

L00A
Department of Agriculture

Operating Budget Data

(\$ in Thousands)

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$25,526	\$23,317	\$29,402	\$6,085	26.1%
Special Fund	12,031	16,220	20,119	3,899	24.0%
Federal Fund	3,138	4,319	4,853	534	12.4%
Reimbursable Fund	<u>3,574</u>	<u>3,615</u>	<u>3,867</u>	<u>253</u>	<u>7.0%</u>
Total Funds	\$44,271	\$47,471	\$58,241	\$10,770	22.7%

- The Maryland Department of Agriculture (MDA) submitted a fiscal 2006 budget deficiency request for \$1.4 million in general funds for the Cover Crop Program, a 48% increase over the \$2.9 million fiscal 2006 working appropriation.
- MDA's fiscal 2007 allowance exceeds the fiscal 2006 working appropriation by \$10.8 million or 22.7%. This significant increase is primarily due to an approximately 25% increase in general and special funds.
- MDA's \$29.4 million fiscal 2007 general fund allowance is \$6.1 million, or 26.1%, more than the fiscal 2006 working appropriation. This significant change reflects the following funding increases: \$4.3 million for the Cover Crop Program, \$777,234 for health insurance, \$400,000 for the Manure Transport Program, \$288,386 to coordinate assistance to the Corsica River and another targeted watershed, \$209,605 to coordinate implementation of the State's Tributary Strategy, and \$204,124 for vehicle replacement.
- MDA's \$20.1 million fiscal 2007 special fund allowance is \$3.9 million, or 24.0%, more than the fiscal 2006 working appropriation. This significant increase can be attributed to \$2.0 million in new Bay Restoration Fund revenue for the Cover Crop Program, \$423,093 in new agricultural transfer tax revenue for administration of the Maryland Agricultural Land Preservation Foundation, and \$350,000 in new Manure Transport Program matching funds.
- MDA's \$4.9 million fiscal 2007 federal fund allowance is \$533,515, or 12.4%, more than the fiscal 2006 working appropriation, reflecting additional anticipated grant funds from the U.S. Department of Agriculture for animal health and natural resource conservation efforts.

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

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Personnel Data

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>
Regular Positions	430.00	427.50	436.50	9.00
Contractual FTEs	<u>41.29</u>	<u>40.43</u>	<u>37.05</u>	<u>-3.38</u>
Total Personnel	471.29	467.93	473.55	5.62

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	21.91	5.02%
Positions Vacant as of 12/31/05	33.50	7.8%

- The fiscal 2007 allowance provides for 436.5 regular positions, a total increase of 9 positions from the fiscal 2006 working appropriation. The allowance reflects the proposed addition of 9 new soil conservation positions in the Office of Resource Conservation to implement the proposed expansion of the Cover Crop, Manure Transport, and Maryland Agricultural Cost Share programs.
- MDA’s turnover rate of 5.0% is a 35.9% decrease from the fiscal 2006 working appropriation. To achieve this turnover rate in fiscal 2007, it will be necessary for MDA to maintain 21.91 vacancies.

Analysis in Brief

Issues

Farmers Commitment to Nutrient Management Plans Remains Unsteady: Under the Water Quality Improvement Act of 1998, certain farmers are required to have nutrient management plans developed and implemented by specific dates. Recent changes to the law have helped increase farmer compliance with the development and implementation of nutrient management plans. However, noncompliance still exists and runoff from agricultural lands remains a concern. **MDA should be prepared to discuss whether additional nutrient management program funds would allow MDA to bring more acres into compliance at a faster rate and what level of additional funding would be required; its process for ensuring nutrient management plans are being implemented in accordance with the law; and the extent to which MDA staff have found nutrient management plans are not being adhered to in accordance with the law.**

Agricultural Stewardship Commission Recommends Significant Funding Increase for Agriculture Programs: Since July 2005, the Maryland General Assembly's Agricultural Stewardship Commission has been working to examine and identify incentives to help farmers implement sound agricultural practices that will help clean up Maryland's rivers and streams, while ensuring the continued viability of farming in the State. While this joint legislative commission is expected to release a final report with recommendations in January 2006, a draft report recommends significant funding increases for a variety of MDA programs. **DLS recommends budget bill language requiring MDA to submit a report by September 29, 2006, that compares and analyzes the relationship between the State's fiscal 2007 legislative appropriation and the budgetary and programmatic recommendations released in 2006 by the Agricultural Stewardship Commission and the Maryland Agricultural Commission.**

Is Maryland Adequately Prepared for Avian Influenza?: Since poultry production is the biggest agricultural sector in Maryland, there has been a great deal of recent interest in and concern about avian influenza (AI). Infection with AI viruses in domestic poultry can go undetected, and it can kill birds within 48 hours. The H5N1 strain of AI is currently causing illness and deaths in some humans in Asia and Europe, with more than half of those infected dying. Several State agencies, in partnership with the federal government, local jurisdictions, and the agricultural sector, are involved in efforts to address AI. **MDA should be prepared to discuss the status of the State's efforts to prevent the introduction of AI, implement an emergency response to a large-scale outbreak of AI in poultry, and secure adequate resources for AI prevention and response efforts.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Add budget bill language requiring submittal of a report on recent agriculture program and funding recommendations.		
2. Add budget bill language reducing funding for the Cover Crop Program.		
3. Delete funding for three new Soil Conservation District staff.	\$ 174,872	3.0
4. Delete personnel funding associated with "Corsica II", an unidentified watershed initiative.	185,000	1.0
5. Delete Horse Pasture Program funding associated with "Corsica II", an unidentified watershed initiative.	40,000	
6. Reduce fiscal 2006 deficiency funding request for the Cover Crop Program.	400,000	
Total Reductions to Fiscal 2006 Deficiency Appropriation	\$ 400,000	
Total Reductions to Allowance	\$ 399,872	4.0

Updates

Report on Organic Farming Program: A report outlining policy and program issues the State faces with regard to supporting the organic farming community is summarized.

Manure Use Work Plan for the Chesapeake Bay: This update summarizes a Chesapeake Bay manure management strategy recently adopted by the U.S. Environmental Protection Agency's Chesapeake Bay Program.

Maryland Agricultural Commission's Listening Sessions: The status of the Maryland Agricultural Commission's efforts to develop comprehensive policy recommendations for sustaining agriculture in Maryland is described.

L00A
Department of Agriculture

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. 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.

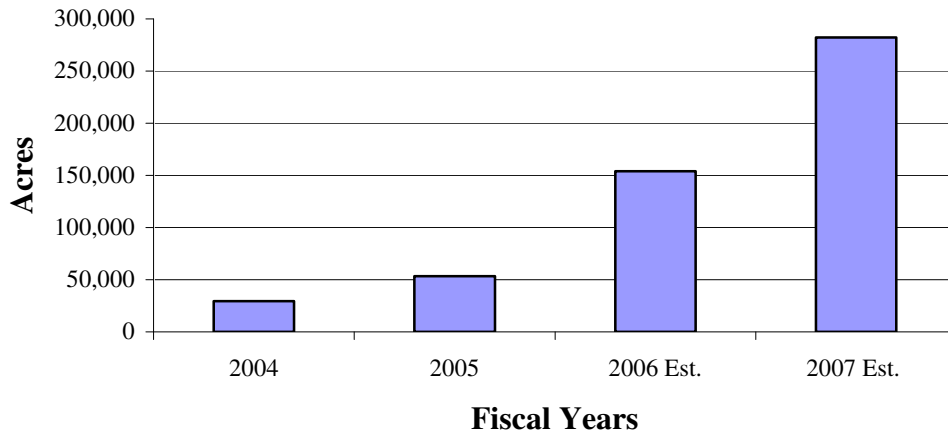
Performance Analysis: Managing for Results

MDA's fiscal 2007 Managing for Results submission indicates anticipated progress and workload shifts in a variety of program areas. **Exhibit 1** presents data on a handful of performance measurements that describe progress in several key program areas. The data provided in this chart indicates the following trends:

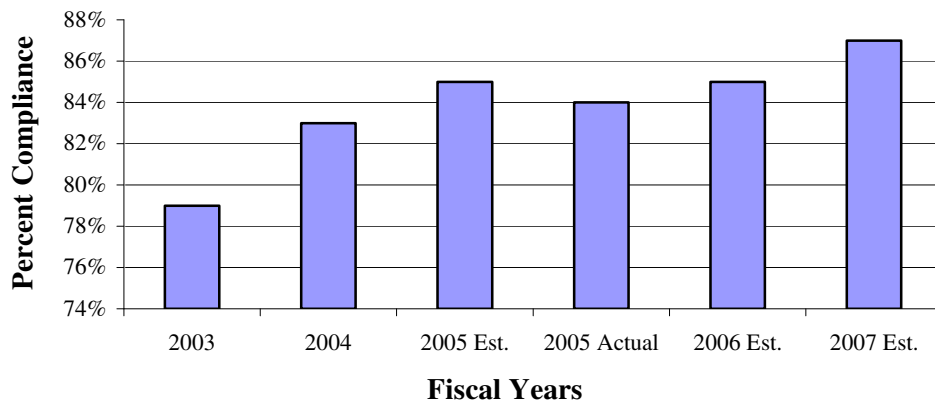
- dramatic projected increases in cover crop acres due to the availability of new general funds and Bay Restoration Fund revenue;
- increased compliance with pesticide laws and regulations;
- an anticipated surge in gypsy moths and associated forest pest suppression activities; and
- fewer pounds of nitrogen and phosphorus loading into the Chesapeake Bay.

Exhibit 1

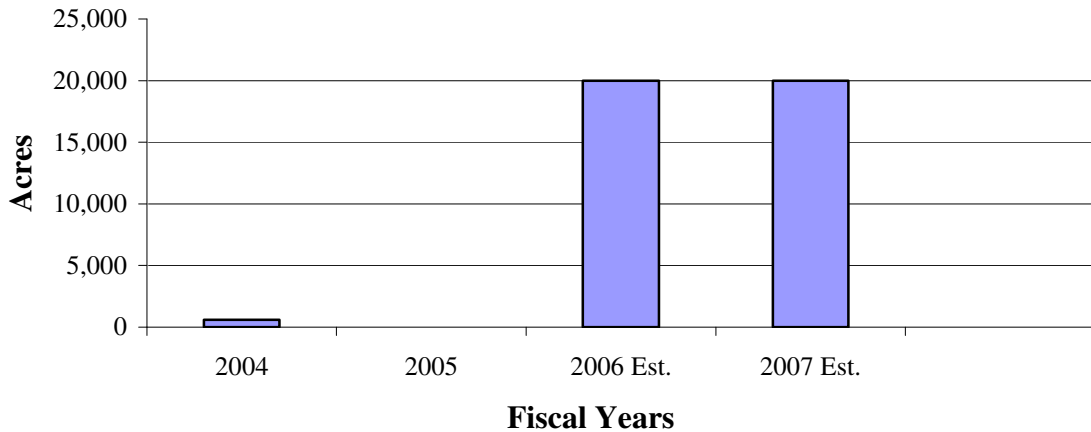
Acres of Cover Crops Planted



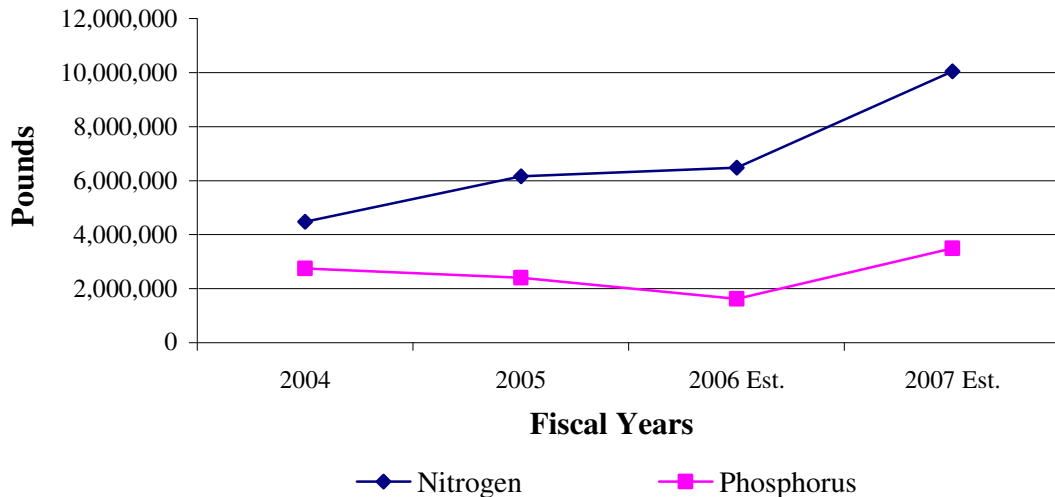
Compliance with Pesticide Laws and Regulations



Acres Treated for Forest Pests, Largely Gypsy Moths



Reduction in Nutrient Loading Due to Nutrient Management Plans



Source: Fiscal 2006 and 2007 budget books

Although MDA estimates a substantial increase in the gypsy moth suppression workload, significant additional program funding has not been requested for suppression activities in fiscal 2006 or 2007. MDA advises that the availability of sufficient federal funds for State gypsy moth suppression activities is not known at this time. **MDA should be prepared to discuss the program's estimated fiscal 2006 and 2007 budget needs; whether, and if so how, MDA intends to pay for these additional needs; what public and private lands may and may not benefit from MDA program assistance; and the short- and long-term impact of not providing immediate assistance.**

MDA's MFR breaks out how specific programs impact nutrient loading into the Chesapeake Bay, but it does not indicate whether these individual programs are impacting the bay's overall

nutrient loading trends. **Therefore, MDA should consider integrating an overall agriculture nutrient loading trend into its MFR to show the relationship between MDA programs and the overall contribution agricultural practices make to the bay's nutrient loads. In addition, MDA should discuss why it is estimating such a significant reduction in nutrient loading due to nutrient management plans in fiscal 2007.**

MDA's performance measures in the Office of Marketing and Agriculture Development indicate a need to improve wholesale market sales programs. The percentage of producers reporting good or excellent satisfaction in fiscal 2005 with MDA's wholesale market sales programs was 77% and with international sales programs was 90%. **MDA should discuss whether, and if so how, it intends to improve its wholesale market sales programs.**

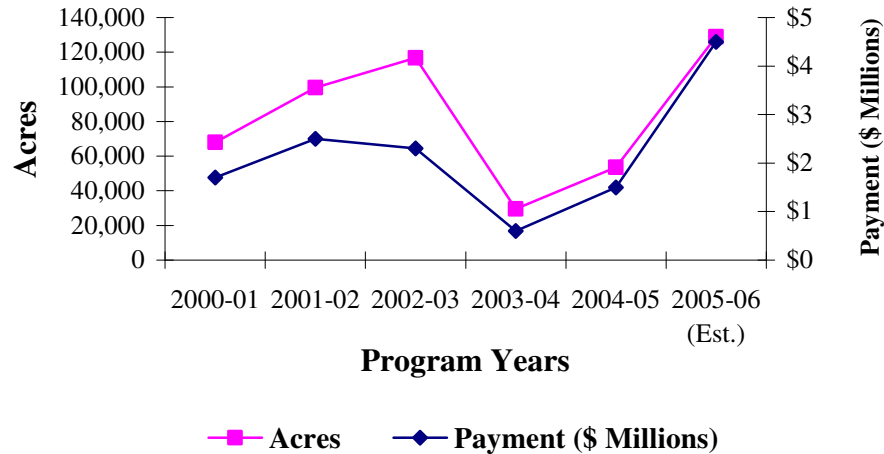
Fiscal 2006 Actions

Proposed Deficiency

MDA submitted a fiscal 2006 budget deficiency request for \$1.4 million in general funds for the Cover Crop Program. These additional funds would allow between 115,000 – 134,000 additional cover crop acres. Since the program's fiscal 2006 working appropriation is \$2.9 million (\$2.7 million in special funds and \$250,000 in reimbursable funds) this deficiency would provide a 48% fiscal 2006 program budget increase. As shown in **Exhibit 2**, this proposed fiscal 2006 funding level is significantly higher than what the program has paid out to participants in the past. However, when evaluating the program's fiscal 2006 appropriation, two issues merit special attention:

- MDA advises that \$1.0 million in fiscal 2005 Cover Crop Program funds were encumbered as part of an early registration drive for the 2005/2006 program and are thus available for the Spring 2006 participant payout; and
- only approximately \$1.5 million of the \$2.9 million in anticipated fiscal 2006 Bay Restoration Fund special fund revenue for the Cover Crop Program has been received to date, and current information about counties' proposed billing schedules indicates that 25 – 50% of the anticipated revenue will not be received until fiscal 2007.

**Exhibit 2
Cover Crop Program Applications Paid**



Source: Maryland Department of Agriculture

As of the end of December 2005, MDA advises that 128,845 acres of cover crops had been planted and certified representing an estimated liability of \$4.5 million for fiscal 2006. However, this acreage and liability amount may change since the certification process is not yet complete, and changes in program requirements may prompt the average cost per acre of cover crop to escalate a few dollars. Overall, MDA has approved the participation of many more acres of cover crops than the existing fiscal 2006 appropriation could support. This practice reflects imprudent programmatic decision making and is potentially misleading to program participants. While weather, farm prices, and other factors may substantially decrease MDA’s liability, the program has committed itself to providing more funding than it has been appropriated to date.

MDA should be prepared to discuss the latest data concerning the total number of certified program acres and associated funding liability, the estimated number of acres that will successfully complete the program and associated funding liability, the latest fiscal 2006 Bay Restoration Fund revenue projections for the Cover Crop Program, and the potential impact of reducing the deficiency appropriation request by \$400,000.

Governor’s Proposed Budget

As shown in **Exhibit 3**, the Governor’s fiscal 2007 allowance is 22.7% above MDA’s 2006 working appropriation and totals \$58.2 million. In its allowance, MDA receives a \$6.1 million increase in general funds, a \$3.9 million increase in special funds, a \$533,515 increase in federal funds, and a \$252,505 increase in reimbursable funds. This significant change reflects the following funding increases:

**Exhibit 3
Governor’s Proposed Budget
Department of Agriculture
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimbur. Fund</u>	<u>Total</u>
2006 Working Appropriation	\$23,317	\$16,220	\$4,319	\$3,615	\$47,471
Adjusted Allowance	<u>29,402</u>	<u>20,119</u>	<u>4,853</u>	<u>3,867</u>	<u>58,241</u>
Amount Change	\$6,085	\$3,899	\$534	\$253	\$10,770
Percent Change	26.1%	24.0%	12.4%	7.0%	22.7%
Where It Goes:					
Personnel Expenses					
Regular earnings, including 9 new soil conservation positions.....					\$766
Employee and retiree health insurance					1,261
Employee retirement.....					264
Turnover adjustments					53
Social Security contributions					67
Other fringe benefit adjustments.....					69
Other Changes					
<i>To provide health, safety, and economic protection for consumers</i>					
Additional forest pest funds to respond to potential increase in gypsy moth activity					298
Increase in U.S. Department of Agriculture animal health grant funds.....					325
<i>To promote profitable production, use, and sale of State agricultural products</i>					
Maryland Horse Industry Board census and economic impact analysis.....					188
<i>To provide and promote land stewardship</i>					
Total increase in Cover Crop Program funding.....					6,378
Total increase in Manure Transport Program funding.....					750
Augment Maryland Agricultural Land Preservation Foundation administration					423
<i>Promote State Agriculture</i>					
Additional general funds to replace 16 vehicles with over 100,000 miles					204
Other					-276
Total					\$10,770

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

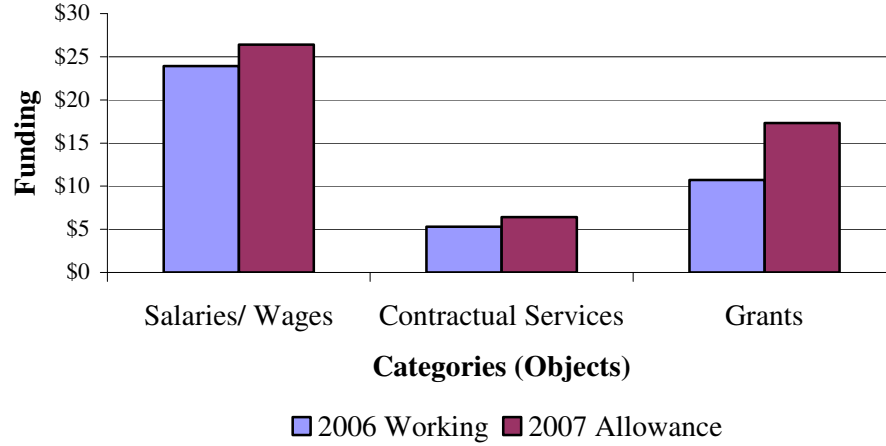
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- \$6.4 million to expand the Cover Crop Program, with specific earmarks for a commodity program component that allows participants to harvest but not fertilize cover crops (\$1.0 million), the Corsica River Watershed (\$160,000), and implementation of the State Tributary Strategy (\$2.35 million);
- \$1.3 million for employee and retiree health insurance costs, reflecting, in part, the under funding of these costs in the fiscal 2006 working appropriation;
- \$750,000 to expand the Manure Transport Program;
- \$423,093 in new agricultural transfer tax revenue for administration of the Maryland Agricultural Land Preservation Foundation;
- \$324,820 in new U.S. Department of Agriculture grant funds for animal health;
- \$298,314 in Forest Pest Management to reflect local jurisdiction's estimated contributions to spraying efforts;
- \$288,386 in new general funds to coordinate assistance to the Corsica River watershed and another watershed that has yet to be identified;
- \$209,605 in new general funds to coordinate implementation of expanded programming as part of the State's Tributary Strategy implementation efforts;
- \$204,124 in new general funds to replace an additional 16 vehicles with over 100,000 miles; and
- \$188,178 in the Horse Industry Board to conduct a census and economic impact analysis.

As illustrated in **Exhibit 4**, the majority of the increases in the fiscal 2007 allowance occur within the three following categories:

- grants (Object 12) increase by \$6.6 million or 62.2%;
- salaries and wages (Object 1) increase by \$2.5 million or 10.4%; and
- contractual services (Object 8) increase by \$1.1 million or 20.5%.

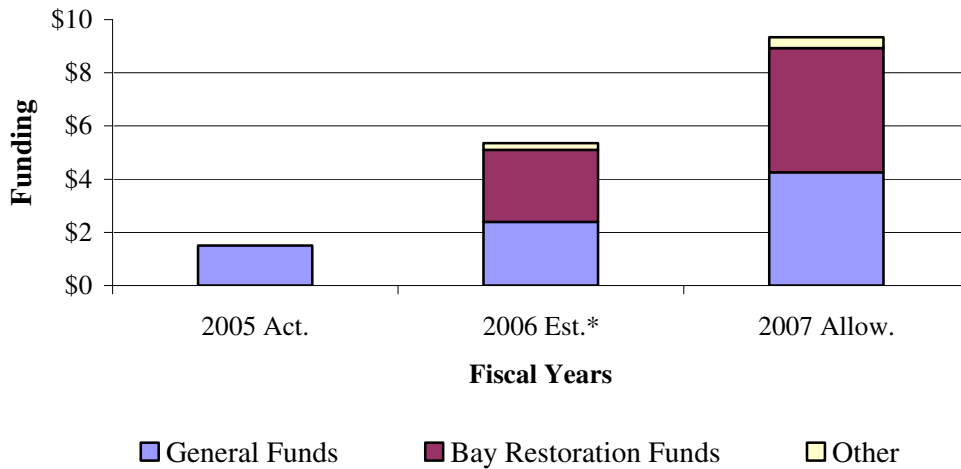
**Exhibit 4
Major Categories of MDA Funding Increases
(\$ in Millions)**



Source: Fiscal 2007 budget books

Since 71% of the total budget increase is going to contracts and grants, MDA’s base operational costs would experience modest growth. As shown in **Exhibit 5**, Cover Crop Program grants receive much of the new funding in fiscal 2007.

**Exhibit 5
Cover Crop Program Funding
(\$ in Millions)**



* The fiscal 2006 estimate includes \$1.0 million in encumbered fiscal 2005 funds available for fiscal 2006 payments and a proposed \$1.4 million fiscal 2006 deficiency appropriation.

Source: Maryland Department of Agriculture

Issues

1. Farmers Commitment to Nutrient Management Plans Remains Unsteady

According to the federal Chesapeake Bay Program, in 2003 agricultural practices were the largest source of nutrient and sediment pollution to the Chesapeake Bay, contributing 37% of the nitrogen, 42% of the phosphorus, and 71% of the sediment loads. The next largest source was point sources, followed by urban and suburban lands. Under the Water Quality Improvement Act (WQIA) of 1998, certain farmers are required to have nutrient management plans developed and implemented by specific dates. Recent changes to the statute have helped increase farmer compliance with the development and implementation of nutrient management plans. However, noncompliance still exists and runoff from agricultural lands remains a concern.

Current Status of Compliance

Exhibit 6 shows nutrient management plan compliance levels as of December 31, 2005. This data reflects plans developed by the private sector, individual farmers, and cooperative extension staff. MDA estimates that plans are required for 8,223 farms covering approximately 1.5 million acres. To date, MDA has received 6,498 plans for the management of 1.2 million acres. While progress has been made, 21% of the farms and 20% of the regulated acreage still lack plans.

Exhibit 6
Nutrient Management Program Compliance
(As of December 31, 2005)

	<u>Total Eligible</u>	<u>In Compliance</u>	<u>Out of Compliance</u>
Farm Operations	8,223	6,498 (79%)	1,732 (21%)
Acres	1,523,808	1,225,196 (80%)	298,778 (20%)

Note: The total eligible farm operations have decreased considerably over the last year due to eligibility validation efforts.

Source: Maryland Department of Agriculture

Exhibit 7 illustrates nutrient management plan compliance rates over the past four years. While compliance has clearly increased, little improvement has been achieved over the past year due to eligibility changes and submittal of delay justification forms no longer representing compliance. When current compliance rates are compared to November 2004, the same percentage of farms and slightly more acreage is out of compliance.

Exhibit 7
Lacking Nutrient Management Plans

	<u>December 2002*</u>	<u>December 2003*</u>	<u>November 2004*</u>	<u>December 2005</u>
Farms	56%	42%	21%	21%
Acres	55%	32%	16%	20%

Note: The total eligible farm operations have decreased considerably over the last year due to eligibility validation efforts.

* Includes operations that submitted delay justification forms, and thus were compliant with statute.

Source: Maryland Department of Agriculture

To date, MDA has not assessed any penalties for non-compliance. The penalties for non-compliance are generally progressive in nature and provide MDA with considerable enforcement latitude. Farmers that fail to have plans in place are subject to an administrative penalty not to exceed \$250. Since WQIA was enacted, MDA has sent numerous statewide mailings to farming operations to provide information about the law's requirements, encourage the development of plans, and educate the regulated community. As a result of a July 2005 notice and subsequent site evaluations, MDA brought 568 farmers into compliance. MDA advises that 48 farmers are in the process of receiving a warning, which will be followed by a violation charge and fine if compliance is not forthcoming. The process allows for appeal and a hearing.

In spite of the potentially beneficial impact that it could have on compliance rates, the fiscal 2007 allowance does not provide new funding for nutrient management plan development or program implementation. Currently, MDA's nutrient management program staff consists of six regional nutrient management specialists. In addition to working to bring farmers who have not submitted a nutrient management plan into compliance, these six individuals are responsible for ensuring that the 8,223 eligible farming operations are implementing their nutrient management plans consistent with the law.

MDA should be prepared to discuss whether additional nutrient management program funds would allow MDA to bring more acres into compliance at a faster rate and what level of additional funding would be required; its process for ensuring nutrient management plans are being implemented in accordance with the law; and the extent to which MDA staff have found nutrient management plans are not being adhered to in accordance with the law.

2. Agricultural Stewardship Commission Recommends Significant Funding Increase for Agriculture Programs

Since July 2005, the Maryland General Assembly's Agricultural Stewardship Commission has been working to examine and identify incentives to help farmers implement sound agricultural practices that will help clean up Maryland's rivers and streams, while ensuring the continued viability of farming in the State. While this joint legislative commission is expected to release a final report with recommendations in January 2006, a draft report recommends significant funding increases for a variety of MDA programs, as summarized in **Exhibit 8**. 2006 legislation to implement these recommendations has been introduced (HB 2/SB 5).

Exhibit 8
Summary of the Agricultural
Stewardship Commission’s Draft Recommendations

Budgetary Recommendations

- Phase in a \$35.0 million general fund increase for the Maryland Agricultural Cost Share Program.
- Phase in additional general funds for the Cover Crop Program until a total of at least \$14 million annually is appropriated.
- Provide \$750,000 in general funds annually for the Manure Transport Program.
- Provide \$20.0 million in general funds annually for the Maryland Agricultural Land Preservation Program.
- Provide \$5.0 million annually, and an additional \$5.0 million each year for two years to the Maryland Agriculture and Resource-Based Industry Development Corporation (MARBIDCO).
- Provide a \$2.0 million increase over fiscal 2006 to the University of Maryland’s Cooperative Extension Service.
- Provide a \$2.5 million increase for Soil Conservation District field personnel.

Policy Recommendations

- Allow Cover Crop Program participants to harvest small grains for biofuels.
- Authorize Priority Preservation Areas.
- Promote agriculture education and establish an associated internship program.
- Establish a task force to identify tax incentives for farmers.
- Conduct additional research.

Source: Draft January 2006 Agricultural Stewardship Commission Report

The fiscal 2007 allowance provides a significant funding increase for many programs the Agricultural Stewardship Commission identified as under-funded. **Exhibit 9** illustrates the Commission’s proposed funding level for several agriculture programs as compared to the fiscal 2007 allowance. The fiscal 2007 allowance for the Cover Crop and Manure Transport programs is consistent with the Agricultural Stewardship Commission’s recommended funding level.

Exhibit 9
Recommended Agriculture Program Funding Levels

<u>Program</u>	<u>Fiscal 2007 Allowance</u>	<u>Commission’s Fiscal 2007 Allowance Recommendations</u>
Maryland Agricultural Cost Share	\$0 (see note)	\$7.0 million general fund increase
*Cover Crop	\$9.3 (\$4.3 million in new general funds)	\$3.0 general fund increase
*Manure Transport	\$1.4 million (\$750,00 in general funds)	At least \$750,000 in general funds
Maryland Agricultural Land Preservation	\$84.6 million in special and federal funds	\$20.0 million in general funds
MARBIDCO	\$0	\$10.0 million

* Indicates that the fiscal 2007 allowance is consistent with the Agricultural Stewardship Commission’s recommendation.

Note: The 2005 Capital Improvement Plan assumed \$7.0 million in General Obligation bond funds. The 2006 Capital bond budget is expected on January 31, 2006.

Source: January 2006 Draft Agricultural Stewardship Commission Report and Fiscal 2007 Budget Books

DLS recommends budget bill language requiring MDA to submit a report by September 29, 2006, that compares and analyzes the relationship between the State’s fiscal 2007 legislative appropriation and the budgetary and programmatic recommendations released in January 2006 by the Agricultural Stewardship Commission and in Spring 2006 by the Maryland Agricultural Commission.

3. Is Maryland Adequately Prepared for Avian Influenza?

Background

Since poultry production is the biggest agricultural sector in Maryland, there has been a great deal of recent interest in and concern about avian influenza (AI). Domesticated birds may become inflected with AI through direct contact with waterfowl or other infected poultry, surfaces such as dirt or cages, and materials such as water or feed. Infection with AI viruses in domestic poultry can go undetected, and it can kill birds within 48 hours. The H5N1 strain of AI is currently causing illness and deaths in some humans in Asia and Europe, with more than half of those infected dying. In the spring of 2004, AI infected poultry in Delaware and on the Eastern Shore of Maryland and prompted the destruction of approximately 300,000 birds.

Maryland’s Status

In response to the 2004 Maryland AI outbreak, a task force of poultry and human health experts (including the Department of Health and Mental Hygiene and MDA) mobilized to develop procedures and practical guidance related to infection prevention and control. The resulting document, Interim Guidance for Implementation of Centers for Disease Control and Occupational Safety and Health Administration Avian Influenza Recommendations, provides practical guidance related to human AI infection prevention and control. In addition, the State has a pandemic influenza preparedness plan to guide State and federal actions in the event of a human AI outbreak. The poultry industry and farmers have adopted strict biosecurity practices and are currently working to strengthen surveillance and emergency response procedures.

Several State agencies, in partnership with the federal government, local jurisdictions, and the agricultural sector, are involved in efforts to address AI. State agency responsibilities are summarized in **Exhibit 10**.

Exhibit 10 State Avian Influenza Prevention Efforts

<u>State Agency</u>	<u>Responsibilities</u>
Department of Health and Mental Hygiene (DHMH)	Lead State agency for the development and implementation of State pandemic influenza preparedness plan. DHMH Secretary has overall direction and control of health-related personnel and resources committed to control an influenza pandemic at the State level.
MDA	Lead State agency for preventing and controlling poultry AI outbreaks in Maryland.
Department of Natural Resources	Tests waterfowl and water birds for AI.
Maryland Emergency Management Agency	Operates emergency operations center and coordinates media communication and damage and needs assessments.
Maryland Institute for Emergency Medical Services Systems	Coordinates and monitors statewide emergency medical services, public safety, and commercial ambulance services in pandemic situation.

Sources: Pandemic Influenza Preparedness Plan for Maryland (Version 5), and Maryland Department of Agriculture.

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MDA is dedicating approximately \$330,000 in fiscal 2006 funding to AI prevention and surveillance efforts, which is largely composed of general funds (\$200,000 estimated) for salaries and associated overhead costs. This same level of funding is provided in the fiscal 2007 allowance. While this level of funding has been sufficient to date, MDA advises that a large scale outbreak (more than a few farms) would greatly tax existing staff, equipment, and supplies. These shortfalls would be most acute in three areas: emergency command system, the Salisbury Poultry Health Laboratory, and Animal Health field staff.

MDA should be prepared to discuss the status of the State's efforts to prevent the introduction of AI, implement an emergency response to a large-scale outbreak of AI in poultry, and secure adequate resources for AI prevention and response efforts.

Recommended Actions

1. Add the following language:

Provided that the Maryland Department of Agriculture (MDA) shall submit a report to the budget committees by September 29, 2006, that compares and analyzes the relationship between the State’s fiscal 2007 legislative appropriation and the budgetary and programmatic recommendations released in calendar year 2006 by the Agricultural Stewardship Commission (ASC) and the Maryland Agricultural Commission (MAC). The report should include a discussion of the feasibility and anticipated programmatic and policy impact of the ASC and MAC recommendations as well as how the recommendations would impact MDA’s performance goals and the State’s Chesapeake Bay Agreement goals. The committees shall have 45 days to review and comment on the report.

Explanation: This language requires the Maryland Department of Agriculture (MDA) to submit a report that compares and analyzes the relationship between the State’s fiscal 2007 legislative appropriation and the budgetary and programmatic recommendations released by the ASC and MAC. The report should include a discussion of the feasibility and anticipated programmatic and policy impact of the ASC and MAC recommendations. Further, the report should provide detailed information showing how these various recommendations would impact MDA’s performance goals as well as the State’s Chesapeake Bay Agreement goals. The report should be submitted to the budget committees by September 29, 2006.

Information Request	Author	Due Date
Agriculture recommendations report	MDA	September 29, 2006

2. Add the following language:

Provided that \$1,260,000 in general funds for the Cover Crop Program is deleted from the budget of the Maryland Department of Agriculture.

Explanation: This action reduces the Cover Crop Program’s fiscal 2007 allowance by \$1.3 million in general funds. This action would delete funds earmarked for an unknown watershed (\$160,000), and a new Cover Crop Commodity subprogram (\$1.0 million), and reduce funds for Tributary Strategy implementation by \$100,000. With this reduction, the Cover Crop Program would still receive \$8.1 million, a \$5.2 million increase over the fiscal 2006 working appropriation of \$2.9 million. This reduction would help slow down overall growth in State spending.

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	<u>Amount Reduction</u>		<u>Position Reduction</u>
3. Delete funding for three new Soil Conservation District (SCD) staff. With this reduction, three new SCD staff would still be provided.	\$ 174,872	GF	3.0
4. Delete personnel funding associated with "Corsica II", an unidentified watershed initiative. This action deletes funding for one regular and two contractual positions, as well as grant funding for one University of Maryland extension agent. The Corsica II initiative is an attempt to replicate the watershed conservation efforts initiated in fall 2005 in the Corsica River watershed. However, a specific watershed has not yet been identified for this new initiative, and the ongoing Corsica River initiative has not yet had time to coalesce. Therefore, funding for Corsica II is premature in fiscal 2007.	185,000	GF	1.0
5. Delete Horse Pasture Program funding associated with "Corsica II", an unidentified watershed initiative. The Corsica II initiative is an attempt to replicate the watershed conservation efforts initiated in fall 2005 in the Corsica River watershed. However, a specific watershed has not yet been identified for this new initiative, and the ongoing Corsica River initiative has not yet had time to coalesce. Therefore, funding for Corsica II is premature in fiscal 2007.	40,000	GF	
6. Reduce fiscal 2006 deficiency funding request for the Cover Crop Program since fewer acres than anticipated may be eligible for program funding in Spring 2006.	400,000	GF	
Total Reductions to Fiscal 2006 Deficiency	\$ 400,000	GF	
Total General Fund Reductions to Allowance	\$ 399,872		4.0

Updates

1. Report on Organic Farming Program

In response to fiscal 2006 budget bill language, MDA and the Department of Budget and Management (DBM) submitted a report outlining policy and program issues the State faces with regard to supporting the organic farming community. The report addresses MDA's position on recommendations contained in an April 2004 Chesapeake Fields Institute (CFI) report on organic agriculture in the State. The CFI recommendations and MDA's response to them are provided below.

Recommendation 1: Adequately fund a statewide labeling program (e.g., MDA's "Certified Organic" or "Maryland's Best" label programs) to market Maryland-grown organic food to Maryland consumers.

Response: While additional U.S. Department of Agriculture grant funds have been made available and MDA has sought to work with producers and retail buyers directly to promote the program, the report concedes that limited staff and funding have limited MDA's ability to fully promote the program.

Recommendation 2: Encourage State institutions to develop contracts with State certified organic producers for their agricultural product needs through a pilot project in a public school or other institutional venue.

Response: Organic producers face many challenges, including insufficient volume to meet demand, inability to meet food safety requirements, and the limited seasonal availability of organic food conflicting with the timing of demand. MDA notes that it does offer farmers technical assistance in meeting egg safety regulations as well as broader food safety related compliance and audit requirements. The MDA report explains that modifications to the Department of General Services requirement that vendors have warehouse processing and packaging capability would assist both local and organic producers.

Recommendation 3: Educate non-organic farmers about the certification fee rebate program and other help available through workshops and mailings.

Response: MDA notes that it is implementing this recommendation.

Recommendation 4: Facilitate a series of meetings on specific Maryland organic product markets to aid in the development of these markets in collaboration with interested producer groups, other industry members, and non-profit organizations.

Response: MDA is in discussions with a food processor interested in organic certification for the processing and production of sweet corn, sweet peas, and lima beans. The amount of acreage needed to support the facility would essentially double the amount of organic acreage in Maryland. Other efforts include an organic dairy meeting opportunity in Spring 2005, planned meetings on supporting the emerging organic beef and livestock industry as well as fruit and vegetable producers.

2. Manure Use Work Plan for the Chesapeake Bay

Agriculture is a significant source of nutrients entering the Chesapeake Bay, with animal manure and poultry litter contributing about half of the bay watershed's agricultural nutrient load. Over the past year, the U.S. Environmental Protection Agency's Chesapeake Bay Program met with key stakeholders to develop strategies for building on existing efforts to reduce nutrient pollution from animal manure and poultry litter in the Chesapeake Bay watershed. In November 2005, a manure management strategy was adopted. This strategy outlined the four following opportunities for better managing manure nutrients to keep agriculture viable:

- Diet Changes – Reduce surplus animal manure and poultry litter nutrients by adjusting animal diets, with a primary focus on dairy operations, and a secondary focus on poultry and swine operations;
- New Markets and Technologies – Foster alternative uses for animal manure and poultry litter nutrients by building markets and technologies for manure and litter products that can be used for energy, fertilizers, soil amendments, or compost;
- Inventory – Develop a comprehensive inventory of manure and litter nutrient surpluses in the watershed; and
- Coordination – Coordinate manure management programs throughout the watershed to address the regional imbalances of manure and poultry litter surpluses.

The manure management strategy identifies specific implementation goals as well as specific programmatic commitments that the Chesapeake Bay Program intends to make. The specific goals are:

- By 2010, achieve a 20% reduction in phosphorus and nitrogen levels in manure in one-third of the watershed's dairy animals.
- By 2010, achieve at least a 30% reduction in total phosphorus in poultry manure through a combination of adjusting supplemental phosphorus levels in feeds and by adding phytase.¹
- By 2010, 20% of the total fertilizer, soil amendments, and compost used on state and federal lands will be composed of manure and litter from the Chesapeake Bay region.

Currently, MDA has several programs that seek to promote environmentally-sensitive use of manure and litter, including the Manure Transport Program and mandatory development of nutrient management plans. The fiscal 2007 allowance provides a total of \$1.4 million for MDA's Manure Transport Program, a \$750,000 or 115% funding increase.

¹ Phytase is used as an animal feed supplement to enhance nutritive value and it also results in less manure.

3. Maryland Agricultural Commission’s Listening Sessions

In response to the increasing pressures threatening the economic viability of agriculture in the State, in February 2005, Governor Robert L. Ehrlich, Jr. asked MDA and the Maryland Agricultural Commission (MAC) to spearhead the development of comprehensive policy recommendations for sustaining agriculture in Maryland. The first step in this process was a mail survey conducted by MDA in May 2005; the survey results served as a starting point, helping MAC get a sense of the major concerns. Because MAC felt that it was important to get stakeholders involved, the second step was a series of listening sessions to seek input on various subjects of importance to farmers. Seven listening sessions were held throughout the State in August 2005.

A preliminary review of the issues raised during the listening session process reveals that Maryland farmers are most concerned with profitability, agricultural land preservation, and advancing agriculture through better promotion, advertising, and education. The information developed from the listening session process will be used by MAC as it drafts the framework for a strategic plan to be discussed at an Agricultural Forum on February 13, 2006. Participants in the forum will then develop policy recommendations. A final report is expected in May 2006.

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 2005					
Legislative Appropriation	\$25,369	\$12,535	\$3,658	\$3,549	\$45,111
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	285	785	866	825	2,761
Reversions and Cancellations	-128	-1,289	-1,386	-800	-3,603
Actual Expenditures	\$25,526	\$12,031	\$3,138	\$3,574	\$44,269
Fiscal 2006					
Legislative Appropriation	\$23,114	\$15,920	\$4,319	\$3,615	\$46,968
Budget Amendments	203	300	0	0	503
Working Appropriation	\$23,317	\$16,220	\$4,319	\$3,615	\$47,471

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

Fiscal 2005 Budget Changes

MDA's general fund dedicated to operating functions increased by \$157,666. This change is due in part to the allocation of \$246,417 in cost-of-living adjustment general fund appropriation to State agencies as authorized in the fiscal 2005 budget bill (Budget Amendment 006-05) as well as the reversion of \$127,751 in unspent funding for medical insurance.

Special funds dedicated to operating functions decreased by \$503,868. The following special funds were brought in via budget amendment:

- \$258,464 for the State Board of Veterinary Medical Examiners to reflect its new authority to collect fees;
- \$200,000 to purchase a high performance liquid chromatograph for the Office of Plant Industries and Pest Management which performs intricate sample analysis; and
- \$140,000 to operate additional food inspection shifts requested by industry and necessitated by new meat and poultry inspection requirements.

These special fund increases were offset by \$1.3 million in cancellations. The major cancellations were in the following programs: Mosquito Control (\$272,097), Marketing and Agricultural Development (\$240,246), Maryland Agricultural Land Preservation Foundation administration (\$221,986), Weights and Measures (\$185,391), State Board of Veterinary Medical Examiners (\$93,874), and Forest Pest Management (\$83,023).

Federal funds dedicated to operating functions decreased by \$519,835. The following federal funds were brought in via budget amendment:

- \$415,002 for grants to implement accelerated conservation planning, application assistance, and Best Management Practice application at 23 of the State's 24 soil conservation districts;
- \$231,000 for a cooperative agricultural pest survey, Emerald Ash Borer eradication program, and a Sudden Oak Death survey; and
- \$100,308 for Avian Influenza surveillance, swine health protection, and implementation of Bovine Johne's Disease control efforts.

These federal fund increases were offset by \$1.4 million in cancellations. The major cancellations were in the following programs: Forest Pest Management (\$345,842), marketing and Agriculture Development (\$339,722), Resource Conservation Operations (\$327,338), Pesticide Regulation (\$99,884), and Animal Health (\$89,242).

Fiscal 2006 Budget Changes

General funds have increased by \$203,011 due to allocation of the 1.5% cost-of-living adjustment general fund appropriation to State agencies as authorized in the fiscal 2006 budget bill (Budget Amendment 004-06). Funds had been allocated in DBM and subsequently distributed to each agency.

The special fund appropriation has increased by \$300,100. This increase reflects the following budget amendments: \$137,000 for implementation of a direct services grants program that targets non-profit organizations working to strengthen rural families; and \$163,100 for a replacement vehicle and laboratory equipment.

Audit Findings

Audit Period for Last Audit:	September 1, 2000 – July 9, 2003
Issue Date:	March 2004
Number of Findings:	8
Number of Repeat Findings:	3
% of Repeat Findings:	60%
Rating: (if applicable)	

- Finding 1:** MDA did not fully use the security features available on the State’s Financial Management Information System (FMIS) to establish proper internal controls over purchases and disbursements.
- Finding 2:** MDA lacked appropriate documents to support certain contractual vendor payments totaling \$634,000 that were made during fiscal 2003.
- Finding 3:** MDA had not established adequate controls over cash receipts at four of the five locations reviewed.
- Finding 4:** MDA lacked adequate controls over non-cash credit adjustments recorded to its accounts receivable records.
- Finding 5:** MDA’s physical inventory and recordkeeping procedures were inadequate and not in accordance with the Department of General Services’ *Inventory Control Manual*.
- Finding 6:** MDA did not have a complete information technology recovery plan for recovering from disaster scenarios (for example, a fire).
- Finding 7:** MDA’s internal network was not adequately protected from security risks from network connections associated with the State’s FMIS Wide Area Network.
- Finding 8:** MDA lacked adequate internal controls over payroll.

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Department of Agriculture**

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	430.00	427.50	436.50	9.00	2.1%
02 Contractual	41.29	40.43	37.05	-3.38	-8.4%
Total Positions	471.29	467.93	473.55	5.62	1.2%
Objects					
01 Salaries and Wages	\$ 23,212,296	\$ 23,944,754	\$ 26,424,624	\$ 2,479,870	10.4%
02 Technical & Spec Fees	1,051,616	1,137,689	1,153,793	16,104	1.4%
03 Communication	636,672	808,075	750,848	-57,227	-7.1%
04 Travel	402,424	585,479	555,343	-30,136	-5.1%
06 Fuel & Utilities	977,407	940,793	1,071,793	131,000	13.9%
07 Motor Vehicles	1,063,618	988,804	1,210,742	221,938	22.4%
08 Contractual Services	5,016,282	5,293,306	6,380,143	1,086,837	20.5%
09 Supplies & Materials	1,688,979	1,490,235	1,715,542	225,307	15.1%
10 Equip - Replacement	875,320	484,978	319,789	-165,189	-34.1%
11 Equip - Additional	452,020	328,730	338,948	10,218	3.1%
12 Grants, Subsidies, and Contributions	8,248,892	10,677,577	17,323,786	6,646,209	62.2%
13 Fixed Charges	256,683	343,118	284,544	-58,574	-17.1%
14 Land & Structures	388,321	447,500	711,000	263,500	58.9%
Total Objects	\$ 44,270,530	\$ 47,471,038	\$ 58,240,895	\$ 10,769,857	22.7%
Funds					
01 General Fund	\$ 25,526,337	\$ 23,316,589	\$ 29,401,771	\$ 6,085,182	26.1%
03 Special Fund	12,031,417	16,220,230	20,118,885	3,898,655	24.0%
05 Federal Fund	3,138,284	4,319,384	4,852,899	533,515	12.4%
09 Reimbursable Fund	3,574,492	3,614,835	3,867,340	252,505	7.0%
Total Funds	\$ 44,270,530	\$ 47,471,038	\$ 58,240,895	\$ 10,769,857	22.7%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.

**Fiscal Summary
Department of Agriculture**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
01 Executive Direction	\$ 2,410,269	\$ 2,264,838	\$ 2,478,884	\$ 214,046	9.5%
02 Administrative Services	963,758	1,053,279	1,114,172	60,893	5.8%
03 Central Services	1,887,077	2,161,135	2,358,125	196,990	9.1%
04 Maryland Agricultural Commission	159,870	152,102	169,424	17,322	11.4%
05 Maryland Agricultural Land Preservation Foundation	1,073,857	1,502,944	1,925,174	422,230	28.1%
01 Office of the Assistant Secretary	114,100	147,651	171,291	23,640	16.0%
02 Weights and Measures	1,708,332	1,866,066	1,971,413	105,347	5.6%
03 Egg Inspection, Grading and Grain	1,359,948	1,352,338	1,546,254	193,916	14.3%
04 Maryland Agricultural Statistics Services	103,432	134,392	266,300	131,908	98.2%
05 Animal Health	3,656,029	3,256,653	3,934,945	678,292	20.8%
07 State Board of Veterinary Medical Examiners	207,892	326,026	357,850	31,824	9.8%
08 Maryland Horse Industry Board	152,457	157,708	345,886	188,178	119.3%
09 Aquaculture Development and Seafood Marketing	602,786	464,598	534,452	69,854	15.0%
10 Marketing and Agriculture Development	3,065,559	3,777,993	3,655,729	-122,264	-3.2%
11 Maryland Agricultural Fair Board	1,459,417	1,459,850	1,460,000	150	0%
12 State Tobacco Authority	5,381	8,734	13,460	4,726	54.1%
18 Rural Maryland Council	180,817	333,055	373,002	39,947	12.0%
19 MD Agricultural Education & Rural Development Fund	146,392	0	0	0	0%
01 Office of the Assistant Secretary	160,562	150,631	164,925	14,294	9.5%
02 Forest Pest Management	1,415,732	1,665,056	1,963,370	298,314	17.9%
03 Mosquito Control	3,166,589	2,932,673	3,138,670	205,997	7.0%
04 Pesticide Regulation	880,313	1,018,858	972,733	-46,125	-4.5%
05 Plant Protection	1,969,039	2,026,705	2,035,597	8,892	0.4%
06 Turf and Seed	877,032	960,894	977,568	16,674	1.7%
09 State Chemist	2,338,534	1,950,486	2,075,143	124,657	6.4%
01 Office of the Assistant Secretary	124,044	153,163	168,030	14,867	9.7%
02 Program Planning and Development	3,616,696	3,210,883	3,229,067	18,184	0.6%
03 Resource Conservation Operations	7,718,590	8,324,295	8,965,066	640,771	7.7%
04 Resource Conservation Grants	2,746,026	4,658,032	11,874,365	7,216,333	154.9%
Total Expenditures	\$ 44,270,530	\$ 47,471,038	\$ 58,240,895	\$ 10,769,857	22.7%

General Fund	\$ 25,526,337	\$ 23,316,589	\$ 29,401,771	\$ 6,085,182	26.1%
Special Fund	12,031,417	16,220,230	20,118,885	3,898,655	24.0%
Federal Fund	3,138,284	4,319,384	4,852,899	533,515	12.4%
Total Appropriations	\$ 40,696,038	\$ 43,856,203	\$ 54,373,555	\$ 10,517,352	24.0%
Reimbursable Fund	\$ 3,574,492	\$ 3,614,835	\$ 3,867,340	\$ 252,505	7.0%
Total Funds	\$ 44,270,530	\$ 47,471,038	\$ 58,240,895	\$ 10,769,857	22.7%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.