

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Revised

Senate Bill 458 (Senator Craig, *et al.*)

Economic and Environmental Affairs

Referred to Environmental Matters

Task Force on Maryland's Dairy Industry - Recommendations - Milk Pricing

This amended bill establishes a seven-member Advisory Committee on Milk Pricing. The Secretary of Agriculture, in consultation with the advisory committee, must define or adjust milk markets, determine the presumed cost of fluid milk, and determine minimum prices to be paid to milk producers by milk distributors in any market. The bill prohibits the sale of milk at prices below the estimated industry average cost unless distributors can demonstrate lower costs of production. The Secretary of Agriculture is not permitted to set the minimum retail price for milk.

All milk distributors must be licensed by the Secretary of Agriculture, except schools, retail sellers, institutions, and milk producers. The bill establishes a Maryland Milk Fund to cover the cost of implementing and administering the State's milk pricing program. Milk producers and distributors may each be charged a maximum fee of \$0.04 per 100 pounds of fluid milk per month.

Fiscal Summary

State Effect: Special fund expenditures could increase by \$314,000 in FY 1998. Special fund revenues could increase by a corresponding amount. Future year expenditures reflect inflation and the elimination of one-time start-up costs. Future year revenues assume milk distributor's charges would cover only the cost of the milk pricing program. General fund expenditures could increase by a minimal amount from milk purchases by State agencies.

| (in dollars) | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| SF Revenues | \$314,000 | \$268,700 | \$278,300 | \$288,400 | \$299,000 |
| SF Expenditures | 314,000 | 268,700 | 278,300 | 288,400 | 299,000 |
| Net Effect | \$0 | \$0 | \$0 | \$0 | \$0 |

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None.

Small Business Effect: Meaningful impact on small businesses as discussed below.

Fiscal Analysis

Background: There are approximately 1,100 commercial dairy farmers in the State generating around \$176 million in cash receipts. The dairy industry stimulates economic activity on many different levels; including veterinary services which are mostly performed by small businesses, milking equipment sales and services, and milk distribution. Not only does the dairy industry provide jobs directly, but it spurs additional economic activity as income derived from the dairy industry is spent throughout the economy (induced economic impact). In total, it is estimated that the dairy industry provides roughly 5,300 full-time equivalent jobs throughout the State, some of which are provided by small businesses.

Maryland's dairy industry is concentrated in the north-central section of the State, with Frederick, Carroll, and Washington counties accounting for nearly two-thirds of the State's milk production. The dairy industry accounts for about 16% of total agricultural land use (352,000 acres).

State Revenues: Special fund revenues to the Maryland Milk Fund could increase depending upon the fluid milk fee set by the Secretary of Agriculture to cover the costs associated with regulating the dairy industry. Approximately 700 million pounds of fluid milk is consumed in the State annually. To cover the projected \$314,000 in program expenditures in fiscal 1998, a fee of \$0.045 per 100 pounds of fluid milk would have to be imposed. This fee estimate could change depending upon the number of milk distributors and pounds of milk produced. Maryland Milk Fund revenues from the licensing requirement could also increase by \$2,500 to \$3,000 annually. This is based on 25 to 30 milk distributors operating in the State

State Expenditures: Special fund expenditures within the Department of Agriculture could increase by an estimated \$314,014 in fiscal 1998, which reflects the bill's October 1, 1997 effective date. This estimate reflects the cost of hiring one Administrator, one Administrative Specialist, one Office Secretary, one Fiscal Specialist, one Fiscal Clerk, and two Accountant Auditors to staff the Advisory Committee on Milk Pricing and to regulate and establish minimum milk prices. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Personnel costs are based on staffing at a similar state program in Virginia. The Administrator and Administrative Specialist would

implement and oversee the milk pricing program; the Office Secretary and Fiscal Clerk would collect licensing fees, post notices, and provide support for the program's implementation; and the Fiscal Specialist and Accountant Auditors would conduct cost surveys to arrive at the presumed cost of processing and distributing fluid milk and to ensure that processors and distributors comply with the law.

| | |
|-------------------------------------|---------------|
| Salaries and Fringe Benefits | \$176,674 |
| Automobiles | 37,500 |
| Equipment | 30,965 |
| Legal Support - Develop Regulations | 22,000 |
| Computer Programming | 20,000 |
| Operating Expenses | <u>26,875</u> |

| | |
|---|------------------|
| Total FY 1998 State Expenditures | \$314,014 |
|---|------------------|

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

In addition, general fund expenditures could increase by an indeterminate amount if the minimum price of milk increases. The Department of Health and Mental Hygiene, the Division of Correction, and the Department of Juvenile Justice purchase approximately one million gallons of milk annually. Accordingly, State general fund expenditures could increase by \$10,000 for each penny increase in the price of a gallon of milk.

Small Business Effect: There are approximately 1,100 commercial dairy farmers in the State generating around \$176 million in cash receipts. In 1995, 25 Maryland manufacturing plants processed farm milk into a variety of dairy products. Based on a 1992 study, milk processing plants in Maryland employed over 1,900 people and supplied consumers with approximately \$743 million worth of dairy products. While dairy production constitutes the third largest sector of the State's agricultural industry, it has experienced a slowdown in recent years. Cash receipts generated by the State's dairy farms has declined by 14% in the last five years (from a high of \$204 million in 1990 to \$176 million in 1995). Over this same period, the production of fluid milk has decreased by 2% (1.373 million pounds in 1990 to 1.342 million pounds in 1995). The decline in the State's dairy industry can be attributed to many factors, including competition with out-of-state milk producers and the continuing loss of dairy farmland to development.

Milk Regulations May Benefit Small Dairy Operations

Dairy related small businesses could be positively impacted by milk price regulations to the extent that it increases farmers' revenues and profits. Increased revenues and profits may be realized through preventing out-of-state dairies from selling milk at below average industry costs. This would put Maryland's dairy industry on equal terms with out-of-state operations that may be selling milk in this state at below industry costs. Further, any benefits realized by small dairy operations would ripple throughout the State's economy and benefit other non-dairy related businesses, such as veterinarians.

Impact on Milk Prices

Conceptually, establishing a price floor would tend to increase the price of milk, depending on where the minimum price is set relative to existing market prices. To the extent that out-of-state milk suppliers have been selling milk in Maryland at below cost, and assuming that the new minimum prices are set to prevent such "dumping", then milk prices could rise by an indeterminate amount. Small grocery retailers could respond to an increase in milk prices by passing the costs along to consumers through higher retail prices or by absorbing the costs as additional business expenses thus reducing their profits on milk sales.

Additional Comments: Milk production is also affected by continual commercial and residential development of farmland. As noted earlier, approximately two-thirds of the State's milk production occurs in Frederick, Carroll, and Washington counties, with Frederick County being the State's largest producer. Based on population trends provided by the Maryland Office of Planning, Frederick County's population has increased by 106% in the last 25 years, from 85,000 residents in 1970 to 175,000 in 1995. The county's population is expected to increase by an additional 50% over the next 25 years. Currently, approximately 52% of the county's land is devoted to farming; however, with continual development the amount of land devoted to farming probably will decrease, thereby affecting the State's dairy industry. The State's third largest dairy producer, Carroll County, is also confronted with similar development trends. However, if profits generated by dairy farming (even with minimum price supports) do not outweigh the financial gains obtained from selling dairy farmland to developers, the number of dairy farms in the State may continue to decline. The trend in the number of dairy related farms in the two counties is illustrated below.

| | Frederick County | | Carroll County | |
|------|------------------|----------------|----------------|----------------|
| | Dairy Farms | # of Milk Cows | Dairy Farms | # of Milk Cows |
| 1969 | 759 | 40,493 | 405 | 16,072 |
| 1978 | 249 | 39,807 | 278 | 14,851 |
| 1982 | 531 | 43,908 | 245 | 14,176 |
| 1987 | 416 | 39,224 | 190 | 11,902 |
| 1992 | 312 | 34,981 | 153 | 10,643 |

Source: Census of Agriculture
MD Department of Agriculture

Information Source(s): Department of Fiscal Services, Department of Agriculture

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