

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 589

(Senator Munson, *et al.*)

Budget and Taxation

Environmental Matters

2020 Rural Maryland - Agricultural and Resource-Based Industry Development Act

This bill creates the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) as a public corporation to provide financing to agricultural and resource-based businesses. The bill directs the corporation to report on its status to the Governor, the General Assembly, and specified State organizations within 90 days after the beginning of each fiscal year.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: None in FY 2005. Potential increase in general and special fund expenditures in future years for personnel and operating and start-up costs. Nonbudgeted expenditures and revenues would increase to the extent that MARBIDCO issues bonds to finance projects.

Local Effect: Local governments could benefit if MARBIDCO provides loans or other financial assistance to local jurisdictions or regional organizations.

Small Business Effect: Meaningful. Small agricultural businesses and start-ups would benefit to the extent they are eligible for grants, loans, and technical or marketing assistance provided by MARBIDCO.

Analysis

Bill Summary: The bill creates MARBIDCO as a public corporation and instrumentality of the State to: (1) develop agricultural industries and markets; (2) support appropriate commercialization of agricultural processes and technology; and (3) alleviate the shortage of nontraditional capital credit available at affordable interest rates for investment in agriculture and sale of related products and services, as well as capital investment in agricultural projects by providing capital and credit within the financial means of the recipient.

The corporation is exempt from State and local taxes, as well as State laws governing procurement and personnel. It is not exempt from State ethics laws or the Maryland Public Information Act. MARBIDCO may receive annual funding through a State budget appropriation and may receive funds for projects included in State agency budgets. The bill's stated intent is that State funding be provided to the corporation with existing resources from the Departments of Agriculture, Budget and Management, the Environment, Business and Economic Development, and Housing and Community Development, and other relevant State agencies. The bill further states that additional funding (beyond existing resources) may not be provided for staffing, operations, or capital needs of MARBIDCO until the State's fiscal crisis and structural deficit are resolved. MARBIDCO must conduct its financial affairs so that it is self-sufficient by 2020.

A board of directors comprised of State officials and industry representatives will manage the corporation, which must employ an executive director. The Attorney General serves as legal advisor. Board members serve four-year terms that expire as specified. The bill provides MARBIDCO with powers generally given to corporations, including the authority to issue revenue bonds (for up to 40-year terms), enter into contracts, foreclose on mortgages, make grants or provide equity investment, buy land, and purchase and sell agricultural loans, which must be fully insured. Bonds issued by MARBIDCO are not backed by the full faith and credit of the State. MARBIDCO is solely responsible for any debts, obligations, or liabilities it incurs.

The bill broadly defines agriculture for the purpose of eligible assistance to mean commercial production, storage, processing, marketing, distribution, or export of an aquacultural, equine, floricultural, horticultural, ornamental, silvicultural, or viticultural crop. Loans provided by a lending institution can be used to finance a variety of agricultural processes, including land acquisition, soil conservation, pond construction, and building expansion or construction, as well as for the purchase of livestock, seeds, fertilizers, and pesticides.

Current Law: Chapter 266 of 2003 consolidated the State's rural capacity development programs, including the Forum for Rural Maryland and the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDAF). It renamed the Forum as the Maryland Rural Council, and relocated the council from the Department of Business and Economic Development (DBED) to the Maryland Department of Agriculture (MDA). The Maryland Rural Council is the State rural development council that brings together public and private sector entities to address problems and challenges facing rural communities. Chapter 266 stated that the Governor should include in the annual State budget funds for the council in an amount equivalent to or in excess of the council's federal funding.

Background: The General Assembly created the Task Force on Resource Industry Business Development in 2000 (Chapter 433) to examine the need for creating a finance development authority to help the State's farming, fishing, forestry, and extraction industries with loans, training, and other business services. The task force did not recommend such an authority based on a needs survey conducted by a consultant; it concluded in 2002 that "there is no great demand for additional lending mechanisms to support start-up needs of resource-based industries."

Legislation was passed in 2002 to restart and expand the task force to determine the feasibility of the consultant's recommendations, which included: (1) creating a staff position to act as an information clearinghouse; (2) creating or enhancing a pool of grant funds for resource-based innovation and research; and (3) sponsoring education and networking seminars. However, the bill was vetoed.

State Fiscal Effect: The bill requires that any State funding for MARBIDCO be provided within existing resources of several specified departments, prohibiting any appropriations for MARBIDCO until the State's structural deficit and fiscal crisis are resolved. It is unclear when these conditions will be met. The Department of Legislative Services observes that a final resolution to the State's fiscal 2005 budget deficit (\$800 million) has not yet been reached and that projected deficits in the out-years will hinge to some extent on that resolution. It will also depend on economic factors that cannot be determined at this time.

Given the fiscal crisis, agencies' "existing" resources have been stretched already. Accordingly, the Maryland Rural Council advises that funding will not likely be available for personnel and start-up costs in fiscal 2005, estimated to be \$388,297, unless federal funds are provided by the U.S. Department of Agriculture. This estimate reflects salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses and assumes the following:

- the corporation would require a person dedicated to business development to serve as a liaison with lending institutions and recipients, as well as an administrative associate;
- start-up expenses for the new corporation would include equipment and rental or lease fees; and
- the corporation would require contractual services to assist with communications and other duties.

The council notes that in the absence of additional appropriations this year, it expects the board's appointments to be made and a plan for the corporation to be developed in consultation with other agencies.

The bill authorizes MARBIDCO to receive an annual appropriation in the State budget but does not specify an amount. Presumably, some of the out-year costs would be borne by MARBIDCO once it begins to generate its own revenue.

MARBIDCO would likely issue bonds to provide the financial assistance that the bill calls for and would be responsible for related debt service payments. Accordingly, the bonds would generate nonbudgeted revenue; nonbudgeted expenditures would increase to provide debt service. The amount of revenue or expenditure cannot be predicted at this time.

Small Business Effect: The bill provides a new source of funds to provide agriculture-related businesses low-interest loans and other aid that may not be available commercially and could significantly benefit small companies that qualify. According to a recent University of Maryland report on State agriculture, Maryland has 2.15 million acres of farmland, over one-third of the State's land area. The State has 12,400 farms producing more than 160 different crops and livestock products. A study provided by the Maryland Rural Council indicates that the statewide impact of resource-based industries, including seafood and timber sales, was \$16.1 billion in 1999.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Department of Housing and Community Development, Maryland Department of Agriculture, Department of Legislative Services

Fiscal Note History: First Reader - March 12, 2004
ncs/ljm Revised - Senate Third Reader - April 2, 2004

Analysis by: Ann Marie Maloney

Direct Inquiries to:
(410) 946-5510
(301) 970-5510