

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

House Bill 543

(Delegate Stull, *et al.*)

Environmental Matters

Education, Health, and Environmental Affairs

Agriculture - Maryland Dairy Farmer Emergency Trust Fund

This bill establishes a Maryland Dairy Farmer Emergency Trust Fund, administered by the Secretary of Agriculture, to provide financial assistance to dairy farmers during periods of economic hardship due to depressed milk prices. The fund would consist primarily of money appropriated in the State budget. At the end of a fiscal year, any unspent or unencumbered balance in the fund over \$15 million reverts to the general fund. The Secretary must establish procedures for dairy farmers to apply for financial assistance from the fund.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund expenditures could increase significantly to capitalize the emergency fund; however, the specific level of funding needed to provide assistance to dairy farmers during times of economic hardship would depend in large part on future milk prices, dairy farmers' returns from those prices (accounting for production costs), and the manner in which funding is administered by MDA. Therefore, the extent of any general fund increase cannot be reliably estimated at this time.

Local Effect: The bill would not directly affect local government operations or finances.

Small Business Effect: Meaningful.

Analysis

Current Law/Background: The establishment of an emergency fund for Maryland dairy farmers was recommended by the Maryland Dairy Industry Oversight and Advisory Council in its October 2007 report to the Governor. The council's report indicates that despite recent increases in the price of milk, there is evidence that Maryland dairy farms and their future viability are at a critical juncture with prices expected to decline in the future. The number of farms licensed to produce milk has been declining in Maryland (from 1,009 in 1995 to just over 570 today) – a trend that is expected to continue. According to the Maryland Department of Agriculture, dairy is the third largest agricultural sector in Maryland, generating approximately \$200 million in farm receipts annually.

The council's dairy farmer representatives attribute the decline in dairy farms largely to insufficient financial returns resulting from price volatility and extended periods of depressed milk prices. The council's report also mentions the lack of a readily available labor force and the cost of maintaining labor, environmental regulations, cost of farmland, development/growth pressures, increased input costs (feed, fertilizer, fuel, etc.), and federal dairy pricing policies as challenges facing Maryland dairy farmers.

The U.S. Department of Agriculture's Milk Income Loss Contract (MILC) Program, which was authorized through September 30, 2007, provided limited compensation to dairy farmers when milk prices fell below a specified level. Similar limited assistance could be included in the pending federal farm bill.

The council's report cites states such as Maine, Massachusetts, New Hampshire, New York, New Jersey, Pennsylvania, Vermont, and Virginia as having provided or committed to provide assistance to dairy producers in recent years, generally either through appropriations or regulation of prices or both. South Carolina offers a tax credit/rebate to dairy farmers dependent on milk prices falling below an established threshold.

The State provides various forms of financial and other assistance to specific segments of Maryland's agriculture industry ranging from the tobacco buyout program to grants, research, and marketing efforts in other areas such as the wine and grape industry. The Secretary of Agriculture, who would administer the proposed fund, has general supervision, direction, and control of State laws relating to agriculture and generally all matters affecting or relating to the fostering, protection, and development of the agricultural interests of the State.

State Fiscal Effect: The bill does not specify a specific funding source for the fund nor a specific funding level. It is assumed that general funds would be used to capitalize the fund. However, the amount necessary to provide meaningful assistance to farmers during periods of economic hardship due to depressed milk prices cannot be reliably estimated at this time and would depend in large part on future milk prices, dairy farmers' returns from those prices, and the manner in which funding would be administered by MDA (*i.e.*, what conditions would trigger assistance payments). It is expected, however, that a significant amount of funding will be needed to fulfill the purposes of the fund.

Milk prices for Maryland farmers have fluctuated significantly in the past and while prices are higher than they have been in recent years, MDA indicates that it is difficult to predict how prices might change in the future. The Maryland Dairy Industry Oversight and Advisory Council's report noted the volatility of milk prices and indicated that prices are expected to decline again.

Maryland farmers received approximately \$20 million in payments under the federal MILC program over the five-year period from 2002 to 2006. The proposed fund would not necessarily be administered in the same manner as the MILC program, but the historical payments under the MILC program are an example of the magnitude of funding that could be needed for assistance to dairy farmers. In addition, the Maryland Dairy Industry Oversight and Advisory Council recommended that \$5 million be appropriated annually to an emergency fund and be allowed to build up to, and be maintained at, \$15 million to provide the necessary funding.

MDA advises the program could be administered with existing staff and minimal administrative costs. It is assumed that any administrative costs could be absorbed within existing budgeted resources.

Small Business Effect: Financial assistance provided from the fund during periods of depressed milk prices would directly benefit small business dairy farms and could have a positive effect on their continued economic viability. *For illustrative purposes only*, if \$4 million were disbursed in a given year to the approximately 570 licensed dairy farms in the State, the average payment per farm would be approximately \$7,000.

MDA indicates that the continued economic viability of dairy farms also benefits other small businesses such as veterinarians, feed supply companies, trucking businesses, farms that supply feed and replacement animals to dairy farms, and others. According to MDA, dairy farming is generally believed to induce more economic activity than other agricultural enterprises.

Additional Information

Prior Introductions: None.

Cross File: SB 503 (Senator Brinkley, *et al.*) – Education, Health, and Environmental Affairs.

Information Source(s): Maryland Department of Agriculture, Maryland Dairy Industry Oversight and Advisory Council, U.S. Department of Agriculture, Department of Legislative Services

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