

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 503 (Senator Brinkley, *et al.*)
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 Governor must include \$5 million in the State budget each fiscal year for the fund. 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 expenditure increase of \$5 million annually beginning in FY 2009, reflecting annual appropriations to the proposed fund. Special fund expenditures from the proposed fund, potentially beginning in FY 2009, cannot be reliably estimated. Future year general fund revenues reflect potential general fund reversions. **This bill establishes a mandated appropriation beginning in FY 2010.**

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	\$0	\$0	\$0	-	-
GF Expenditure	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Net Effect	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)

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

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: General fund expenditures would increase by \$5 million annually beginning in fiscal 2009, to capitalize the fund as mandated by the bill. Although the Governor has already submitted the proposed fiscal 2009 budget, it is assumed that funding could be provided in fiscal 2009 through a supplemental budget or general fund deficiency appropriation.

Special fund expenditures would depend on dairy market conditions and the procedures developed by the Secretary under the bill and cannot be reliably estimated at this time. On an average annual basis, special fund expenditures would be limited by the \$5 million annual appropriation.

In the event of limited expenditures from the proposed fund, general fund revenues could increase beginning in fiscal 2012 due to the bill's general fund reversion provision. Any reversion would depend on the extent to which the fund balance at the end of a fiscal year exceeds \$15 million.

MDA advises the program could be administered with existing staff and minimal administrative costs. It is assumed that any 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: HB 543 (Delegate Stull, *et al.*) – Environmental Matters.

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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mll/lgc

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