

L00A
Department of Agriculture

Operating Budget Data

(\$ in Thousands)

	<u>Actual</u> <u>FY 02</u>	<u>Approp.</u> <u>FY 03</u>	<u>Allowance</u> <u>FY 04</u>	<u>Change</u> <u>FY 03 - 04</u>	<u>% Change</u> <u>FY 03 - 04</u>
General Funds	\$28,602	\$29,243	\$28,809	-\$434	-1.5%
FY 2003 Cost Containment	0	-254	0	254	
Contingent & Back of Bill Reductions	0	-10	-151	-141	
Adjusted General Funds	\$28,602	\$28,979	\$28,658	-\$321	-1.1%
Special Funds	10,055	9,916	11,905	1,989	20.1%
Contingent & Back of Bill Reductions	0	-4	-45	-41	
Adjusted Special Funds	\$10,055	\$9,912	\$11,860	\$1,948	19.7%
Federal Funds	3,338,	3,681	4,485	805	21.9%
Contingent & Back of Bill Reductions	0	0	-7	-7	
Adjusted Federal Funds	\$3,338	\$3,681	\$4,479	\$798	21.7%
Reimbursable Funds	4,513	6,675	4,402	-2,273	-34.1%
Contingent & Back of Bill Reductions	0	0	-4	-4	
Adjusted Reimbursable Funds	\$4,513	\$6,675	\$4,398	-\$2,277	-34.1%
Adjusted Grand Total	\$46,509	\$49,247	\$49,394	\$148	0.3%

- The Maryland Department of Agriculture (MDA) received a \$321,148, or 1.1% decrease in general funds, when funds are adjusted for fiscal 2003 and 2004 cost containment. This reduction reflects a \$519,361 decrease for the Maryland Agricultural Fair Board. This reduction is offset by an increase of \$205,571 for information technology-related lease purchase requirements.
- The \$1,947,718, or 19.7% increase in special funds is largely attributable to operational costs associated with the Crop Conversion program – which is funded by the Cigarette Restitution Fund – being placed in the operating budget.
- The \$798,172, or 21.7% increase in federal funds reflects aggressive estimates for the Seniors Farmers Market coupon program as well as a new National Marketing Specialty Crop Promotion Initiative.

Note: Numbers may not sum to total due to rounding.

For further information contact: Amanda M. Mock

Phone: (410) 946-5530

Personnel Data

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Working</u>	<u>FY 04</u> <u>Allowance</u>	<u>Change</u>
Regular Positions	480.00	460.00	439.00	-21.00
Contractual FTEs	35.70	45.45	50.70	5.25
Total Personnel	515.70	505.45	489.70	-15.75

Vacancy Data: Regular Positions

Budgeted Turnover: FY 04	20.28	4.62%
Positions Vacant as of 12/31/02	39.00	8.48%

- On July 1, 2002, 13.5 MDA positions were abolished, consistent with Section 20 of the fiscal 2003 budget bill. MDA lost 21 positions in the fiscal 2004 allowance. Most of these reductions were lower-level positions. The fiscal 2004 positions were 2 in the Central Services program; 5 in the Office of Marketing, Animal Industries, and Consumer Services; 6 in the Office of Plant Industries and Pest Management; and 8 Soil Conservation Associates in the Office of Resource Conservation.
- MDA's turnover rate of 4.62% represents a required 3% for turnover and an additional 1.5% in salary savings from the hiring freeze. This turnover rate is lower than the budgeted fiscal 2003 rate of 5.7%; in effect, making additional funds available for MDA's personnel expenses.

Analysis in Brief

Issues

Water Quality Improvement Act Implementation and Compliance Lags: The Water Quality Improvement Act (WQIA) of 1998 requires certain farmers to have nutrient management plans developed and implemented by December 31, 2002. **MDA should brief the committees on the status of WQIA compliance, why timely enforcement has not occurred, intended enforcement strategies and timeline, and the department's capacity to serve in this regulatory role. MDA should also be prepared to discuss intended WQIA-related policy or program implementation changes and the associated budget implications.**

Allocate MDA Functions to the Department of Natural Resources (DNR) and the Department of Business and Economic Development (DBED): Many of MDA's programs overlap considerably with the activities undertaken by DBED and DNR. **The Department of Legislative Services recommends budget language directing MDA, DNR, and DBED, with the Department of Budget and Management as the lead agency, to examine the feasibility of eliminating MDA and transferring functions to DNR and DBED to improve program delivery.**

Fiscal 2002 Closeout Transactions Are Inconsistent with Legislative Intent: As part of the fiscal 2002 budget closeout, MDA used capital budget funds to pay for operating budget expenses effectively blurring the important distinction between operating and capital funds and raising a policy issue. **MDA should be prepared to discuss this fiscal 2002 closeout action, and its impact on the cost-share program.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Reduce funding for the Nutrient Management Plan Cost Share Program.	\$198,453	
2. Add language to require a report on re-allocating the Maryland Department of Agriculture's functions to the Department of Natural Resources and the Department of Business and Economic Development.		
3. Reduce funding for the Horse Industry Board.	60,000	
4. Reduce the Cover Crop Program.	600,000	

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5. Amend provisions of the State Finance and Procurement Article to preclude transfer of capital appropriations to operating purposes by budget amendment.

Total Reductions

\$ 858,453

Updates

1. ***Study Released on the Economic Situation and Prospects for Maryland Agriculture:*** A recent study by the University of Maryland Center for Agricultural and Natural Resource Policy found that in spite of challenging market conditions, Maryland farmers are successfully increasing productivity, controlling costs, and taking advantage of new market opportunities.
2. ***Report on Residential Usage of Wood Treated with Chromated Copper Arsenate:*** MDA submitted a report on its efforts to monitor and build consumer awareness of a voluntary agreement between the U.S. Environmental Protection Agency and industry that will end the practice of treating wood for residential uses with Chromated Copper Arsenate.

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Operating Budget Analysis

Program Description

The Maryland Department of Agriculture (MDA) supervises, administers, and promotes agricultural activities throughout the State. Its mission is to provide leadership and support to agriculture and the citizens of Maryland by conducting regulatory, service, and educational activities that assure consumer confidence, protect the environment, and promote agriculture. The MDA is organized into four administrative units: Office of the Secretary; Marketing, Animal Industries, and Consumer Services; Plant Industries and Pest Management; and Office of Resource Conservation. These units provide marketing services; agricultural land preservation; inspection, grading, monitoring, and testing of agricultural product quality; animal and plant disease control; pest management; and technical and financial assistance for encouraging management practices that minimize soil erosion and nutrient runoff.

MDA's primary goals are:

- to promote profitable production, use, and sale of Maryland agricultural products;
- to protect the health of the public, plant, and animal resources in Maryland;
- to preserve adequate amounts of productive agricultural land and woodland in Maryland;
- to provide and promote land stewardship, including conservation, environmental protection, preservation, and resource management; and
- to provide health, safety, and economic protection for Maryland consumers.

Performance Analysis: Managing for Results

MDA's Managing for Results plan is composed of approximately 57 goals, nearly 100 objectives, and hundreds of performance measures. The department does identify five key goals that define its overall performance but does not provide any data illustrating how these goals are being measured and whether progress is being made. While specific program level performance measures may help administrators manage their individual programs, it essentially buries a picture of the department's overall performance. This lack of summary data makes it quite difficult for policy makers, high-level administrators, and the general public to evaluate MDA's performance. **The Department of Legislative Services (DLS) recommends that MDA identify associated measurement data for the five identified key goals, so it is possible to track the department's overall performance.**

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The need to provide broad trend data is further supported by the fact that MDA has the same performance measures for multiple goals. As **Exhibit 1** indicates, numerous programs are evaluated by how they contribute to reducing the flow of nutrients into the Chesapeake Bay. It would be helpful to have a single number that represents the MDA's overall contribution to reducing nutrient run-off.

Exhibit 1

**Office of Resource Conservation
Nutrient Management Measurements**

	<u>Actual 2001</u>	<u>Actual 2002</u>	<u>Est. 2003</u>	<u>Est. 2004</u>
Program Planning and Development				
Nitrogen Load Reduction (lbs)	203,000	1,305,000	2,175,000	2,610,000
Phosphorus Load Reduction (lbs)	14,000	90,000	150,000	180,000
Resource Conservation Operations				
Nitrogen Load Reduction (lbs)	121,000	157,560	124,800	109,200
Phosphorus Load Reduction (lbs)	15,680	24,240	19,200	16,800
Maryland Agricultural Water Quality Cost Share Program/Best Management Practices				
Nitrogen Load Reduction (lbs)	44,919	66,888	67,800	67,800
Phosphorus Load Reduction (lbs)	7,745	11,560	11,700	11,700

Source: Maryland Department of Agriculture

Exhibit 2 presents data on a handful of performance measurements that summarize several of MDA's key program areas. The data provided in this chart indicates the following trends:

- approximately 50% growth in conservation easements over the past five years;
- steady sales in Maryland seafood products;
- increasing opportunities to market agricultural products due to participation in federally-funded food nutrition programs;
- apparent growth in compliance with pesticide laws and regulations; and
- significant reductions in nutrients run-off due to the development of statute-mandated nutrient management plans.

Exhibit 2

Program Measurement Data
 Maryland Department of Agriculture
 Fiscal 1999 through 2004

	<u>Actual 1999</u>	<u>Actual 2000</u>	<u>Actual 2001</u>	<u>Actual 2002</u>	<u>Est. 2003</u>	<u>Est. 2004</u>	<u>Annual Chg. 2002-04</u>
Acres of farmland, woodland and open space land preserved through enrollment in permanent easements (total acres).	166,529	185,872	199,662	217,817	231,317	243,917	5.8%
Increase sales of Maryland seafood products by 2% annually (\$ in millions).	\$258	\$263	268	\$268	\$268	\$268	0%
Increase in opportunities for Maryland farmers to market agricultural products.							
Federal Food Nutrition coupons redeemed at farmers markets (\$)	n/a	n/a	\$227,273	\$449,455	\$499,600	\$918,500	43%
Number of entrepreneurs given resources to start or expand an agriculture-related business.	n/a	47	65	68	70	75	5%
Percent of inspected licensees and permittees in compliance with pesticide laws and regulations.	77%	83%	76%	78%	82%	85%	4.4%
Nutrient reduction associated with Water Quality Improvement Act-required plans							
Nitrogen Load Reduction (lbs)	n/a	n/a	203,000	1,305,000	2,175,000	2,610,000	41.4%
Phosphorus Load Reduction (lbs)	n/a	n/a	14,000	90,000	150,000	180,000	41.4%

Source: Maryland Department of Agriculture and the fiscal 2002 and 2003 budget books

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Several of MDA's measurements are quite similar to those being tracked by other State agencies. For example, the Department of Natural Resources (DNR), the Maryland Department of the Environment, and MDA all have measurements that address the development of tributary strategies, water quality, and reduction of nutrient runoff. Summary data that describes the specific and overall contributions these departments have made would be of tremendous assistance when assessing current and future progress in these areas.

Fiscal 2003 Actions

Impact of Cost Containment

MDA was required to reduce general fund operational expenses by \$1.4 million for cost containment in fiscal 2003. To achieve this target, MDA implemented \$253,468 in fiscal 2003 general fund reductions:

- approximately \$124,000 in vehicle replacement funds, a 45.5% reduction of the programs general funds;
- \$43,000 in Central Services projects funding, deferring carpet and retaining wall replacement projects;
- \$26,481 in the Plant Protection and Weed Management Program, reflecting delays in obtaining necessary permits and eliminating a contractual position for the hemp program;
- \$30,000 in the Animal Health Program, delaying replacement of an incinerator;
- \$20,000 in Resource Conservation, delaying procurement of plotter printers; and
- \$10,000 from the Horse Industry Board, reflecting the recent attainment of special fund revenues from the new surcharge on horse feed.

In addition, MDA agreed to revert \$1,179,437 of Maryland Agricultural Cost-Share (MACS) Program capital appropriations from fiscal 1999 and 2000. MACS provides financial assistance to farmers for implementing nutrient management best-practices that require the construction of permanent structures. Projects using fiscal 1999 and 2000 funds have, on average, cost less than originally projected.

Finally, fiscal 2003 cost containment reflects the reversion of \$14,428 in appropriations to support free transit ridership for State employees, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2003.

Governor's Proposed Budget

As shown in **Exhibit 3**, the Governor's allowance is 0.3% above MDA's 2003 working appropriation and totals \$49.4 million. In its allowance, MDA receives a \$321,148 decrease in general funds, a \$1,947,718 increase in special funds, a \$798,172 increase in federal funds, and a \$2,277,458 decrease in reimbursable funds.

The 1.1% decrease in general funds reflects a \$519,361 decrease for the Maryland Agricultural Fair Board. This reduction is offset by an increase of \$205,571 for information technology-related lease purchase requirements.

The increase in special funds is largely attributable to \$1,060,000 in operational costs associated with the Crop Conversion Program – which is funded by the Cigarette Restitution Fund (CRF). Since the program was slow to start-up, funding from previous fiscal years was adequate to cover fiscal 2003 operating expenditures. Approximately \$5.0 million of the CRF special fund appropriation is in MDA's fiscal 2004 PAYGO allowance. This budget structure is consistent with the understanding that PAYGO should not include Crop Conversion Program operating expenses.

The \$798,172, or 21.7% increase in federal funds reflects aggressive estimates for the Seniors Farmers Market Nutrition Program (SFMNP) as well as other programs. The SFMNP targets Maryland residents age 65 and older and gives them coupon books that can be redeemed only at Maryland farmers' markets.

The large decrease in reimbursable funds is a technical adjustment to more accurately reflect anticipated funds from DNR for the Conservation Resource Enhancement Program (CREP) bonus payment program. MDA gives farmers who enroll in CREP a \$100 bonus per acre enrolled in the program. The State is negotiating with the U.S. Department of Agriculture on the renewal of the CREP program in Maryland.

Impact of Cost Containment

The fiscal 2004 allowance reflects the elimination of the \$206,601 appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2003.

Exhibit 3

**Governor's Proposed Budget
Department of Agriculture
(\$ in Thousands)**

	<u>Actual FY 02</u>	<u>Approp. FY 03</u>	<u>Allowance FY 04</u>	<u>Change FY 03 - 04</u>	<u>% Change FY 03 - 04</u>
General Funds	\$28,602	\$29,243	\$28,809	-\$434	-1.5%
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Federal Funds	3,338	3,681	4,485	805	21.86%
Contingent & Back of Bill Reductions	0	0	-7	-7	
Adjusted Federal Funds	\$3,338	\$3,681	\$4,479	\$798	21.7%
Reimbursable Funds	4,513	6,675	4,402	-2,273	-34.1%
Contingent & Back of Bill Reductions	0	0	-4	-4	
Adjusted Reimbursable Funds	\$4,513	\$6,675	\$4,398	-\$2,277	-34.1%
Adjusted Grand Total	\$46,509	\$49,247	\$49,394	\$148	0.3%

Where It Goes:

Personnel Expenses

Abolished/transferred positions	-\$816
Turnover rate decrease	378
Employee and retiree health insurance	672
Retirement contribution cost	42

Other Changes

IT Lease-Purchase Agreement	206
Conservation Resource Enhancement Bonus Payments (Reimbursable funds through DNR)	-2,000
Crop Conversion Program operational expenses	1,060
Senior Farmers Market Nutrition Program	408
Horse Industry Board	150
Other	48

Total	\$148
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Note: Numbers may not sum to total due to rounding.

Issues

1. Water Quality Improvement Act Implementation and Compliance Lags

Background

The Water Quality Improvement Act (WQIA) of 1998, as amended by Chapter 485, Acts of 2000, provides for a variety of measures aimed at improving water quality throughout the State, including mandatory development of nutrient management plans by farmers. Agricultural operations were required to have nitrogen based nutrient management plans by December 31, 2001, and they were required to implement them by December 31, 2002. Farmers were able to achieve compliance with the first deadline by having their plans developed for free by a University of Maryland Cooperative Extension Service consultant, or sharing costs with the State to have a private consultant develop a plan. WQIA allows farmers who were unable to obtain the services of a consultant by December 31, 2001, to submit a Justification for Delay form.

As shown in **Exhibit 4**, nutrient management cost share program activity has continued to increase. However, only 75% of the funds appropriated to date have been dedicated to approved projects. In fiscal 2001, 92,004 acres were completed for \$337,815, using 47.5% of the appropriation. In fiscal 2002, 122,748 acres were completed for \$482,354, using 45.1% of the appropriation. This slow commitment of funding suggests that future program levels should be decreased. However, a recent unintentional reversion of \$440,000 in program funds coupled with the recent completion deadlines underscores the necessity of having adequate funds available for this purpose.

Current Status of Compliance

MDA estimates that nutrient management plans are required for 9,000 farms covering approximately 1,540,000 acres. As of December 31, 2002, MDA had received 3,994 plans for the management of 701,245 acres, and 2,710 Justification for Delay forms covering 582,422 acres. Therefore, as shown in **Exhibit 5**, only 44.4% of the eligible farms and 45.5% of the eligible acreage is technically in compliance with the law.

Exhibit 4

**Nutrient Management Planning Cost Share
Program Activity
(Fiscal 2001 through January 7, 2003)**

<u>Fiscal Year/Source</u>	<u>Appropriation</u>	Projects Approved		Projects Completed		
		<u>No. of Projects Approved</u>	<u>Approved Acres</u>	<u>Amount Approved</u> ⁽¹⁾	<u>Cost- Shared Acres</u>	<u>Amount Paid</u>
FY 01 – State Funds	\$710,952 ⁽²⁾	382	170,306	\$641,057	92,004	\$337,815
FY 02 – State Funds ⁽³⁾	716,609	530	199,193	748,153	84,926	\$323,138
FY 02 – Fed Funds	159,216	202	70,354	293,001	37,822	\$159,216
FY 03 – State Funds	987,409	216	43,901	253,520	0	\$0
FY 03 – Fed Funds	0	0	0	0	0	\$0
Total	\$2,574,184	1,330	483,754	\$1,935,731	214,752	\$820,169.00

- (1) Reflects cumulative total amount approved with this fund source. Approval amount may exceed appropriation because funds are overcommitted due to anticipated cancellations and projects which may require less funds than originally expected.
- (2) The original appropriation of \$216,209 was supplemented with additional funds redirected from other programs, for a total appropriation of \$710,952.
- (3) The original appropriation of \$216,709 was supplemented by a deficiency appropriation of \$500,000 approved in the 2002 legislative session.

Source: Maryland Department of Agriculture

Exhibit 5

Status of Nutrient Management Plans

	<u>Final Plans</u>	<u>Delay Forms</u>	<u>Compliant/ In-Progress</u>	<u>Non-compliance</u>
Farms	3,994 (44.4%)	2,710 (30.1%)	6,704 (74.5%)	2,296 (25.5%)
Acres	701,245 (45.5%)	582,422 (37.8%)	1,283,667 (83.3%)	256,333 (16.6%)

Source: Maryland Department of Agriculture

To date, MDA has not assessed any penalties for non-compliance. §8-803.1 of the Agriculture Article provides the penalties for non-compliance, which are generally progressive in nature and provide MDA with considerable enforcement latitude. A statewide mailing of 5,140 letters was sent in June 2002 to all

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individuals regulated under the law, but who had not submitted plans or Justification for Delay forms. MDA failed to receive a satisfactory response to 2,013 of these letters, representing approximately 260,435 acres. MDA has drafted a warning letter – which is currently being reviewed by MDA’s legal counsel – to be sent to these 2,013 operations. After this warning letter, the administrative penalty of up to \$100 for each violation, but not exceeding \$2,000 per farmer or operator per year, should be enforced.

Future Program Management Plans

A significant investment has been made by the State in the development of nutrient management plans – \$2.4 million in appropriations. While several bills were introduced during the 2002 session in an attempt to address WQIA implementation issues, all of them failed. The bills contained provisions that would have exempted certain farmers from plan requirements, extended the deadlines for farmers to develop plans, provided a grace period from penalties, and instructed MDA to streamline and simplify regulatory aspects of the program.

MDA should brief the committees on the status of WQIA compliance, why timely enforcement has not occurred, intended enforcement strategies and timeline, and the department’s capacity to serve in this regulatory role. MDA should also be prepared to discuss intended WQIA-related policy or program implementation changes and the associated budget implications.

2. Allocate MDA Functions to the Department of Natural Resources (DNR) and the Department of Business and Economic Development (DBED)

In 1972 the General Assembly approved legislation establishing the MDA in response to agriculture’s growing impact on the State economy. Prior to that time, the Board of Agriculture (under the auspices of the University of Maryland) represented early agricultural interests in Maryland. Currently, MDA’s programs are organized within the three following areas:

Office of Resources Conservation

- **Function:** Oversees a range of programs aimed at helping farmers balance farm productivity with the need to protect soil and water resources.
- **Goals:** To provide and promote land stewardship, including conservation, environmental protection, preservation, and resource management. To preserve adequate amounts of productive agricultural land and woodland in Maryland in order to provide for the continued production of food and fiber, to limit random development, and to protect agricultural land and woodland as open space.

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Office of Plant Industries and Pest Management

- **Function:** Administers programs and enforces laws, regulations, and quarantines related to the management of pests that affect health of crops and forests; application and disposal of pesticides; mosquito control; quality of commercial agricultural products sold in Maryland; quality of seeds and turf; and control of noxious weeds.
- **Goal:** To protect the health of the public, plant, and animal resources in Maryland.

Office of Marketing, Animal Industries, and Consumer Services

- **Function:** Implements State standards on weights and measures; inspects and grades commodities such as eggs, vegetables, soybeans, and poultry; and expands and develops domestic and international markets for Maryland goods.
- **Goals:** To provide health, safety, and economic protection for Maryland consumers. To promote profitable production, use, and sale of Maryland agricultural products.

Consolidation Could Prompt Program Synergies and Cost Savings

As the descriptions above illustrate, MDA plays a dual role of (a) supporting and regulating the agricultural industry; and (b) conserving the State's natural resources. These roles overlap considerably with the functions DBED and DNR currently perform or should be performing.

Conservation of Natural Resources: DNR's mission is to, "...inspire people to enjoy and live in harmony with their environment, and to protect what makes Maryland unique – our treasured Chesapeake Bay, our diverse landscapes, and our living and natural resources." Since DNR's core mandate is resource conservation, these programs appear to be duplicative. In addition, there could be considerable benefits associated with shifting MDA's resource conservation responsibilities to DNR. The utility of this approach is further supported by the fact that significant funds are initially appropriated to DNR for several of MDA's resource conservation programs, including the Conservation Reserve Enhancement Program and the Maryland Agricultural Land Preservation Program. In addition to increasing operational efficiencies, this shift could reduce administrative overhead costs.

Supporting and Regulating the Agricultural Industry: DBED is dedicated to increasing business investment, enhancing business success, and insuring that all jurisdiction share in the economic vitality of the State. Since agriculture is one of the top industries in the State, consolidating the State's work with the agricultural industry appears strategic. The Secretary of DBED already serves on the Maryland Agricultural Education and Rural Development Assistance Board and the Interagency Nutrient Reduction Oversight Committee. Incorporating MDA's Office of Marketing, Animal Industries and Consumer Services functions into DBED could result in several key benefits. For example, DBED may be able to offer more in-depth and comprehensive marketing opportunities, assistance and resources to the agriculture community. Also, agricultural interests may gain better access to State investment financing.

DLS recommends budget language directing MDA, DNR, and DBED, with the Department of Budget and Management (DBM) as the lead agency, to examine the feasibility of eliminating MDA and transferring functions to DNR and DBED to improve program delivery. A report should be submitted by November 15, 2003, addressing the following issues: (1) MDA program areas that are duplicative of DNR and DBED programs; (2) potential strategies for transferring MDA programs to DNR and DBED; (3) the advantages, disadvantages, and cost savings (positions and funds) associated with each strategy; and (4) draft implementing legislation.

3. Fiscal 2002 Closeout Transactions Are Inconsistent with Legislative Intent

As part of the fiscal 2002 budget closeout, MDA used capital budget funds to pay for operating budget expenses effectively blurring the important distinction between operating and capital funds and raising a policy issue.

MDA implemented this adjustment by submitting a budget amendment (No. 356-02) requesting approval to realign \$1.18 million of its existing general fund appropriation to "...cover anticipated shortages in salaries." The Governor approved this budget amendment, describing it as necessary to "...conform to current operating plans." As part of this budget amendment, MDA transferred \$703,000 in general funds from the Maryland Agricultural Cost-share capital program to numerous operating programs for the purpose of paying salary costs. While the executive branch has the authority to make this change, using capital funds to cover operating program salary costs is inconsistent with this appropriation's intent. Prior to approving this diversion of capital funds, MDA and the DBM should have brought this issue to the attention of the budget committees.

MDA should be prepared to discuss this fiscal 2002 closeout action and its impact on the cost-share program. The committees should consider whether a change to the statutes governing uses of capital appropriations is required.

Recommended Actions

	<u>Amount Reduction</u>	<u>Position Reduction</u>
1. Reduce funding to be more consistent with the Maryland Department of Agriculture's (MDA) ability to encumber and expend Nutrient Management Cost Share (NMCS) funds. The NMCS program helps defray the costs associated with developing nutrient management plans. In the past, these funds have been reverted and diverted to other programs. To date, approximately 75 percent of the fiscal 2003 appropriation has not been encumbered. Since the program has been slow in encumbering and expending funds, even with this reduction, MDA should have sufficient funds to implement the program.	\$198,453	GF
2. Add the following language:		

, provided that the Maryland Department of Agriculture (MDA), the Department of Natural Resources (DNR) and the Department of Business and Economic Development (DBED), with the Department of Budget and Management as the coordinating entity, shall develop a report by November 15, 2003, providing recommendations for transferring functions of MDA to DNR and DBED. A report should be submitted by November 15, 2003, addressing the following issues: (1) MDA program areas that are duplicative of DNR and DBED programs; (2) potential strategies for transferring MDA programs to DNR and DBED; (3) the advantages, disadvantages, and cost savings (positions and funds) associated with each strategy; and (4) draft implementing legislation.

Explanation: Many of the MDA's programs overlap considerably with the activities undertaken by DBED and DNR. The Department of Legislative Services recommends budget language directing MDA, DNR and DBED, with the Department of Budget and Management as the lead agency, to examine the feasibility of eliminating MDA and transferring functions to DNR and DBED to improve program delivery.

Information Request	Authors	Due Date
Report on re-allocating MDA's functions to DNR and DBED.	MDA DNR DBED DBM	November 15, 2003

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		<u>Amount Reduction</u>	<u>Position Reduction</u>
3.	Reduce grant funding for the Horse Industry Board. In fiscal 2004, the Horse Industry Board anticipates \$300,000 in special funds generated from fee legislation passed in 2002. Therefore, these special funds can be used to cover the \$60,000 in grants the Board has historically provided with general funds.	\$ 60,000	GF
4.	Reduce the Cover Crop Program. Program activity is variable and weather dependent. Therefore, accurate forecasting of program activity is not possible. The allowance provides \$2,374,560, which is approximately \$500,000 more in general funds than program participants have requested to date in fiscal 2003. This reduction will bring program funding back in line with the fiscal 2001 funding level of \$1,696,300.	600,000	GF
5.	The committees should consider whether a change to the statutes governing uses of capital appropriations is required.		

Explanation: As part of the fiscal 2002 budget closeout, the Maryland Department of Agriculture (MDA) used capital budget funds to pay for operating budget expenses effectively blurring the important distinction between operating and capital funds and raising a policy issue. While the executive branch has the authority to make this change, using capital funds to cover operating program salary costs is completely inconsistent with this appropriation's intent. Prior to approving this diversion of capital funds, MDA and the Department of Budget and Management should have brought this issue to the attention of the budget committees.

Total General Fund Reductions	\$ 858,453
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Updates

1. Study Released on the Economic Situation and Prospects for Maryland Agriculture

The University of Maryland Center for Agricultural and Natural Resource Policy released a study on Maryland's agricultural situation in September 2002. The report identified sprawl development, weak markets for key commodities, and environmental requirements as the most serious challenges facing Maryland farmers. The report found that in spite of challenging market conditions, Maryland farmers are successfully increasing productivity, controlling costs, and taking advantage of new market opportunities.

The report's key findings were:

- Maryland has in the past lost farmers and farmland at rates faster than those in neighboring states or in the U.S. as a whole, but the rate of loss has slowed substantially in recent years.
- Agriculture's contribution to the State's economy in inflation-adjusted dollars has remained relatively steady over time.
- Average net farm income in Maryland has increased over the past 20 years and exceeds that of the nation and other states in the region.
- Maryland farmers are effectively adapting to changing markets, capitalizing on population changes in regional metropolitan areas and on growing international demand.

The \$200,000 study of Maryland's agricultural situation was undertaken at the request of MDA in response to concerns expressed by the Maryland General Assembly's House Environmental Matters Committee and others that population growth in rural areas, environmental regulations, and economic factors are threatening to drive out farmers. The report projects that over the next 10 years, 40,000 acres of the current 2.1 million acres of land and up to 400 of Maryland's 12,400 existing farms will be lost assuming a continuation of current conditions and policies. The study suggests that State-level policies that can promote the continued viability of broiler production in Maryland are crucial. It also recommends State-level policy and technical support for the production and marketing of specialty and value-added crops and other crops excluded from federal support programs.

2. Report on Residential Usage of Wood Treated with Chromated Copper Arsenate

On February 12, 2002, the United States Environmental Protection Agency (EPA) announced a voluntary agreement with industry that will end the practice of treating wood for residential uses with chromated copper arsenate (CCA). Residential uses for CCA-treated wood include play-structures, decks, picnic tables, landscaping timbers, and boardwalks. Under the agreement, the wood treatment industry volunteered to move consumer use of treated lumber products away from pressure-treated wood that

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contains CCA, by December 31, 2003, in favor of new alternative wood preservatives. By January 2004 the EPA will no longer allow CCA products to be used to treat lumber for any residential uses.

In the 2002 *Joint Chairmen's Report*, MDA was directed to prepare a report that describes its monitoring and consumer outreach efforts concerning this agreement, including any relevant findings and recommendations. A summary of the report's main findings follows.

To date, MDA's monitoring and consumer awareness building efforts include:

- ***Presentations:*** MDA has made informational presentations about the CCA agreement at the Governor's Pesticide Council Meeting and the Association of American Pesticide Control Officials spring meeting. MDA also attended the State Federal Insecticide, Fungicide, and Rodenticide Act Research and Evaluation Group meeting.
- ***Re-certification Training Sessions with Pesticide Applicator:*** A total of 3,845 commercial applicators and 1,372 private applicators participated in training courses and were re-certified in 2002. Update information was provided to pesticide applicators by MDA staff on the re-registration status of CCA pesticide products and the voluntary agreement to phase out the use of CCA as a wood treatment for residential uses.
- ***Pesticide Applicators Newsletter Article:*** The *Pesticide Applicators Newsletter* is sent to 3,900 commercial and 4,100 private pesticide applicators, 105 pesticide dealers, 22 members of the Governor's Pesticide Council, and interested parties. The July 2002 issue outlined the stipulations of the voluntary agreement and provided tips on how to safely handle CCA-treated wood.
- ***Responses to Consumer Inquiries:*** MDA receives numerous calls about the status of CCA pesticide products and provides copies of EPA informational materials in response.

MDA recommended that its future activities include the following:

- Monitor EPA's efforts to implement the voluntary agreement and come to a final decision on registrations of CCA pesticide products.
- Develop, obtain, and disseminate information on how to safely dispose of CCA-treated wood products.
- Once the agreement is finalized, MDA will monitor pest control firms and inspect stores selling treated wood products to ensure that provisions of the cancellation notice are being carried out.

Current and Prior Year Budgets

Current and Prior Year Budgets Department of Agriculture (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2002					
Legislative Appropriation	\$27,904	\$15,678	\$1,905	\$2,967	\$48,454
Deficiency Appropriation	500	0	0	0	500
Budget Amendments	703	1,557	2,318	2,081	6,659
Reversions and Cancellations	-505	-7,180	-885	-535	-9,105
Actual Expenditures	\$28,602	\$10,055	\$3,338	\$4,513	\$46,509
Fiscal 2003					
Legislative Appropriation	\$29,243	\$9,350	\$2,406	\$6,682	\$47,681
Budget Amendments	254	566	1,275	7	2,102
Working Appropriation	\$29,497	\$9,916	\$3,681	\$6,689	\$49,783

Note: Numbers may not sum to total due to rounding.

Fiscal 2002 Budget Changes

Major changes in general funds were:

- \$500,000 deficiency appropriation for the Nutrient Management Cost Share program to comply with the Water Quality Improvement Act.
- \$703,000 increase for required agency-wide salaries paid from the Maryland Agricultural Cost-Share (MACS) PAYGO capital program.
- \$505,000 reduction for Cost Containment (Budget Amendment 124-02).

Major changes in special funds were:

- \$486,674 from the Horse Racing Special Fund to fund fairs and other items required by Section 11-403 of the Business Regulation Article. This will allow the Maryland Fair Board to fully fund the Great Pocomoke Fair, the Great Frederick Fair, the Maryland Agricultural Education Foundation, the Maryland Agricultural Fair Board, and the Maryland State Fair and Agricultural Society, Inc.
- \$601,670 from the poultry industry for the Manure Transportation Pilot Project.
- \$175,000 from the Animal Health Special Fund was used for laboratory supplies and services, diagnostic assistance, and equipment.
- \$525,000 in special fund revenue under attainment.
- \$6.3 million in CRF are shown as a cancellation to comply with DBM budgeting rules that require agencies to demonstrate program funding continuity when funds shift among programs and funds. The CRF-funded tobacco transition program moved from the operating budget to PAYGO in fiscal 2003.

Major changes in federal funds were:

- \$1,135,339 from the U.S. Department of Agriculture (USDA) was used to conduct a grant support program for specialty crops in Maryland.
- \$285,000 from USDA to conduct an informational and educational campaign about the value of risk management and the Federal Crop Insurance Program for crop protection.
- \$192,000 from USDA to conduct a pilot Senior Farmers Market Nutrition Program, which will provide coupons to lower income senior citizens that can be redeemed at participating farmers markets.

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- \$140,000 from USDA to perform field surveys and conduct the annual gypsy moth suppression program.
- \$885,000 in cancellations, associated primarily with the funds brought in by budget amendment, occurred. MDA intends to reauthorize these funds via budget amendment in fiscal 2003.

Fiscal 2003 Budget Changes

MDA was required to reduce general fund operational expenses by \$1.4 million for cost containment in fiscal 2003. A description of these changes is provided earlier in the analysis. The increase in special funds reflects \$250,000 in Manure Transport Program matching funds and \$150,000 in additional funds for the Horse Industry Board. The federal funds increase is largely attributable to a \$1.0 million increase in federal marketing funds.

Object/Fund		Object/Fund Difference Report Department of Agriculture				Percent Change
		FY02 Actual	FY03 Working Appropriation	FY04 Allowance	FY03 - FY04 Amount Change	
Positions						
01	Regular	480.00	460.00	439.00	(21.00)	(4.6%)
02	Contractual	35.70	45.45	50.70	5.25	11.6%
Total Positions		515.70	505.45	489.70	(15.75)	(3.1%)
Objects						
01	Salaries and Wages	\$ 23,305,869	\$ 22,822,906	\$ 23,145,718	\$ 322,812	1.4%
02	Technical & Spec Fees	978,805	1,190,473	1,432,363	241,890	20.3%
03	Communication	742,620	789,067	1,004,406	215,339	27.3%
04	Travel	381,939	590,699	615,246	24,547	4.2%
	Fuel & Utilities	808,203	915,462	873,359	(42,103)	(4.6%)
07	Motor Vehicles	813,878	1,024,535	1,010,555	(13,980)	(1.4%)
08	Contractual Services	5,879,586	6,185,121	6,153,625	(31,496)	(0.5%)
09	Supplies & Materials	1,461,445	1,691,726	1,473,562	(218,164)	(12.9%)
10	Equip - Replacement	119,307	145,331	337,706	192,375	132.4%
11	Equip - Additional	274,524	303,046	254,562	(48,484)	(16.0%)
12	Grants,Subsidies,Contr	11,182,872	13,238,138	12,628,132	(610,006)	(4.6%)
13	Fixed Charges	183,771	192,204	219,708	27,504	14.3%
14	Land & Structures	375,831	426,250	451,532	25,282	5.9%
Total Objects		\$ 46,508,650	\$ 49,514,958	\$ 49,600,474	\$ 85,516	0.2%
Funds						
01	General Fund	\$ 28,602,383	\$ 29,242,949	\$ 28,808,655	(\$ 434,294)	(1.5%)
03	Special Fund	10,055,356	9,915,980	11,904,501	1,988,521	20.1%
05	Federal Fund	3,338,086	3,680,722	4,485,419	804,697	21.9%
09	Reimbursable Fund	4,512,825	6,675,307	4,401,899	(2,273,408)	(34.1%)
Total Funds		\$ 46,508,650	\$ 49,514,958	\$ 49,600,474	\$ 85,516	0.2%

Note: 1. Full-time and contractual positions and salaries are reflected for operating budget programs only
 2. Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions..

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Appendix 2

Fiscal Summary
Department of Agriculture

<u>Unit/Program</u>	<u>FY02 Actual</u>	<u>FY03 Legislative Appropriation</u>	<u>FY03 Working Appropriation</u>	<u>FY02 - FY03 % Change</u>	<u>FY04 Allowance</u>	<u>FY03 - FY04 % Change</u>
01 Executive Direction	\$ 2,052,995	\$ 1,743,576	\$ 1,743,576	(15.1%)	\$ 2,149,678	23.3%
02 Administrative Services	973,615	1,059,332	1,071,047	10.0%	923,756	(13.8%)
03 Central Services	1,947,077	1,802,288	1,852,288	(4.9%)	2,038,593	10.1%
04 Maryland Agricultural Commission	74,547	128,479	128,479	72.3%	139,732	8.8%
05 Maryland Agricultural Land Preservation Foundation	1,105,302	1,292,472	1,292,472	16.9%	1,300,000	0.6%
01 Office of the Assistant Secretary	104,207	198,320	107,580	3.2%	99,321	(7.7%)
02 Weights and Measures	1,785,552	1,693,252	1,693,252	(5.2%)	1,840,793	8.7%
03 Egg Inspection, Grading and Grain	1,354,242	1,270,266	1,432,131	5.8%	1,358,067	(5.2%)
04 Maryland Agricultural Statistics Services	94,527	133,097	133,097	40.8%	119,972	(9.9%)
05 Animal Health	3,123,366	3,095,917	3,247,917	4.0%	3,215,416	(1.0%)
07 State Board of Veterinary Medical Examiners	162,679	188,246	188,246	15.7%	189,662	0.8%
08 Maryland Horse Industry Board	123,335	127,561	277,561	125.0%	413,865	49.1%
09 Aquaculture Development and Seafood Marketing	590,529	597,601	597,601	1.2%	614,473	2.8%
10 Marketing and Agriculture Development	3,069,547	2,176,157	3,291,817	7.2%	5,041,730	53.2%
11 Maryland Agricultural Fair Board	1,459,372	1,459,079	1,459,079	0%	1,460,000	0.1%
12 State Tobacco Authority	18,608	19,541	19,541	5.0%	6,032	(69.1%)
01 Office of the Assistant Secretary	152,193	156,960	156,960	3.1%	165,044	5.2%
02 Forest Pest Management	1,946,483	1,768,770	1,768,770	(9.1%)	1,904,217	7.7%
03 Mosquito Control	2,757,623	2,856,532	2,856,532	3.6%	2,898,866	1.5%
04 Pesticide Regulation	1,214,485	1,215,123	1,215,123	0.1%	1,132,013	(6.8%)
05 Plant Protection	1,802,710	1,917,684	1,955,837	8.5%	1,958,789	0.2%
06 Turf and Seed	994,866	1,008,664	1,008,664	1.4%	991,007	(1.8%)
09 State Chemist	1,688,471	1,728,263	1,728,263	2.4%	1,544,413	(10.6%)
01 Office of the Assistant Secretary	167,680	170,830	170,830	1.9%	178,983	4.8%
02 Program Planning and Development	3,472,555	3,645,711	3,644,211	4.9%	3,667,470	0.6%
03 Resource Conservation Operations	7,999,646	8,232,372	8,230,372	2.9%	8,239,232	0.1%
04 Resource Conservation Grants	6,272,438	7,995,542	8,243,712	31.4%	6,009,350	(27.1%)
Total Expenditures	\$ 46,508,650	\$ 47,681,635	\$ 49,514,958	6.5%	\$ 49,600,474	0.2%

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Fiscal Summary
Department of Agriculture

<u>Unit/Program</u>	<u>FY02 Actual</u>	<u>FY03 Legislative Appropriation</u>	<u>FY03 Working Appropriation</u>	<u>FY02 - FY03 % Change</u>	<u>FY04 Allowance</u>	<u>FY03 - FY04 % Change</u>
General Fund	\$ 28,602,383	\$ 29,242,949	\$ 29,242,949	2.2%	\$ 28,808,655	(1.5%)
Special Fund	10,055,356	9,350,031	9,915,980	(1.4%)	11,904,501	20.1%
Federal Fund	3,338,086	2,406,348	3,680,722	10.3%	4,485,419	21.9%
Total Appropriations	\$ 41,995,825	\$ 40,999,328	\$ 42,839,651	2.0%	\$ 45,198,575	5.5%
Reimbursable Fund	\$ 4,512,825	\$ 6,682,307	\$ 6,675,307	47.9%	\$ 4,401,899	(34.1%)
Total Funds	\$ 46,508,650	\$ 47,681,635	\$ 49,514,958	6.5%	\$ 49,600,474	0.2%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.