at the \$4.0 million level in fiscal 2012 because a provision in the BRFA of 2010 allows the Governor to fund programs at the fiscal 2011 working appropriation level. The BRFA of 2011 affects the out-years as well, as shown in **Exhibit 6**.

Exhibit 6
MARBIDCO Funding Comparison Between Current Statute and BRFA of 2011
Fiscal 2011-2020
(\$ in Millions)

<u>Fiscal Year</u>	<u>Current Statute</u>	<u>BRFA of 2011</u>	<u>Difference</u>
2011	\$2.75	\$2.75	\$0.00
2012	4.00	1.00	-3.00
2013	4.00	2.00	-2.00
2014	4.00	3.00	-1.00
2015 through 2020	4.00	4.00	0.00

BRFA: Budget Reconciliation and Financing Act

MARBIDCO: Maryland Agricultural and Resource-Based Industry Development Corporation

Note: Chapter 467 of 2004 (2020 Rural Maryland – Agricultural and Resource-Based Industry Development Act) created MARBIDCO and stated that it should be self-sufficient by 2020 with no further need of general operating State support. Chapter 289 of 2006 (Agricultural Stewardship Act of 2006) stipulated funding for MARBIDCO of \$3.0 million in fiscal 2008, \$3.5 million for fiscal 2009, and \$4.0 million annually thereafter through fiscal 2020. However, funding provisions have been changed since then. The BRFA of 2010’s temporary funding mandate repeal provision allows the Governor to submit MARBIDCO’s fiscal 2012 allowance funding at the fiscal 2011 appropriation level of \$2.75 million.

Source: Department of Legislative Services

Proposed Budget

MDA’s fiscal 2012 allowance decreases by \$6.2 million, or 8.2%, relative to the fiscal 2011 working appropriation, as shown in **Exhibit 7**. The changes by fund in Exhibit 7 reflect a decrease of \$2.2 million in general funds, an increase of \$3.6 million in special funds, a decrease of \$0.3 million in federal funds, and a decrease of \$7.3 million in reimbursable funds. Personnel changes are discussed first, then operating expenditures, and then a discussion of fiscal 2012 cost containment actions, which include across-the-board actions that are contingent on the BRFA of 2011.

Exhibit 7
Proposed Budget
Department of Agriculture
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2011 Working Appropriation	\$27,578	\$32,979	\$4,569	\$11,143	\$76,270
2012 Allowance	<u>27,530</u>	<u>36,655</u>	<u>4,301</u>	<u>3,804</u>	<u>72,291</u>
Amount Change	-\$48	\$3,676	-\$268	-\$7,339	-\$3,979
Percent Change	-0.2%	11.1%	-5.9%	-65.9%	-5.2%
Contingent Reduction	-\$2,152	-\$84	-\$13	-\$10	-\$2,259
Adjusted Change	-\$2,200	\$3,592	-\$281	-\$7,349	-\$6,238
Adjusted Percent Change	-8.0%	10.9%	-6.1%	-66.0%	-8.2%

Where It Goes:

Personnel Expenses

Salaries and wages increase due to restoration of furloughs.....	\$495
Retirement contribution net of contingent reductions.....	137
Decrease turnover on existing positions.....	53
Social Security contributions.....	37
Employee and retiree health insurance pay-as-you-go costs net of contingent and across-the-board reductions.....	-14
Workers' compensation.....	-13
Other personnel costs.....	-4

Other Changes

Environmental Conservation

Conservation Reserve Enhancement Program allocation increase.....	700
Nutrient Management Plan accountability and enforcement of regulations.....	600
Cover crops unneeded reimbursable fund appropriation.....	-7,080
Emerald ash borer eradication contractual full-time equivalents reduction.....	-203
Maryland Agricultural Land Preservation Foundation expenditures decrease.....	-105

Agricultural Promotion

Tobacco Transition Program bond repayments and operating expense increase.....	1,518
Farmers Market Nutrition Program federal funding increase.....	548
MARBIDCO contingent reduction.....	-1,750
Specialty crop grant allocation for applicants and Maryland's Best.....	-437
Elimination of Rural Maryland Council.....	-260
National Marketing move to Agricultural Marketing.....	-117

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Where It Goes:

Public Health Protection

Mosquito control insecticide reduction	-215
One-time grading relief services in Food Quality Assurance	-70

Routine Operating Expenditures

Department of Budget and Management paid telecommunications.....	79
Indirect cost recovery agencywide	54
Motor vehicles in Pesticide Regulations	36
Fuel and utilities return to fiscal 2010 levels	-84
Freight and delivery	-55
Other.....	-88

Total **-\$6,238**

MARBIDCO: Maryland Agricultural and Resource-Based Industry Development Corporation

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

Personnel

MDA’s overall personnel expenditures increase by \$691,000. The majority of the increase, \$495,000, is due to the restoration of salaries and wages funding that were reduced by the fiscal 2011 furlough. The remainder of the increase is comprised of the following.

- **Retirement Contributions Net of the Contingent Reduction** – \$137,000.
- **Decrease Turnover on Existing Positions** – reduced turnover rate on existing positions from 7.49 to 7.01% for an increase of \$53,000; and
- **Social Security Contributions** – increased Social Security contributions of \$37,000 as a result of salary increases.

Decreases in personnel funding include the net decrease of \$14,000 in employee and retiree health insurance pay-as-you-go costs due to contingent and across-the-board reductions in the BRFA of 2011, and workers’ compensation decrease of \$13,000.

Other Changes

Overall, the nonpersonnel portion of the fiscal 2012 allowance decreases \$6,929,000. The areas of change include environmental conservation, agricultural promotion, public health protection, and routine operating expenditures. The biggest change is a net reduction of \$7,080,000 for cover crops due to unneeded reimbursable fund appropriation in fiscal 2011, which distorts the change between fiscal 2011 and 2012. Adjusting for the \$8,240,000 in unneeded reimbursable fund

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appropriation in fiscal 2011, the nonpersonnel portion of the fiscal 2012 allowance increases \$1,171,000.

Environmental Conservation

The changes under the rubric of environmental conservation are as follows.

- **Conservation Reserve Enhancement Program Allocation Increase** – There is an increase of \$700,000 in Chesapeake and Atlantic Coastal Bays 2010 Trust Fund payments to farmers to retire highly erodible cropland, establish riparian buffers, and in general, reduce the amount of nutrient and sediments reaching the Chesapeake Bay. However, this funding double counts funding in the Department of Natural Resources (DNR) budget and the Annual Work Plan for allocating the funding from the trust fund which has not been approved yet. **DLS recommends that the appropriation of funding for the Conservation Reserve Enhancement Program be deleted and that a special fund budget amendment be processed for the final allocation of the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund.**
- **Nutrient Management Plan Accountability and Enforcement of Regulations** – There is a \$600,000 increase due to reimbursable funds from the U.S. Environmental Protection Agency via the Maryland Department of the Environment for increased enforcement of nutrient management plans.
- **Cover Crops Unneeded Reimbursable Fund Appropriation** – As noted above, there is a \$7,080,000 net decrease in cover crop funding due to a fiscal 2011 \$8,240,000 reimbursable fund appropriation for cover crops that was deleted by the General Assembly but is still shown in the fiscal 2011 working appropriation. Overall, cover crop funding reflected in the fiscal 2012 allowance includes \$10,600,000 in Chesapeake and Atlantic Coastal Bays 2010 Trust Fund funding and \$5,630,000 of Bay Restoration Fund funding. As noted above, the trust fund funding is already budgeted in DNR’s fiscal 2012 budget. **DLS recommends that the appropriation of funding for cover crops from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund be deleted and a special fund budget amendment be processed.**
- **Emerald Ash Borer Eradication Contractual Full-time Equivalent Reduction** – A decrease of \$203,000 reflects the overall net reduction of 4.70 contractual full-time equivalents (FTEs) in MDA’s budget with the greatest decrease of 4.5 contractual FTEs in Plant Protection and Weed Management due to reduced emerald ash borer eradication needs.

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- **Maryland Agricultural Land Preservation Foundation Expenditures Decrease** – A decrease of \$105,000 reflects the reduced federal and State funding for the Maryland Agricultural Land Preservation Foundation to purchase agricultural easements and thus the reduced need for legal expense and appraisal procurement funding.

Agricultural Promotion

Under agricultural promotion, there are a number of large changes as follows.

- **Tobacco Transition Program Bond Repayments and Operating Expense Increase** – The funding for Tobacco Transition Program bond repayments as part of the tobacco farmer buy-out program increases from \$1,823,000 to \$3,323,000, an increase of \$1,500,000. Operating expenses increase by \$18,000 for a total increase of \$1,518,000.
- **Farmers Market Nutrition Program Federal Funding Increase** – There is an increase of \$548,000 in federal funds for the Women, Infants, and Children Farmers’ Market Nutrition Program, whereby food coupons are distributed to low-income women and children with nutritional deficiencies for purchasing food at farmers’ markets.
- **MARBIDCO Contingent Reduction** – The fiscal 2012 allowance holds MARBIDCO at the fiscal 2011 level of \$2,750,000, as allowed by the mandate relief provision in the BRFA of 2010, but then adds a \$1,750,000 contingent reduction to fund MARBIDCO at \$1,000,000.
- **Specialty Crop Grant Allocation for Applicants and Maryland’s Best** – Specialty Crop grant funding from the 2008 Farm Bill is reduced by \$437,000 to reflect the expectation that funding will decrease if there is no action from the U.S. Congress. The funding reduction impacts the amount of funding available for the Maryland’s Best program.
- **Elimination of Rural Maryland Council** – The fiscal 2012 allowance reflects a \$260,000 reduction in funding due to the elimination of both the Rural Maryland Council and the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDAF). During fiscal 2011, MAERDAF was merged with the Rural Maryland Council, which then means that the fiscal 2012 allowance reflects the reduction of funding for the combined Rural Maryland Council and MAERDAF. The reduction reflects the \$260,000 in combined general and special funds for grants; the remainder of the decrease primarily is reflected as a position reduction in personnel and various minor reductions in other subobjects.
- **National Marketing Move to Agricultural Marketing** – The fiscal 2012 allowance reflects the consolidation of National Marketing and International Marketing into Agricultural Marketing with only a net reduction of \$117,000 for advertising and legal publication.

Public Health Protection

In terms of protecting public health, the following changes occurred.

- **Mosquito Control Insecticide Reduction** – A reduction of \$215,000 is budgeted for statewide adult and larval mosquito control insecticides in the Mosquito Control Administration. This reflects reasonable mosquito control insecticide costs and a general easing of mosquito control activities due to decreased mosquito populations and mosquito-borne disease activity, possibly due to aggressive spraying in and around fiscal 2004.
- **One-time Grading Relief Services in Food Quality Assurance** – Grading services decrease by \$70,000 for activities such as egg and produce grading.

Routine Operating Expenditures

Operating expenditures changes include an increase of \$79,000 for Department of Budget and Management paid telecommunications expenditures, \$54,000 for agencywide indirect cost recovery budgeted in Central Services, and \$36,000 in motor vehicle costs primarily due to the purchase of a caravan and S-10 pickup truck in Pesticide Regulations. Decreases from fiscal 2011 include an \$84,000 reduction due to fuel and utilities returning to fiscal 2010 levels and an agencywide \$55,000 reduction in freight and delivery costs.

Fiscal 2012 Cost Containment

The fiscal 2012 budget reflects several across-the-board actions. In fiscal 2012, MDA's share of the reduction is \$84,099 in general funds, \$31,715 in special funds, \$4,834 in federal funds, and \$3,857 in reimbursable funds for changes in employee health insurance. Reductions contingent upon statutory changes include \$139,186 in general funds, \$52,497 in special funds, \$7,997 in federal funds, and \$6,382 in reimbursable funds for retiree prescription drug benefits and \$178,587 in general funds for retirement benefits. To the extent that MDA has positions abolished under the Voluntary Separation Program, additional reductions will be implemented by the Administration.

The fiscal 2012 budget bill as introduced includes in Section 26 a reduction of \$1.13 million in general funds contingent upon enactment of separate legislation consolidating aquaculture and land preservation functions in DNR. At this point, it is not clear if MDA would be involved in the transfer of its aquaculture functions to DNR. The reduction will be allocated by the Administration.

All told, MDA reports that there is approximately \$800,000 in general fund cost containment reflected in the fiscal 2012 allowance. Some of the cost containment is difficult to track due to the shift from general funds to special funds, such as in Mosquito Control, changes that occur in personnel costs that are masked by the restoration of funding cut during the furloughs, or reductions that are small relative to other changes going on in a particular program or subobject. In general, reductions in the fiscal 2012 allowance for cost containment included the funding for the Rural Maryland Council and MAERDAF, both of which have been abolished. In addition, while few

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savings were realized, organizational efficiencies were achieved by consolidating National Marketing and International Marketing into Agricultural Marketing and moving Nutrient Management into its own separate subprogram in the Office of Resource Conservation. In terms of quantifiable reductions, there is a \$65,000 general fund reduction in Manure Transport funding.

Issues

1. How to Deal with Cover Crop Variability

The cover crop program had a record level sign-up of 508,304 acres in fiscal 2011, which has translated to 395,902 in fall certification acres. This will require additional funding and leads to the issues of how to handle variability of cover crop implementation and funding levels and how to judge overall program effectiveness.

Cover Crop Variability

Exhibit 8 shows the cover crop implementation history. The salient feature is a substantial decrease between the initial acres and the final eligible acres for most years. For fiscal 2011, this trend appears to have reversed with fall certification acres, a proxy for final eligible acres, coming in at 78% of initial acres. The reasons for the reverse in the trend may help to explain a little about the dynamics of cover crop implementation.

Exhibit 8
Cover Crop History
Fiscal 2005-2012

<u>Fiscal Year</u>	<u>Initial Acres</u>	<u>Approved Acres</u>	<u>Fall Certification</u>	<u>Final Eligible Acres</u>	<u>Final Eligible Acres as a % of Initial Acres</u>
2005	205,089	170,430	56,852	53,848	26%
2006	210,308	205,268	135,328	128,638	61%
2007	454,881	290,000	243,995	238,674	52%
2008	336,800	303,364	203,497	187,479	56%
2009	398,225	387,022	237,144	238,839 ¹	60%
2010	330,469	330,469	206,810	206,810	63%
2011 (est.)	508,304	506,645	395,902	n/a	n/a
2012 (est.)	n/a	n/a	n/a	280,000 ²	n/a

¹ The Maryland Department of Agriculture notes that the fiscal 2009 final eligible acres (spring certification) reflects all acres verified, including those not eligible for payment. However, the 60% number reflected for final eligible acres as a percent of initial acres varies little whether the fall certification or final eligible acres number is used.

² The final eligible acres estimate for fiscal 2012 assumes revenues of \$18.1 million at \$65/acre, for a total of approximately 280,000 acres. This number is entirely dependent on the average price of cover crops, which will not be known until the traditional versus commodity cover crop split is known in the spring.

Source: Maryland Department of Agriculture; Department of Legislative Services

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MDA attributes the cover crop numbers to a dry summer, good weather during the fall, and its outreach efforts. The dry summer meant corn and soybeans were harvested earlier, which allowed for earlier planting of cover crops during the fall. Good weather during the fall meant that it was easier to plant cover crops. Outreach by MDA increased the amount of farmers exposed to and potentially interested in the program.

Other variables that affect the overall effectiveness of the cover crop program are the commodity prices during the early spring when the decision is made whether to plow cover crops under or harvest them and the incentive structure for planting cover crops. Economic decisions made by individual farmers and the State also affect the cover crop implementation levels. Each farmer looks at commodity prices and determines whether to harvest cover crops, known as commodity cover crops, and thus lower the amount of nutrients reduced. This is so because the removal of cover crops means that fertilizer needs to be reapplied to the land in the spring since the nutrients have been taken out in the form of the harvested cover crop, as opposed to being left in the field as fertilizer for the next crop rotation. On the State side, an economic decision is made about how to structure the incentive payment structure for cover crops, which, anecdotally, appears to be rising as a whole on average from year-to-year.

Targeting

Another perspective on the effectiveness of cover crop funding and overall program implementation is targeting. The fiscal 2012 allocation of funding from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund shows that funding from this source is being targeted for cover crops. However, the targeting of funding from the trust fund is complicated by the urban nature of the watersheds being targeted. Therefore, as shown in **Exhibit 9**, the majority of funding from the trust fund is being allocated to a catch-all statewide category. Of note, the funding reflected in the statewide amount below is augmented by other funding sources in order to get to the 305,700 acres shown, and uses a different calculation for the dollar/acre cost of cover crop funding.

Exhibit 9
Targeting of Cover Crop Funding
Chesapeake and Atlantic Coastal Bays 2010 Trust Fund
Fiscal 2012 Allocation

<u>Targeted Area</u>	<u>Acres</u>	<u>Trust Fund Allocation</u> <u>(\$ in Millions)</u>	<u>Anticipated Load Reduction (Pounds/yr)</u>		
			<u>Nitrogen</u>	<u>Phosphorus</u>	<u>Sediment</u>
Statewide	305,700	\$11.8	1,835,621	61,140	0
Sassafras River	8,319	0.3	49,953	1,664	0
Upper Chester	8,211	0.3	49,304	1,642	0
Corsica River	2,385	0.1	14,321	447	0
Lower Northwest Branch (Anacostia)	246	0.0	1,477	49	0
Little Patuxent River	138	0.0	829	28	0
Back River	0	0.0	0	0	0
Magothy River	0	0.0	0	0	0
Wheel Creek	0	0.0	0	0	0
Total	324,999	\$12.5	1,951,505	64,970	0

Source: BayStat agencies

Funding

Cover crop implementation and thus funding fluctuates from year-to-year for the reasons explained above. Last year, in the fiscal 2011 budget bill, a provision was added to restrict Bay Restoration Fund funding to wastewater treatment plant upgrades to enhanced nutrient removal technology if the Bay Restoration Fund funding for cover crops was not expended by June 1, 2011. There does not appear to be any funding available for this shift based on the cover crop funding needs shown in **Exhibit 10** for fiscal 2011.

Exhibit 10
Comparison of Cover Crop Funding
Fiscal 2011-2012

<u>Fund Sources</u>	<u>2009</u>	<u>2010</u>	<u>2011 Est.</u>	<u>2012 Est.</u>	<u>2011-2012 Difference</u>
Chesapeake and Atlantic Coastal Bays 2010 Trust Fund			\$9.52	\$12.50	+\$2.18
Bay Restoration Fund (BRF) Revenues			5.63	5.63	-0.17
BRF Fund Balance			3.50	0.00	-3.50
Budget Amendment Estimated			2.75	0.00	-1.78
Total	\$11.16	\$9.40	\$21.40	\$18.13	-\$3.27

Note: The fiscal 2012 allowance includes an appropriation of \$10.6 million in Chesapeake and Atlantic Coastal Bays 2010 Trust Fund monies; however, the number above reflects the proposed allocation in the Annual Work Plan of \$12.5 million.

Source: Department of Legislative Services

A budget amendment has been submitted to the Department of Budget and Management for allocating fund balance from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund. The proposed budget amendment, as reflected in the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund Annual Work Plan, was submitted in September 2010 and would allocate \$5.37 million from the trust fund balance. The funding would be allocated as follows: \$2.97 million to MDA for the cover crop program; and \$2.4 million to DNR for fiscal 2010 contracts executed in fiscal 2011 (\$1.4 million), and additional buffers and wetland implementation (\$1.0 million).

The fiscal 2011 appropriation for the cover crop program is \$15.2 million; however, the department certified 395,902 acres for cover crop payments in the fall of 2010, a 91% increase over the number of acres certified in the fall of 2009. It is estimated that this level of certification will require \$21.4 million, an amount \$6.2 million greater than the legislative appropriation. **Given the fiscal constraints facing the State, DLS recommends that MDA comment on why it certified a number of acres far in excess of the funding included in the budget for the cover crop program.**

Fluctuating cover crop funding needs raise challenges for the proper allocation of funding and as an important component of Chesapeake Bay restoration would benefit from more stable implementation. Cover crops accounted for approximately 33% of the overall nitrogen reduction for the first two-year milestone period of Chesapeake Bay restoration and are one of the more cost-effective best management practices. Given the importance of cover crops to Chesapeake Bay restoration, a more stable implementation policy would be beneficial, which may be achieved by a more stable funding arrangement from year-to-year.

DLS recommends that MDA comment on the impact of weather and commodity markets on cover crop implementation levels, the breakdown of commodity versus traditional cover crops, the use of targeting to maximize nutrient uptake, and the future of cover crop funding given the idea in the Watershed Implementation Plan about mandating cover crop application. In addition, DLS recommends that MDA provide an annual report on cover crops discussing the above information and that either cover crop fiscal 2012 appropriation be increased or fund balance from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund be used to provide level funding between fiscal 2011 and 2012.

2. Brown Marmorated Stink Bug Causing Crop Losses and Overwintering in Homes

The gypsy moth is nowhere to be seen. The emerald ash borer appears to be under control. But all is not well: the Asian exotic, brown marmorated stink bug is ruining fruit tree and commodity crops and overwintering en masse in residential homes. In September 2010, U.S. Representative Roscoe Bartlett, along with other members of Congress, sent a letter to the U.S. Department of Agriculture – Animal and Plant Health Inspection Service requesting that the insect be reclassified as a regulated pest. In Maryland, the potential for pesticide use at levels not seen in years in order to control the brown marmorated stink bug is imminent with potentially dire consequences for Maryland’s organic farming community.

Nature of the Beast

The brown marmorated stink bug is an Asian exotic insect that may have been found as early as 1995 in eastern Pennsylvania. It was positively identified in 2001 in Allentown, Pennsylvania. It appears that the federal government early on determined that either it was not a problem or that it was not feasible to eradicate/contain the brown marmorated stink bug. Early detection in Maryland may have been hampered by the elimination of the blacklight traps program as part of a recent round of cost containment. As a result, the stink bug was known as a nuisance pest in recent years but only become recognized as an agricultural pest recently.

In the Mid-Atlantic region, it was first recognized as a problem by the U.S. Department of Agriculture’s Agricultural Research Service in Kearneysville, West Virginia in 2009. Then in June 2010, the numbers exploded. Currently, the epicenters of its activity are Garrett, Washington, Frederick, Montgomery, and Howard counties; West Virginia (Shepherdstown and Kearneysville); and south central Pennsylvania (Adams County); although it is now being seen in New Jersey as well.

The stink bug has a number of features that make it a particularly pernicious pest as follows:

- **Predator-free** – deters predators with scent glands and at this point no natural predators are known;
- **Cold avoidance** – overwinters en mass in warm spaces such as residential homes;

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- **Healthy appetite** – eats at all but the egg stage of development as opposed to just the adult stage, and its damage is internal to the fruit or crop so it is hard to recognize;
- **Prolific** – procreates rapidly and so between two to six generations can be active in a particular year with each overwintering adult ready to breed in the spring; and
- **Highly mobile** – flies well and hitches rides behind car license plates and in wheel wells.

Damage

The brown marmorated stink bug appears to inflict agricultural economic damage in two ways. First, it sucks out portions of the interior of crops such that there is relatively little external damage. However, inside the crop, brown spots form and grow over time around the area removed by the stink bug's proboscis. Second, the stink bug may congregate in large numbers on crops such that when the crops are harvested, stink bug scent glades may be ruptured and the crop befouled. One concern is that cows may be reluctant to eat silage that has been contaminated by stink bug scent.

Actual economic losses attributed to the brown marmorated stink bug are difficult to determine. A survey of 25 fruit growers conducted by a University of Maryland Cooperative Extension agent only amounted to one response. The respondent indicated a \$17,000 loss in a raspberry crop in Howard County. Anecdotal evidence, though, suggests that in calendar 2010, there were 20 to 60% of losses in apple crops in Washington, Frederick, Montgomery, and Cecil counties and substantial losses for peach crops in Washington County.

Control Options

At this point, relatively little is known about the brown marmorated stink bug, and so research on its lifecycle and general biology is critical. What is known is that it may have three vulnerabilities:

- **Congregating behavior** – the stink bug is attracted to its own kind by pheromones which could be used to develop traps to stop its movement or kill it;
- **Egg parasites** – there may be some Asian stink bug egg parasites that could be used to control the numbers, but there is always the concern about unintended consequences from the introduction of new non-native species; and
- **Pesticides** – a return to vigorous pesticide application would certainly reduce numbers but is not available to organic farm operators due to organic farm certification restrictions on pesticide use and would set back integrated pest management up to 30 years allowing mites and aphids to come back in full strength as their predators are indiscriminately killed by the pesticides.

Prognosis

At this point, it is difficult to determine the stink bug's trajectory. Certainly the apparent rapid increase in population is of concern. One researcher believes that some growers may go out of business due to the combination of crop losses and spraying costs. MDA indicates that it is looking to the federal government for leadership and funding. MDA's involvement includes Pesticide Regulation staff sitting on a U.S. Environmental Protection Agency interstate workgroup that is looking to develop an Emergency Exemption application for pesticide application. Once an effective pesticide product is determined, this application would allow for applying it under the federal Insecticide, Fungicide, and Rodenticide Act. Federal funding over a five-year period should begin in summer 2011, which should help with determining where and how spraying should be done.

DLS recommends that MDA comment on the severity of the threat to agriculture posed by the brown marmorated stink bug.

3. Soil Conservation District Field Personnel Summary Information Not Forthcoming

A report on soil conservation district field personnel was requested in the 2010 *Joint Chairmen's Report* but was not available at the time this analysis was completed. The report requested information on the fiscal 2010 actual, fiscal 2011 working appropriation, and fiscal 2012 allowance data on the number of contractual and regular soil conservation district field personnel positions (defined as soil conservation planner, soil conservation association, and soil conservation engineering technician positions); and the amount of funding budgeted by fund for Comptroller Object 01 expenses directly attributable to field personnel and, separately, operating expenses indirectly associated with field personnel. **DLS recommends that MDA discuss why the report was not submitted with the fiscal 2012 allowance as requested. In addition, DLS recommends restrictive budget bill language to require that MDA submit the report for the fiscal 2013 budget submission.**

Recommended Actions

- | | <u>Amount
Reduction</u> | |
|--|------------------------------------|----|
| 1. Delete funding for additional assistance in Food Quality Assurance. The funding for inspections and grading appears to be for existing State positions but was included in contractual services in the fiscal 2011 working appropriation and in the fiscal 2012 as part of the additional assistance personnel subobject. If State employees are using the funding, then the fund source for the State employee should be changed to reflect the federal funding. | \$ 140,000 | FF |
| 2. Reduce the Maryland Agricultural Fair Board special fund appropriation to reflect \$900,000 in overall revenues expected by the Maryland Department of Agriculture instead of the \$1,460,000 in the fiscal 2012 allowance. | 560,000 | SF |
| 3. Strike the following language from the general fund appropriation:

; provided that this appropriation shall be reduced by \$1,750,000 contingent upon the enactment of legislation reducing the mandated amount of funds for the Maryland Agricultural and Resource-Based Industry Development Corporation. | | |

Explanation: The fiscal 2012 budget bill as introduced includes a \$1,750,000 reduction to the Maryland Agricultural and Resource-Based Industry Development Corporation, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2011. This action strikes that contingent reduction so that it may be reduced directly.

- | | <u>Amount
Reduction</u> | |
|---|------------------------------------|----|
| 4. Reduce the Maryland Agricultural and Resource-Based Industry Development Corporation operating budget grant by \$1,750,000 as proposed in the Budget Reconciliation and Financing Act of 2011. The fiscal 2011 working appropriation is \$2,750,000; although, a negative deficiency would reduce the appropriation by \$250,000. This action leaves \$1,000,000 in fiscal 2012 funding. | 1,750,000 | GF |

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5. Add the following language to the general fund appropriation:

provided that \$500,000 of the General Fund appropriation for the Maryland Department of Agriculture (MDA) made for the purpose of general operating expenses may not be expended until MDA provides a report on soil conservation district field personnel position counts and funding for the fiscal 2011 actual, fiscal 2012 working appropriation, and fiscal 2013 allowance. The scope of the report is as follows:

- (1) the number of contractual and permanent soil conservation district field personnel positions (defined as soil conservation planner, soil conservation associate, and soil conservation engineering technician positions); and
- (2) the amount of funding budgeted by fund for regular position expenses directly attributable to field personnel and, separately, operating expenses indirectly associated with field personnel.

Explanation: Agriculture Article § 8-405 mandates that the Governor shall include in the annual budget bill an amount sufficient to employ not less than 110 field personnel in the soil conservation districts and that the appropriation for fiscal 2012 shall be \$10 million. The committees are concerned that it is difficult to independently verify funding for the 110 soil conservation field personnel and \$10 million funding level for soil conservation district field personnel in the fiscal 2012 allowance since the requested report was not submitted. Therefore, the committees request that the Maryland Department of Agriculture include with its fiscal 2013 budget submission information on the fiscal 2011 actual, fiscal 2012 working appropriation, and fiscal 2013 allowance data on soil conservation district field personnel position counts and funding.

Information Request	Authors	Due Date
Report on soil conservation district field personnel position counts and funding	Maryland Department of Agriculture Department of Budget and Management	Fiscal 2013 State budget submission and annually thereafter

		<u>Amount Reduction</u>
6.	This action deletes funding for programs funded by Chesapeake and Atlantic Coastal Bays 2010 Trust Fund revenues due to uncertainty about the final allocation and double counting of the funds in the State budget. Currently, the entire Chesapeake and Atlantic Coastal Bays 2010 Trust Fund appropriation is budgeted in the Department of Natural Resources,	12,827,441 SF

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and so the funding in the Maryland Department of Agriculture’s fiscal 2012 allowance double budgets the funding. When the final allocation for the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund has been determined, a special fund budget amendment may be processed to allocate the funding to the Maryland Department of Agriculture.

7. Adopt the following narrative:

Cover Crop Implementation and Funding Levels: The committees are concerned that cover crop implementation levels, and thus funding needs, fluctuate substantially between fiscal years. Therefore, the committees request that the Maryland Department of Agriculture submit a report on fiscal 2012 initial acres, approved acres, fall certification, and an estimate of final eligible acres. In addition, the funding requirements for the estimated final eligible acres should be outlined including the sources and amounts of available revenue, including Bay Restoration Fund balance, and a plan for funding the difference. The report also should comment on for the fiscal 2005 through 2011 time period (1) how cover crop pricing, weather conditions, and commodity prices have impacted cover crop implementation levels; (2) the split between commodity cover crops and traditional cover crops in terms of acres, nitrogen reduced and funding; and (3) how cover crop funding has been targeted and the rationale for targeting it in this way.

Information Request	Author	Due Date
Report on cover crop implementation and funding	Maryland Department of Agriculture	Fiscal 2013 State budget submission and annually thereafter
Total Reductions		\$ 15,277,441
Total General Fund Reductions		\$ 1,750,000
Total Special Fund Reductions		\$ 13,387,441
Total Federal Fund Reductions		\$ 140,000

Updates

1. Renewable Fuels Promotion Act of 2005 Update

Chapter 332 of 2005 (The Renewable Fuels Promotion Act of 2005) pledged funding for a production tax credit earned by any company generating a certain number of gallons of biofuel per year. At this point, no one has claimed the credit; however, as of December 1, 2010, Chesapeake Renewable Energy, LLC is still actively pursuing the financing for a barley ethanol facility and biomass co-generation power plant. MDA reports that due to the 18-month time period between construction start and production, it is unlikely that production payments will be claimed in fiscal 2012. At this point, no funding source has been determined by the State for a potential receiver of funding. State expenditures are limited to \$3 million annually for ethanol producers and \$1 million for biodiesel producers, for a total of \$4 million annually. The program expires at the end of 2017.

Current and Prior Year Budgets

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 2010					
Legislative Appropriation	\$29,960	\$25,170	\$4,713	\$5,371	\$65,214
Deficiency Appropriation	0	5,110	907	0	6,017
Budget Amendments	0	3,343	174	64	3,581
Cost Containment	-4,724	-197	0	0	-4,921
Reversions and Cancellations	0	-8,783	-1,296	-3,076	-13,155
Actual Expenditures	\$25,236	\$24,643	\$4,498	\$2,358	\$56,736
Fiscal 2011					
Legislative Appropriation	\$27,578	\$25,979	\$4,442	\$11,108	\$69,108
Budget Amendments	0	7,000	127	35	7,162
Working Appropriation	\$27,578	\$32,979	\$4,569	\$11,143	\$76,270

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

Fiscal 2010

The general fund appropriation decreases by \$4.7 million due to Board of Public Works cost containment actions. Reductions include MARBIDCO rural business loans (\$1,900,000), elimination of positions and programmatic funding (\$1,103,000), and across-the-board furlough reductions (\$507,093).

The special fund appropriation decreases by \$0.5 million as follows:

- **Deficiency Appropriation** – an increase of \$5.1 million primarily consists of funding for supplementing the cover crop program with revenues in accordance with the BRFA of 2009 (\$5,000,000);
- **Budget Amendments** – an increase of \$3.3 million primarily consists of the allocation of a portion of the fiscal 2010 Chesapeake and Atlantic Coastal Bays 2010 Trust Fund appropriation for cover crops, soil conservation district best management practice implementation, forest/grass buffers/wetland restoration (\$2,940,000), and closeout amounts (\$403,424);
- **Cost Containment** – a decrease of \$0.2 million comprised of \$152,046 in across-the-board reductions and \$45,000 for Maryland Agricultural Fair Board racing fee reversion;
- **Cancellations** – a decrease of \$8.8 million primarily due to funding supporting MARBIDCO’s Installment Purchase Agreements Program being transferred to the general fund as part of the BRFA of 2009 actions (\$4.0 million), and Resource Conservation Grants appropriation for cover crop payments that were unneeded (\$2.3 million);

The federal fund appropriation decreases by \$0.2 million as follows:

- **Deficiency Appropriation** – an increase of \$0.9 million comprised of funding for nutrient trading activities and to maintain soil conservation district office field services for farmers (\$452,000), for finishing a multi-year grant from the U.S. Department of Agriculture to improve dairy herd nutrition using milk urea nitrogen (\$210,000), and for performing in-store grading and standardization reviews and audits (\$190,000);
- **Budget Amendments** – an increase of \$0.2 million comprised of \$173,649 for closeout amounts; and
- **Cancellations** – a decrease of \$1.3 million primarily due to lower than expected revenues and expenditures in Plant Protection and Weed Management (\$0.4 million), Animal Health (\$0.3 million), Resource Conservation Operations (\$0.2 million), and Food Quality Assurance (\$0.2 million).

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The reimbursable fund appropriation decreases by \$3.0 million. The changes are as follows:

- **Budget Amendments** – an increase of \$0.1 million comprised of \$64,000 transferred from DNR for conducting a public relations and advertising program to increase awareness of the Maryland crab industry; and
- **Cancellations** – a decrease of \$3.1 million primarily due to lower than anticipated cover crop expenditures in Resource Conservation Grants (\$2.2 million) and internal cost allocations not reaching budgeted levels in Central Services (\$0.3 million).

Fiscal 2011

MDA's special fund appropriation increases by a net \$7,000,000. A budget amendment appropriation increase of \$11,000,000 reflects the realignment of Chesapeake and Atlantic Coastal Bays 2010 Trust Fund appropriation from DNR. The funds are being used for cover crops (\$9,520,000), forest/grass buffers/wetland restoration (\$800,000), and technical assistance to Soil Conservation Districts for best management practice implementation (\$680,000). This is offset by a \$4,000,000 decrease in appropriation due to the infeasibility of MARBIDCO's Installment Purchase Agreement program.

MDA's federal fund appropriation increases by \$127,058. This reflects a budget amendment for unanticipated hemlock woolly adelgid suppression funding in Forest Pest Management (\$61,058) and unanticipated revenue carried forward from fiscal 2010 from U.S. Department of Agriculture emerald ash borer and cooperative pest survey funding for regular salaries in Plant Protection and Weed Management (\$66,000).

MDA's reimbursable fund appropriation increases by \$35,000. This reflects a budget amendment that allows for additional charges by Central Services to other agency programs.

Audit Findings

Audit Period for Last Audit:	May 1, 2006 – June 30, 2009
Issue Date:	February 2010
Number of Findings:	7
Number of Repeat Findings:	4
% of Repeat Findings:	57%
Rating: (if applicable)	

- Finding 1:*** Certain cash receipts were not adequately controlled, verified to deposit, or reconciled with licenses issued.
- Finding 2:*** Proper internal controls were not established over purchasing and disbursement transactions.
- Finding 3:*** Procurement and payment processing were inadequate.
- Finding 4:*** Corporate purchasing cards were not adequately controlled.
- Finding 5:*** Significant control deficiencies existed over property records and physical inventories.
- Finding 6:*** Controls over non-cash credit adjustments were inadequate.
- Finding 7:*** Required reports were not submitted to the General Assembly’s budget committees.

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

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

<u>Object/Fund</u>	<u>FY 10 Actual</u>	<u>FY 11 Working Appropriation</u>	<u>FY 12 Allowance</u>	<u>FY 11 - FY 12 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	405.50	404.50	404.50	0.00	0%
02 Contractual	48.85	49.55	44.85	-4.70	-9.5%
Total Positions	454.35	454.05	449.35	-4.70	-1.0%
Objects					
01 Salaries and Wages	\$ 26,867,263	\$ 26,946,928	\$ 28,287,399	\$ 1,340,471	5.0%
02 Technical and Spec. Fees	1,443,540	1,389,352	1,186,704	-202,648	-14.6%
03 Communication	798,025	848,147	931,366	83,219	9.8%
04 Travel	336,772	212,633	221,741	9,108	4.3%
06 Fuel and Utilities	814,672	1,023,571	834,936	-188,635	-18.4%
07 Motor Vehicles	975,485	1,031,238	1,067,181	35,943	3.5%
08 Contractual Services	4,520,462	5,135,092	5,380,628	245,536	4.8%
09 Supplies and Materials	1,125,615	1,412,243	1,256,305	-155,938	-11.0%
10 Equipment – Replacement	306,317	338,030	348,464	10,434	3.1%
11 Equipment – Additional	392,038	198,431	199,215	784	0.4%
12 Grants, Subsidies, and Contributions	17,990,529	34,361,269	30,859,541	-3,501,728	-10.2%
13 Fixed Charges	776,697	2,797,628	1,102,483	-1,695,145	-60.6%
14 Land and Structures	388,121	575,250	615,000	39,750	6.9%
Total Objects	\$ 56,735,536	\$ 76,269,812	\$ 72,290,963	-\$ 3,978,849	-5.2%
Funds					
01 General Fund	\$ 25,236,419	\$ 27,577,922	\$ 27,530,000	-\$ 47,922	-0.2%
03 Special Fund	24,643,156	32,979,398	36,655,344	3,675,946	11.1%
05 Federal Fund	4,497,690	4,569,359	4,301,226	-268,133	-5.9%
09 Reimbursable Fund	2,358,271	11,143,133	3,804,393	-7,338,740	-65.9%
Total Funds	\$ 56,735,536	\$ 76,269,812	\$ 72,290,963	-\$ 3,978,849	-5.2%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.

**Fiscal Summary
Department of Agriculture**

<u>Program/Unit</u>	<u>FY 10 Actual</u>	<u>FY 11 Wrk Approp</u>	<u>FY 12 Allowance</u>	<u>Change</u>	<u>FY 11 - FY 12 % Change</u>
11 Office of the Secretary	\$ 7,876,286	\$ 8,400,869	\$ 8,503,221	\$ 102,352	1.2%
12 Office of Marketing, Animal Industries, and Consumer Services	13,795,447	18,069,126	19,291,418	1,222,292	6.8%
14 Office of Plant Industries and Pest Management	10,535,717	11,126,128	10,957,239	-168,889	-1.5%
15 Office of Resource Conservation	24,528,086	38,673,689	33,539,085	-5,134,604	-13.3%
Total Expenditures	\$ 56,735,536	\$ 76,269,812	\$ 72,290,963	-\$ 3,978,849	-5.2%
General Fund	\$ 25,236,419	\$ 27,577,922	\$ 27,530,000	-\$ 47,922	-0.2%
Special Fund	24,643,156	32,979,398	36,655,344	3,675,946	11.1%
Federal Fund	4,497,690	4,569,359	4,301,226	-268,133	-5.9%
Total Appropriations	\$ 54,377,265	\$ 65,126,679	\$ 68,486,570	\$ 3,359,891	5.2%
Reimbursable Fund	\$ 2,358,271	\$ 11,143,133	\$ 3,804,393	-\$ 7,338,740	-65.9%
Total Funds	\$ 56,735,536	\$ 76,269,812	\$ 72,290,963	-\$ 3,978,849	-5.2%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.