

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1299 (Delegate Conwav. *et al.*)

Environmental Matters

Department of Agriculture - Maryland Crop Insurance Premium Program

This bill establishes a Maryland Crop Insurance Premium Program to encourage eligible farmers to participate in the Federal Crop Insurance Program administered by the U.S. Department of Agriculture. The Secretary of the Maryland Department of Agriculture (MDA) may pay a farmer eligible to participate in the federal program not more than \$2 per acre for any federal crop insurance premium paid by the farmer. MDA may distribute money under this program from funds provided in the budget. The Secretary may adopt regulations to implement the bill.

Fiscal Summary

State Effect: General fund expenditures could increase by \$720,500 in FY 2001 to provide payments to farmers and to administer the program. Future year estimates reflect ongoing payments to farmers and ongoing operating expenses that are annualized and adjusted for inflation. No effect on revenues.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Exp.	720,500	727,300	729,400	731,500	733,800
Net Effect	(\$720,500)	(\$727,300)	(\$729,400)	(\$731,500)	(\$733,800)

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: None applicable.

Background: The Federal Crop Insurance Program aims to protect farmers from losses caused by natural disasters such as drought, floods, and pests. Farmers purchase insurance through private insurance firms and pay a premium for coverage. The federal government provides a subsidy to cover a percentage of the premium. There are two general types of policies: (1) “buy-up” policies, with varying levels of protection and associated premiums; and (2) “catastrophic” policies, low-value policies for which premiums are entirely subsidized by the federal government. In Maryland, approximately 1.27 million acres were eligible for the program in 1999. Approximately 2,000 farmers signed up to cover 621,854 of these acres under the program (342,142 acres under 2,200 buy-up policies and 279,712 acres under 2,131 catastrophic policies).

State Expenditures: General fund expenditures could increase by an estimated \$720,500 in fiscal 2001, which accounts for the bill’s October 1, 2000, effective date. This estimate includes estimated payments to farmers and reflects the cost of hiring one fiscal specialist to administer the program. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- approximately 342,142 acres will be eligible for State funds annually;
- MDA will administer the program; and
- MDA will provide the maximum amount (\$2 per acre) for all eligible acres.

Salaries and Fringe Benefits	\$31,400
Estimated Payments to Farmers	684,300
Equipment and Operating Expenses	<u>4,800</u>
Total FY 2001 State Expenditures	\$720,500

The estimated number of acres that will be eligible for payments is based on the number of acres that were covered under the federal buy-up policies in 1999. It does not include acres covered under the federal catastrophic policies because farmers do not pay a premium for those policies (the premiums are completely subsidized by the federal government; farmers only pay a minimal administrative fee). Nor does it include any additional acres that may become covered under the federal program as a result of the bill’s incentive.

Total payments to farmers will also depend on the actual payments per acre made by MDA. Legislative Services advises that depending on the regulations adopted by MDA, costs per acre could vary significantly. For example, if MDA chooses not to pay all eligible farmers the maximum of \$2 per acre, but instead chooses to develop a sliding scale for different crop types, payments to farmers would decrease.

Future year expenditures reflect (1) ongoing payments to farmers of an estimated \$684,300; (2) full salary with 4.5% annual increases and 3% employee turnover; and (3) 1% annual increases in ongoing operating expenses.

Small Business Effect: Most farms are small businesses. Based on 1999 acreage for which a premium was paid under the federal crop insurance program, it is estimated that Maryland farmers could receive \$684,300 annually in payments from MDA beginning in fiscal 2001.

Additional Information

Prior Introductions: None.

Cross File: SB 849 (Senator Stoltzfus, *et al.*) - Economic and Environmental Affairs.

Information Source(s): Maryland Department of Agriculture, U.S. Department of Agriculture, Congressional Budget Office, Department of Legislative Services

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drg/jr

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