

SB826 - Economic Development - Maryland Watermen'

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Position: FAV



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Testimony in Support of
Senate Bill 826 - Economic Development - Maryland Watermen's Microloan Program - Establishment
Finance Committee
March 01, 2022

The Rural Maryland Council supports Senate Bill 826 - Economic Development - Maryland Watermen's Microloan Program – Establishment. The intention of the bill is to help Maryland's watermen and seafood industry by creating the Maryland Watermen's Microloan Program (MWMP) within the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO). The loans will be between \$7,000 and \$15,000 and are to be used for the purchase of boats, mechanical equipment, fishing gear, fishing quota, and materials used for commercial harvesting.

Maryland's watermen have been struggling and declining in recent years and especially recently when the COVID pandemic closed many restaurants temporarily eliminating the majority of Maryland's seafood markets. One of the struggles watermen experience is the inability to purchase appropriate gear for commercial fishing. The loans will allow the watermen to purchase the gear they need and ultimately provide more seafood products to the residents and visitors of the State. According to Salisbury University's *BEACON* analysis, the State's seafood industry contributes nearly \$600 million to the State's economy. Strengthening the seafood industry by providing more opportunities for watermen enhance the economic benefits to the Maryland economy.

To help grow the future watermen of Maryland, the loans will only be given to "beginner watermen" who only have at least 2 years of experience but no more than 10. After June 30, 2025, generational waterman and commercial businesses will be able to apply. It is important that the watermen profession is ongoing in the future to continue to provide the seafood needed to meet consumer demand as well as preserves our unique cultural heritage. The watermen population is declining, and incentives must be put in place to make the profession more desirable to the younger generations.

The Rural Maryland Council respectfully requests your favorable support of Senate Bill 826.

The Rural Maryland Council (RMC) is an independent state agency governed by a nonpartisan, 40-member board that consists of inclusive representation from the federal, state, regional, county and municipal governments, as well as the for-profit and nonprofit sectors. We bring together federal, state, county and municipal government officials as well as representatives of the for-profit and nonprofit sectors to identify challenges unique to rural communities and to craft public policy, programmatic or regulatory solutions.

SB0826_HB1242 Favorable.pdf

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HB 1242/SB 0826 Economic Development Maryland's Microloan Program Establishment

FAVORABLE

In 2006 I had been working on the water for seven years. When my captain became terminally ill, I was running the boat alone. I wanted to purchase his boat and went to my bank. Even with a significant down payment, they would not even consider financing me. The boat was sold to someone else. It took me three years to purchase a boat. But, even then, it was a boat with an engine sitting next to it. It had to be built from the ground up.

Now, my husband and I own three boats that work in the oyster, crab, and fish fisheries. The guys working for us and running our boats are seeing the same struggles we had. Everyone knows a good deckhand will eventually leave to start his own business and run his own boat. We are okay with that. These guys are deserving of any support this Microloan Program could offer them.

Rachel Dean

Calvert County

Patuxent River Seafood

SB 826 Testimony MARBIDCO.pdf

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Mary Shank Creek, Chair / Stephen R. McHenry, Executive Director

TESTIMONY STATEMENT

BILL: Senate Bill 826 (Economic Development - Maryland Watermen's Microloan Program - Establishment)

COMMITTEE: Senate Finance

DATE: March 1, 2022

POSITION: Support

The Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) supports SB 826 which establishes the Maryland Watermen's Microloan program to be administered by MARBIDCO. **MARBIDCO respectfully requests a Favorable Report for Senate Bill 826.**

For generations Maryland watermen have labored to harvest delicious fish and shellfish products from the Chesapeake Bay for the benefit of consumers in this State and around the country and world. Maryland's iconic seafood industry has contributed greatly to Maryland's economy and stature as a wonderful tourist destination, and a great place to live. Maryland watermen – now a rapidly aging cohort – have historically had a difficult time accessing affordable commercial capital and credit and have faced many challenges in recent years and were especially hard-hit during the COVID-19 pandemic due to the loss of markets (particularly restaurants).

Bill Summary

Senate Bill 826 creates a Maryland Watermen's Microloan Program to be administered by MARBIDCO with favorable terms to help watermen access capital to purchase boats, mechanical equipment, fishing gear, fishing quota, among other items. The program will provide low-cost unsecured loans between \$7,000 and \$15,000 during the first two years of the program to commercial watermen as described in the legislation. MARBIDCO anticipates that loan terms would include a 6-month interest only period, be amortized over four years and provide for the final year to be forgiven if the borrower makes all payments on time. Under this scenario, for a waterman that borrows \$15,000, the total amount of debt to be forgiven in the fourth year of the term is: \$3,994. (And factoring in all the interest payments, the net grant amount received by the waterman would be \$2,868.)

During the first two years of the program, a loan can only be made to a "Generational Waterman" which is a licensed commercial waterman who can demonstrate that 50% of the waterman's annual income was derived from commercial seafood harvesting. After the first two years, loans can be made to Generational Watermen, Beginner Watermen (a waterman with at least two, not more than 10, years of experience in commercial seafood harvesting) and Seafood Processors. The bill provides that the Governor would put \$750,000 into the State Budget to fund the program in fiscal years 2024 and 2025.

MARBIDCO Background

MARBIDCO was established by the Maryland General Assembly 15 years ago as a relatively specialized economic development financial intermediary instrumentality of the State to enhance the sustainability of the State's agricultural and resource-based industries to help support locally produced food and fiber products, bolster local economies, and preserve working farm and forest land for future generations. 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. MARBIDCO employs a small staff consisting of experienced agribusiness credit underwriters and loan/grant servicers.

Since 2007, MARBIDCO has:

- Cumulatively approved **1,058** project financings totaling **\$80 million** for food and fiber business projects located in all of Maryland's counties (including in Baltimore City).
- Invested in **395** agricultural/rural business lending projects (with \$64 million deployed) and leveraged nearly **\$170 million** in private commercial loan capital (approaching a 3-to-1 leverage of MARBIDCO's debt capital).
- Helped **541** young or beginning farmers buy their first farms or expand their business operations (with \$59 million deployed).
- Assisted with funding **277** value added food or fiber processing enterprises (\$7 million deployed).
- Financed **85** specialty shellfish aquaculture (oyster farming) projects (\$5.2 million deployed).
- Funded a total of **234** seafood and aquaculture projects combined (\$6.6 million deployed).
- Assisted **33** "beginner farmers" recently with purchasing their first farms (\$9 million deployed) and at the same time helped put 3,080 acres of good quality farmland on a path to become permanently preserved through the Next Generation Farmland Acquisition Program.

Today, MARBIDCO offers more than a dozen agricultural and rural business financial assistance programs. Assisting young and beginning farmers are a special focus for MARBIDCO, as is farm operation diversification (through value added processing activities). Commercial urban farming has also become an increasingly important focus of MARBIDCO's efforts. MARBIDCO also endeavors to support Maryland's watermen and seafood processors where it appropriately can as well.

MARBIDCO's lending and agribusiness development incentive programs are designed to help fill an important economic development void by promoting commercial business start-up and expansion in the agricultural sector. Moreover, the Corporation aims to help agricultural and resource-based businesses to innovate, diversify and exploit emerging market opportunities. MARBIDCO does this, in part, by filling gaps in privately provided capital, and by helping rural businesses to leverage federal, regional, and local government support to sustain or increase operational sustainability and profitability.

MARBIDCO currently receives an annual appropriation to help capitalize its "Core" revolving loan programs, which are used to make secured (collateralized) loans to eligible agribusiness borrowers. This funding is scheduled to cease in FY 2025. MARBIDCO's basic operating framework for its Core programming balances two key objectives: 1) Help make higher risk capital and credit available to qualifying agricultural, forestry and seafood enterprises at affordable interest rates; and 2) Conduct the organization's financial affairs in such a manner that it can reach self-sustainability after FY 2025 (with respect to its Core programs). MARBIDCO is on track to meet this self-sustainability requirement.

MARBIDCO also receives grants from various other public and private sources from time-to-time to offer "Specialty" loan and grant incentive programs. Today, the Corporation offers four specialty loan programs and three specialty grant programs. All of these programs are designed to eventually be self-liquidating. The **Maryland Watermen's Microloan Program will fall into this category** and is being modeled after the Remote Setting Shellfish Aquaculture Loan Program (funded by DNR) and the Southern Maryland Agricultural Revolving Loan Program (funded by SMADC / TCCSMD).

MARBIDCO Contact: Steve McHenry, 410.267.6807

Generational Waterman micro loan Description of th

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Position: FAV

Description of the Legislation (SB 826/HB 1242) to Establish and Fund the “Maryland Watermen’s Micro Loan Program”

Under the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO)

Why the need for the Fund?

- For generations Maryland watermen have labored to harvest delicious fish and shellfish products from the Chesapeake Bay for the benefit of consumers in this State and around the country and world.
- Maryland’s iconic seafood industry has contributed greatly to Maryland’s economy and stature as a wonderful tourist destination, and a great place to live.
- Maryland watermen – now a rapidly aging cohort – have historically had a difficult time accessing affordable commercial capital and credit.
- Maryland’s generational watermen have faced many challenges in recent years and were especially hard-hit during the COVID-19 pandemic due to the loss of markets (particularly restaurants).

How would the Program work?

- The Program would be managed by MARBIDCO, an independent economic development financial intermediary organization that has a lot of experience in managing small agribusiness revolving loan funds.
- Funding would be provided for in the State Budget – \$750,000 for each of two years starting in FY 2024 – to help capitalize the program.
- Funding is provided in the proposed legislation to help MARBIDCO recover its costs of administering the program.
- MARBIDCO would have a total of about \$700,000 available to lend each year for the first two years.
- Approximately 50 to 100 loans could be made each year from the Fund (during FY 2024 and FY 2025).
- **During the first two years of the Program, a loan could only be made to a “Generational Waterman” (as defined in the statute).** Thereafter, once the initial loans are being repaid and principal is revolving back into the program, the program would be expanded to include both Generational Watermen and Beginner Watermen (also as defined in the statute). Seafood Processing Businesses could also be eligible too then.
- After the first two years MARBIDCO would have the ability to structure new loans in a way that best meets the programmatic needs of commercial watermen and the seafood industry at that time.

How would a loan be structured by MARBIDCO during the first two years that the Program is operational?

- Only a “Generational Waterman” could receive a loan.
- The minimum loan amount is \$7,000 and the maximum loan amount is \$15,000.
- The interest rate to be charged would be 3.00% (similar to that charged in the Shellfish Aquaculture Financing Program (initially), but less than the rate other MARBIDCO unsecured lending programs).
- These loans would be unsecured (uncollateralized), but personal guarantees would be required.
- MARBIDCO anticipates using the following loan structuring:
 - o During the first 6 months after the loan is made would require interest-only payments only.

- o The interest-only period would be followed by 4 years of amortizing payments.
- o If all the payments are made as agreed by a borrower, the final (4th) year of the term of the loan would be forgiven by MARBIDCO. For example:
 - For a \$7,000 loan, the total amount of debt to be forgiven in the 4th Year is: \$1,859.
 - For a \$15,000 loan, the total amount of debt to be forgiven in the 4th Year is: \$3,984.

SB 826 MD Watermen's Microloan Program (Klausmeier

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Position: INFO

LARRY HOGAN
Governor

BOYD K. RUTHERFORD
Lieutenant Governor



DAVID R. BRINKLEY
Secretary

MARC L. NICOLE
Deputy Secretary

SENATE BILL 826 Economic Development – Maryland Watermen’s Microloan Program – Establishment (Klausmeier)

STATEMENT OF INFORMATION

DATE: March 1, 2022

COMMITTEE: Senate Finance

SUMMARY OF BILL: SB 826 creates a Maryland Watermen’s Microloan Program in the Maryland Agricultural and Resource–Based Industry Development Corporation (MARBIDCO) for the purpose of providing loans to qualified commercial fishermen to continue commercial operations in the State; and mandates an appropriation in the amount of \$750,000 in FY 24 and FY 25. Through June 30, 2025, only generational watermen qualify for loans; and beginning July 1, 2025, generational watermen, beginner watermen, and seafood processing businesses may qualify.

EXPLANATION: The Department of Budget and Management’s focus is not on the underlying policy proposal being advanced by the legislation, but rather on the \$750,000 mandated appropriation provision that impacts the FY 2024 and FY 2025 budgets.

DBM has the responsibility of submitting a balanced budget to the General Assembly annually, which will require spending allocations for FY 2024 to be within the official revenues estimates approved by the Board of Revenue Estimates in December 2022.

Changes to the Maryland Constitution in 2020 provide the General Assembly with additional budgetary authority, beginning in the 2023 Session, to realign total spending by increasing and adding items to appropriations in the budget submitted by the Governor. The legislature’s new budgetary power diminishes, if not negates, the need for mandated appropriation bills.

Fully funding the implementation of the Blueprint for Maryland’s Future (Kirwan) will require fiscal discipline in the years ahead, if the State is to maintain the current projected structural budget surpluses. Mandated spending increases need to be reevaluated within the context of this education funding priority and the Governor’s tax relief proposals.

Economic conditions remain precarious as a result of COVID-19. High rates of inflation and workforce shortages may be short lived or persist, thereby impacting the Maryland economy. While current budget forecasts project structural surpluses, the impact of the ongoing COVID-19 pandemic continues to present a significant budgetary vulnerability. The Department continues to urge the General Assembly to focus on maintaining the structural budget surplus.

**For additional information, contact Barbara Wilkins at (410) 260-6371
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