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Mary Shank Creek, *Chair*

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TESTIMONY STATEMENT

BILL: **Senate Bill 985** (Certified Local Farm Enterprise Program and Certified Local Farm Enterprise Food Aggregation Grant Fund - Establishment)

COMMITTEE: **Senate Education, Health, and Environmental Affairs**

DATE: **February 25, 2020**

POSITION: **Support with the Sponsor Amendments**

The Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) supports Senate Bill 985, with the inclusion of the Sponsor Amendments, which proposes to establish a Certified Local Farm Enterprise Program, as well as a Certified Local Farm Enterprise Food Aggregation Grant Fund, to encourage State agencies to achieve an overall goal of purchasing 20% of food from certified local farm enterprises.

This legislation is a product of efforts undertaken last Interim by the Maryland Food for Maryland Institutions Workgroup, which was formed at the direction of the Chairs of the Senate Education, Health and Environmental Affairs Committee and House Health and Government Operations Committee in response to legislation that was introduced during the 2019 Session. The Workgroup was tasked to identify changes necessary to increase the procurement of Maryland grown food in State contracts, and to identify the support systems necessary to assist Maryland farmers to more readily engage in the State procurement process; as well as establish benchmarks for acceptable percentage requirements of State procured food from Maryland producers. Participating in the Workgroup were representatives from the Maryland Department of Agriculture (MDA), the Maryland Department of General Services (DGS), the Maryland Food Center Authority, Maryland Farm Bureau, MARBIDCO, and other farm and food policy organizations. The Workgroup held several meetings and listening sessions across the State over several months in 2019.

Procurement contracts represent a hurdle which many smaller Maryland farms are not currently able to successfully bid on. According to the 2017 USDA Census of Agriculture, 55% of Maryland farms (6,803) are less than 50 acres in size, and the average farm size in Maryland is down now to 160 acres. Challenges arise within the institutional procurement process because most institutional procurement is done through large contracts with food distributors who are responsible for all food purchasing, or all food purchasing within a particular category. Institutions interested in local food procurement have reportedly expressed challenges in contracting with multiple small farmers. Farmers interested in growing for institutions may not

individually be able to supply total volume necessary for institutional buyers. Without a change in the aggregation and distribution systems and/or procurement requirements many Maryland farmers are effectively unable to access State procurement contracts.

Senate Bill 985 seeks to grow and strengthen Maryland's local food system through increased access to State procurement opportunities through the aid of a new Certified Local Farm Enterprise Program which would be administered by a new office at MDA (consisting of two staff). A certified local farm enterprise is one that meets Maryland's current nutrient management requirements and simply indicates to MDA that it wishes to participate in the program.

Senate Bill 985 also establishes a Certified Local Farm Enterprise Food Aggregation Grant Fund (with no required minimum level of funding) that MARBIDCO would administer. PLEASE NOTE: The Sponsor Amendments correct a drafting error in the bill as introduced that would establish the Fund as a non-lapsing special fund held by the State Treasurer. The amendments would have any monies directed to the Fund being held directly by MARBIDCO since MARBIDCO, with its independent corporate status, has its own bank accounts and thus can efficiently hold and administer the funds.

Projects that might be envisioned to receive grants or near-equity investments from the Fund could range in size and scale to a local small farmers' cooperative needing \$25,000 to \$50,000 for a small in-door processing facility and refrigeration unit, to a large regional aggregation, storage, training and distribution facility costing \$1 million or more and involving several partnering entities and funding sources (including potentially local governments and community colleges). For example, the planned Southern Maryland Regional Agriculture Center (or "RAC") in St. Mary's County is an example of one type of large regional aggregation, processing, storage, distribution and training facility.

In reviewing requests for financial assistance from the Fund, MARBIDCO would carefully consider any proposed project capitalization and operating plans including the prospects for start-up business success and long-term operational sustainability (and giving preference to those without the apparent need for ongoing public or philanthropic subsidy after the initial start-up phase).

Background Information About MARBIDCO

MARBIDCO was established by the General Assembly to enhance the sustainability and profitability of the State's agricultural and resource-based industries in order to help bolster rural economies, provide locally-produced food and fiber products, and preserve working farm and forest land (as over one-half of the State's land area still remains as privately-owned rural working farm and forest land). MARBIDCO is an independent public instrumentality and financial intermediary organization *that is required by law to become self-sustaining after Fiscal Year 2024* (with respect to its Core Programs).

MARBIDCO is governed by a Board of Directors that consists of 17 individuals who bring a wide range of perspective and experience to the Corporation's operations. The Corporation employs a small staff of experienced agricultural and rural business credit underwriters and loan servicers, and the Attorney General's Office and outside bond counsel provide legal services to the organization (on a fee-for-service basis).

MARBIDCO works regularly with farms of all sizes and production enterprise types (including conventional produce and commodity crops, organic and specialty table crops, as well as many varieties of livestock – dairy, beef, poultry, etc.). Since 2007, MARBIDCO has financed nearly 550 farm, forestry and seafood projects totaling \$60 million, and located in all 23 counties and Baltimore City. MARBIDCO has also directly assisted 170 value-added food or fiber processing projects and helped some 315 young or beginning farmers buy their first farms or expand their business operations.

MARBIDCO currently offers about a dozen financing programs, and this programming falls into three broad and distinct categories:

“Core” Programs – In this category are several loan and grant incentive programs that are funded as a result of the enactment of the landmark *“Agricultural Stewardship Act of 2006”*. MARBIDCO's loan and grant programs are tailored to meet key agricultural, forestry, or seafood business investment needs. Loans made in this category can typically be used for land purchases, facilities construction or renovation, equipment acquisition or working capital. Loans can range from \$15,000 to \$500,000, depending on the program, and most are required to be fully secured (collateralized). The *Maryland Resource-Based Industry Financing Fund* (“MR BIFF”) is MARBIDCO’s “workhorse” program and it helps to leverage significant commercial lending capital in financing ag/rural business projects (on about a 3-to-1 ratio overall). Since 2007, some 230 MRBIF and other core program loans amounting to \$48 million in total have leveraged over \$156 million in commercial project funding provided by 20 partnering commercial banks and four local government revolving loan programs.

In addition, there are two *Maryland Value Added Producer Matching Grant* programs MARBIDCO offers that are important farm diversification incentive programs, and MARBIDCO also works with county governments to incentivize agri-business development within their respective jurisdictions. And now with matching funding from Mid Atlantic Farm Credit, MARBIDCO recently launched an *Urban Agriculture Lending Incentive Grant* program to help beginning farmers working on smaller plots of land in incorporated cities and towns and other urban areas located within the Baltimore and Washington beltways. The grant incentive equates to 25% of a commercial loan amount, not to exceed \$10,000.

“Specialty” Higher Credit Risk or Micro Lending – In this category are various loan programs that are solely funded by partnering agencies for targeted purposes (and typically these loans are made on an unsecured basis, and sometimes with a grant component). For example, the *Maryland Shellfish Aquaculture Financing Fund* was launched several ago in partnership with the Maryland Department of Natural Resources (DNR) and University of Maryland Extension (UME) to help sustain seafood commerce and improve water quality in the Chesapeake Bay through the development of a much-expanded oyster aquaculture industry. Since then, MARBIDCO has partnered with DNR to also launch a Remote Setting Shellfish Aquaculture Loan Program to make financial assistance available to commercial oyster nursery operations. To date, MARBIDCO has approved 78 shellfish aquaculture projects between both shellfish programs totaling \$4.6 million (and 63 of these loans have been made to commercial watermen). MARBIDCO also has established small revolving loan programs for farm energy efficiency projects (using MEA/RGGI funds) and special agricultural development needs in Southern Maryland (working with SMADC tobacco restitution funds).

“Rural Land Preservation Facilitation” (and Next Gen Programming) – In this category are programs that are funded from special or dedicated revenue sources, or that are offered in conjunction with other public agencies with MARBIDCO serving as a conduit financing agent. The major program being offered today in this category is the *Next Generation Farmland Acquisition Program* which was established to help qualified young or beginning farmers who have trouble entering or staying in the agricultural profession because of relatively high farmland costs and a lack of access to adequate financial capital to purchase farmland. The *Next Gen Program* is a relatively speedy farmland conservation easement option purchase program that is designed to help facilitate the transfer of farmland to a new generation of farmers, while at the same time, effectively helping to preserve the subject agricultural land from future development. The *Next Gen Program* permits MARBIDCO to provide a young or beginning farmer with the money needed to make a large down-payment on a farm, in order to meet the equity contribution and projected cash flow requirements of a commercial lender, which then permits the lender to make a loan to help finance the balance of a farm purchase. An additional benefit of this program is that the farms that are being purchased are likely being put on a path to being permanently preserved. Because the *Next Gen Program* is typically limited to farm purchases over 50 acres in size, a “*Small Acreage*” *Next Gen Program* is planned to be offered in the future (for farm purchases in the 10- to 49-acre size range), pending the availability of funding (for permanent easement purchases). *NOTE: MARBIDCO does not administer permanent easements but will hold a temporary easement awaiting the arrival of a permanent easement holder (e.g., agency or land trust).*

Accordingly, with the enactment of SB 985, and funding being provided, the establishment of the Certified Local Farm Enterprise Food Aggregation Grant Fund would provide a new fourth category of financial programming for MARBIDCO to administer.

Conclusion

In closing, we believe the passage of this legislation will lead to beneficial pathways for Maryland farmers to gain access to State institutional food contracts, and thus serve to increase local produce sales because of the new wholesale market opportunities for Maryland’s small- and mid-size farmers. This in turn will provide a catalyst to help increase the profitability and sustainability of these smaller farm operations as well as provide a related and important positive multiplier effect on local and regional economies (not to mention the access to fresher and healthier local food products for institutional food consumers).

As such, MARBIDCO respectfully requests that SB 985 with the Sponsor Amendments be given a favorable report.

Maryland Agriculture at a Glance

- Number of farms in Maryland in 2017: 12,429
- Land in farms: 1,990,112 acres (Average size = 160 acres)
- Principal farm producers: Male - 8,748 (70.4%)
(Previously called "operators") Female - 3,681 (29.6%)
Principal producers in 2012: Male- 9,980 (81.3%) Female- 2,296 (18.7%)
- Farming is primary occupation (out of 12,429): 5,948 (47.9%)
- Number of all Maryland farm producers: 21,279
Number of all Maryland farm producers in 2012: 19,055
- All farm producers by sex: Male - 13,131 (61.7%)
(Up to max 4 farmers per farm) Female - 8,148 (38.3%)
- Average age of the Maryland farmer: 57 years old
- Average age of MD Beginning farmer: 45 years old
- Market value of Maryland ag products: \$2.47 billion

Source: USDA 2017 Census of Ag

1

Maryland Farmland Stats (2017 vs. 2012)

- Number of farms in MD in 2017 (2012): 12,429 (12,256)
- Land in farms in 2017 (2012): 1,990,112 ac. (2,030,745 ac.)
- Average farm size in 2017 (2012): 160 acres (166 acres)
- Average farmland value/acre in 2017 (2012): \$7,861 (\$6,930)

<u>Farms by Size</u>	<u>Number</u>	<u>% of Total</u>	<u>Cum. %</u>
1 to 9 acres	2,244	18	18
10 to 49 acres*	4,559	37	55
50 to 179 acres	3,332	27	82
180 to 499 acres	1,402	11	93
500 to 999 acres	490	4	97
1,000 plus acres	402	3	100

* "Small Acreage" Next Gen Program target range.

Source: USDA 2017 Census of Ag

2

2

MARBIDCO Projects Funded (by County)

County	Loans		Grant Incentives		Next Gen Program Option Purchases	
	Number Funded	MARBIDCO Funds	Number Funded	MARBIDCO Funds	Number Funded	MARBIDCO Funds
Allegany	1	\$ 113,000	2	\$ 9,860	1	\$ 70,227
Anne Arundel	9	\$ 482,840	5	\$ 93,350	0	\$ -
Baltimore	3	\$ 456,200	12	\$ 150,618	1	\$ 159,665
Baltimore City	1	\$ 50,000	6	\$ 89,430	0	\$ -
Calvert	10	\$ 685,001	4	\$ 29,759	0	\$ -
Caroline	43	\$ 9,847,640	8	\$ 50,429	2	\$ 489,013
Carroll	3	\$ 550,000	20	\$ 215,474	0	\$ -
Cecil	4	\$ 750,000	6	\$ 64,546	1	\$ 230,175
Charles	8	\$ 1,924,755	5	\$ 61,757	0	\$ -
Dorchester	55	\$ 8,011,666	11	\$ 92,992	0	\$ -
Frederick	4	\$ 752,670	24	\$ 289,202	4	\$ 1,236,017
Garrett	8	\$ 783,225	4	\$ 41,614	0	\$ -
Harford	4	\$ 415,000	6	\$ 82,000	0	\$ -
Howard	1	\$ 100,000	16	\$ 105,400	0	\$ -
Kent	11	\$ 2,512,382	5	\$ 58,097	1	\$ 376,547
Montgomery	3	\$ 565,000	13	\$ 73,851	1	\$ 292,395
Prince George's	4	\$ 430,607	10	\$ 91,267	1	\$ 500,000
Queen Anne's	27	\$ 5,888,400	8	\$ 108,500	1	\$ 407,176
Somerset	6	\$ 1,177,194	1	\$ 5,000	0	\$ -
St. Mary's	29	\$ 2,522,717	10	\$ 148,000	0	\$ -
Talbot	12	\$ 1,582,990	11	\$ 128,508	1	\$ 322,886
Washington	10	\$ 1,418,460	14	\$ 138,691	3	\$ 859,802
Wicomico	39	\$ 7,199,668	5	\$ 26,226	0	\$ -
Worcester	23	\$ 4,536,027	6	\$ 65,864	0	\$ -
Regional or Statewide	0	\$ -	14	\$ 403,100	0	\$ -
Totals*	318	\$ 52,755,442	218	\$ 2,623,533	17	\$ 4,943,903

MARBIDCO Project Investment Activity – Statewide

Counties Where Projects Funded:	24	
Loans Made By MARBIDCO:	318	\$ 52,755,442
Grant Incentives Made By MARBIDCO:	218	\$ 2,623,533
Option Purchases Made By MARBIDCO:	17	\$ 4,943,903
Total Project Requests Funded:	553	\$ 60,322,878
<i>Total All Financial Requests Received:</i>	<i>762</i>	<i>\$ 82,667,937</i>
Commercial Lender Leverage:		\$ 156,045,905
Total Young/Beginner Farmer Projects:	314	\$ 43,439,265

* Four grants have been shared by multiple counties.