

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE

House Bill 524 (Delegate Manno)
 Environmental Matters

Maryland Organic Transition Investment Pilot Program - Funding and Extension of Sunset

This bill allows State funding to be used to establish and implement the Maryland Organic Transition Investment Pilot Program (MOTIPP) established by Chapter 554 of 2009. The bill also extends the termination date of Chapter 554 from June 30, 2012, to June 30, 2015. Finally, the bill specifies that, for each of the fiscal years 2012 through 2015, the Governor may include an appropriation in the State budget for the Organic Agriculture Development Fund to secure federal matching funds; the bill modifies the allowable revenue sources to that special fund to accommodate any such State appropriation.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: General fund expenditures increase by up to \$74,400 in FY 2011 to provide funding for financial assistance under MOTIPP and to administer the program. Special fund revenues and expenditures increase up to \$60,000 annually, reflecting those general fund appropriations received by the fund and used for financial assistance. To the extent State funding leverages federal matching funds, special fund revenues and expenditures increase further. Future year general fund expenditures reflect ongoing support for financial assistance as well as administrative costs with inflation.

| (in dollars) | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|----------------|------------|------------|------------|------------|------------|
| SF Revenue | \$60,000 | \$60,000 | \$60,000 | \$60,000 | \$60,000 |
| GF Expenditure | \$74,400 | \$80,200 | \$81,800 | \$83,400 | \$85,100 |
| SF Expenditure | \$60,000 | \$60,000 | \$60,000 | \$60,000 | \$60,000 |
| Net Effect | (\$74,400) | (\$80,200) | (\$81,800) | (\$83,400) | (\$85,100) |

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Chapters 553/554 of 2009 created MOTIPP within the Maryland Department of Agriculture (MDA) to provide financial assistance to producers for eligible costs associated with transitioning to organic agricultural production. The Acts also created the Organic Agriculture Development Fund, consisting primarily of money received from the federal government or any entity receiving federal funding for purposes consistent with the program. The Secretary of Agriculture is required to develop and implement the program, subject to the availability and appropriation of funding. Chapters 553/554 specified that the Acts were not to be interpreted as requiring the use of State funding for the program. The pilot program terminates June 30, 2012.

Under MOTIPP, a producer is eligible for funding for a period of three consecutive years upon satisfying certain conditions, including entering into an agreement with MDA that obligates the producer to maintain organic certification for five consecutive years. The amount payable to a producer under the program is limited to \$100 per acre for up to 20 acres. The Secretary of Agriculture, however, may establish by regulation conditions under which assistance may be provided for acreage that exceeds 20 acres.

Background: Subject to certain exemptions and exclusions, operations or portions of operations that produce or handle agricultural products intended to be sold, labeled, or represented as “100 percent organic,” “organic,” or “made with organic (specified ingredients or food group(s))” must be certified under the U.S. Department of Agriculture’s (USDA) National Organic Program (NOP). MDA administers the Maryland Organic Certification Program, and in doing so, serves as an accredited certifying agent under NOP.

Among other requirements for organic certification under NOP, no prohibited substances can have been applied to the land from which harvested crops are intended to be sold, labeled, or represented as “organic” for three years preceding the harvest of the crop. MDA indicates that, during this transition period, crop yields are usually reduced and farmers usually experience a revenue loss. The farmers, however, cannot represent their products as organic and obtain the price premium paid for organic products until the completion of the transition period. Funding under MOTIPP would help offset farmers’ revenue loss and/or account for other transition costs. However, no federal or other

non-State funding has been available to this point to develop and implement the program established by Chapters 553/554 of 2009.

There are currently 86 organic farms certified, and 16 registered exempt, by MDA. Registered exempt farms are exempt from certification, due to having gross sales of organic products of \$5,000 or less, but still must comply with NOP production requirements in order to sell products as organic. Of the 86 certified farms, 22 have additional acreage in transition to organic production and 1 additional farm is transitioning under an MDA transitional certification, which allows transitioning farms to ensure compliance with NOP during the transition period leading up to certification. MDA indicates there are also additional certified organic farms in the State other than those certified by MDA (NOP also accredits private businesses and organizations as certifying agents, in addition to State agencies) as well as other farms transitioning without MDA transitional certification.

State Fiscal Effect: General fund expenditures increase by up to \$74,445 in fiscal 2011, which accounts for a 90-day start-up delay. This estimate reflects funding for financial assistance under MOTIPP, the cost of a portion (0.3) of an administrator position, and ongoing operating expenses. The estimate assumes:

- a maximum of 30 producers receive funding each year; and
- each producer only receives funding for up to 20 acres, limiting the maximum payment to each producer to \$2,000.

| | |
|--------------------------------------|-----------------|
| Financial Assistance | \$60,000 |
| Salary and Fringe Benefits | 14,248 |
| Operating Expenses | <u>197</u> |
| Total FY 2011 GF Expenditures | \$74,445 |

Future year general fund expenditures reflect continuing financial assistance; a partial salary, with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses, through fiscal 2015, when the pilot program terminates.

Because funding for financial assistance is to be deposited in and distributed from the Organic Agriculture Development Fund, special fund revenues and expenditures increase by up to \$60,000 annually, reflecting that portion of the general fund appropriation used for financial assistance.

To the extent that State funding leverages federal matching funds, as contemplated by the bill, revenues to and expenditures from the fund increase further. MDA, however, is not aware of opportunities for federal matching funding for the program.

Small Business Effect: Farmers interested in transitioning to organic production may benefit from available funding under the program. The farmers, however, also will be committed to maintaining organic certification for five consecutive years once certified. MDA indicates that the majority of transitioning farms are small businesses.

The 2008 Organic Production Survey, conducted by USDA's National Agricultural Statistics Service, indicates that there were 129 certified or exempt organic farms and a total of \$10.4 million in organic product sales in Maryland in 2008. The majority of the 114 farms the organic product sales were attributed to had relatively smaller amounts of sales, with over two-thirds selling less than \$40,000 of organic products.

Additional Information

Prior Introductions: None.

Cross File: SB 594 (Senator Middleton) – Education, Health, and Environmental Affairs.

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

Fiscal Note History: First Reader - February 15, 2010
mpc/lgc

Analysis by: Scott D. Kennedy

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