

**Department of Legislative Services**  
Maryland General Assembly  
2006 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 2

(The Speaker, *et al.*)Environmental Matters and  
AppropriationsEducation, Health, and Environmental Affairs and Budget  
and Taxation

**Agricultural Stewardship Act of 2006**

This bill generally implements the recommendations of the Agricultural Stewardship Commission. The bill modifies the existing agricultural land preservation certification program to include Priority Preservation Areas (PPAs); establishes an internship program; establishes a task force to study the tax structure related to farmers; establishes the intent of the General Assembly that the Governor provide additional funding for several existing programs; and mandates funding for specified existing programs.

The bill takes effect June 1, 2006.

**Fiscal Summary**

**State Effect:** Costs for the modified certification program could total \$50,100 in general funds and \$46,100 in special funds in FY 2007. The remaining general fund increase in FY 2007 (\$30.55 million) reflects legislative intent regarding funding increases over FY 2006 for various programs. The FY 2007 budget includes \$3.55 million of that increase. General fund increases based on legislative intent grow to \$36.75 million by FY 2011. Out-year general fund increases also include mandatory appropriations over FY 2006 totaling \$4.50 million in FY 2008, increasing to \$6.70 million in FY 2011; the FY 2007 budget includes \$1.50 million of that increase. Bond expenditures could increase by \$7.00 million in FY 2007, increasing to \$35.00 million in FY 2011, to implement intent regarding funding increases for the Maryland Agricultural Water Quality Cost Share Program. Higher education expenditures could increase to administer the internship program and provide agricultural education enhancements. Agricultural land transfer tax revenues could increase beginning in FY 2009.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	\$0	\$0	-	-	-
GF Expenditure	30.60	38.21	42.02	43.12	43.52
SF Expenditure	.05	.06	.06	.06	.07
Higher Ed Exp.	-	-	-	-	-
Bond Exp.	7.00	14.00	21.00	28.00	35.00
Net Effect	(\$37.65)	(\$52.26)	(\$63.08)	(\$71.18)	(\$78.59)

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

**Local Effect:** Beginning in FY 2009, certified counties would have to include a PPA element in their comprehensive plans in order to maintain certification; to the extent the bill results in a decrease in the number of certified counties, local agricultural land transfer tax revenues would decrease. Certified counties would be eligible for specified additional funding, if provided.

**Small Business Effect:** Meaningful.

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## Analysis

**Bill Summary:** Specifically, the bill:

- authorizes counties to include a PPA element in their local comprehensive plans;
- beginning in fiscal 2009, integrates the certification of PPA elements into the existing county agricultural land preservation certification program administered by the Maryland Department of Planning (MDP) and the Maryland Agricultural Land Preservation Foundation (MALPF);
- provides that, beginning in fiscal 2009, counties with certified agricultural land preservation programs, as modified by the bill, would be eligible for specified additional funds provided to MALPF;
- expands the allowable uses of the funds a certified county receives;
- makes other various changes to the certification program and related reporting requirements and requires MDP and MALPF to jointly adopt regulations regarding PPA certification by December 31, 2006;
- establishes an agriculture and natural resources internship program within the University of Maryland, College Park (UMCP);
- requires the Maryland Agricultural Commission to promote, and where possible, to establish internships with farms and businesses in their respective sectors;
- mandates funding for the Maryland Agricultural and Resource Based Industry Development Corporation (MARBIDCO) and the 24 Soil Conservation Districts (SCDs), as shown in **Exhibit 1**;

- establishes the intent of the General Assembly that the Governor increase or maintain funding for several programs, including the Maryland Agricultural Water Quality Cost Share Program (MACS), the Cover Crop Program, the Manure Transport Program, MALPF, MARBIDCO, the Maryland Cooperative Extension (MCE), the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDAF), and specified agricultural marketing and rural assistance programs, as shown in Exhibit 1;
- encourages the Governor to provide additional funding for the Maryland Department of the Environment's (MDE) Linked Deposit Program;
- authorizes MALPF to provide grants to MARBIDCO to facilitate the purchase of easements under the Critical Farms or Installment Purchase Agreement programs or for expenses related to the Next Generation Farmland Acquisition Program;
- requires agencies receiving additional funding under the bill to report to specified committees of the General Assembly on the impact of such increased funding;
- establishes the intent of the General Assembly that the Maryland Department of Agriculture (MDA) modify the Cover Crop Program to allow farmers to harvest small grains for biofuels;
- encourages UMCP to provide a greater focus on agriculture/extension education and establish a unique major;
- requires MDA to review the condition of its agricultural marketing program and information technology structure and, by September 29, 2006, submit a report to the Governor and the General Assembly on additional funding that may be needed;
- requires MDE and MDA to jointly review the status of MDE's Linked Deposit Program and, by September 29, 2006, submit a report to the Governor and the General Assembly on additional funding that may be needed; and
- establishes an Incentives for Agriculture Task Force to review and evaluate the overall State tax structure as it impacts agriculture and to identify any modifications to the tax structure that would help farmers be better stewards of the land while maintaining economic viability. The Department of Legislative Services (DLS) would provide staff support. The task force must report its preliminary findings and recommendations by December 1, 2006 and its final findings and recommendations by October 1, 2007.

**Exhibit 1**  
**Description of Funding Provisions in House Bill 2**  
(\$ in Millions)

<u>Program (Agency)</u>	<u>Fiscal 2006 Legislative Appropriation</u>	<u>Fiscal 2007 Legislative Appropriation</u>	<u>Funding Provisions in HB 2</u>
<i><b>Mandatory</b></i>			
MARBIDCO (capitalization)	\$0	\$1.0	\$3.0 million for FY 2008; \$3.5 million for FY 2009; and \$4.0 million annually for FY 2010 – 2020
Soil Conservation Districts (MDA)	\$7.3	\$7.8	\$8.8 million for FY 2008; \$9.2 million for FY 2009; \$9.6 million for FY 2010; and \$10.0 million for FY 2011 and each fiscal year thereafter
<i><b>Discretionary</b></i>			
MD Agricultural Water Quality Cost Share (MDA)	\$5.5	\$4.6	\$35.0 million increase, phased in over a five-year period (\$7.0 million increase per year)
Cover Crop Program (MDA) <sup>a</sup>	\$4.0	\$8.3 (includes \$3.15 in GFs)	\$3.0 million increase in GFs annually until \$14 million total is appropriated annually for the program
Manure Transport Program (MDA) <sup>b</sup>	\$0.3	\$0.7	\$0.7 million annually in State funding
MALPF (MDA) <sup>c</sup>	\$42.2	\$89.6	\$20.0 million in GFs annually
MARBIDCO (rural land acquisition and easement)	\$0	\$0	Up to \$5.0 million annually for rural land acquisition and easement, including \$5.0 million per year for two consecutive fiscal years for the Next Generation Farmland Acquisition Program
MD Agricultural Education and Rural Development Assistance (MDA)	\$0	\$0.15	Provide at least \$0.15 million annually in GFs
Maryland Cooperative Extension (UMCP)	\$17.4	\$18.4 <sup>d</sup>	\$2.0 million increase in GFs over FY 2006 legislative appropriation for new staff and a soil lab
Agricultural Marketing/Rural Assistance (MDA – Unit 12)	\$1.4	\$1.5	In FY 2008, general fund appropriation for specified programs should equal or exceed that provided in FY 2007
Linked Deposit Program (MDE)	\$3.0	\$3.0-4.0	Provide additional funds for FY 2008

<sup>a</sup> The FY 2006 legislative appropriation includes a \$1.0 million GF deficiency appropriation.

<sup>b</sup> Amounts shown do not include poultry company matching funds.

<sup>c</sup> No GFs in FY 2006 or FY 2007 budgets; intended increases would be GFs.

<sup>d</sup> FY 2007 legislative appropriation does not include any additional funds for new staff or a soil lab.

Source: Maryland Department of Agriculture, Maryland Department of the Environment, Department of Legislative Services

**Current Law:** Current law provides for various agricultural and resource-based industry programs, most of which are administered by MDA. Some of the existing programs addressed in the bill are administered under general authority; others are codified in statute. Funding for the existing programs addressed in the bill comes from a variety of sources and varies from year to year. Under Article 66B, counties are required to develop comprehensive plans; these plans are required to include several specified elements.

Current law provides for the assessment of an agricultural land transfer tax on agricultural land transferred within the State. The tax is collected by each county. In general, each county retains one-third of the total collections and transfers two-thirds via the Comptroller to MALPF. Counties that have their agricultural land preservation programs certified by MDP and MALPF generally retain three-quarters and transfer one-quarter to MALPF. Certified counties are also eligible for certain additional funding from MALPF.

**Background:** According to the Chesapeake Bay Program, in 2003, agriculture contributed 37% of Maryland's nitrogen loads, 42% of Maryland's phosphorus loads, and 70% of Maryland's sediment loads to the Chesapeake Bay. Other sources of nutrient and sediment pollution include point sources and urban/suburban lands. The General Assembly addressed the point source contribution with the creation of the Bay Restoration Fund in 2004. Agriculture is seen as one of the next greatest opportunities to improve bay water quality. Although recent changes to the Water Quality Improvement Act of 1998 have increased farmer compliance with the development and implementation of nutrient management plans, runoff from agricultural lands remains a concern.

During the 2005 interim, the Presiding Officers formed a joint legislative commission to examine and identify incentives to help farmers implement sound agricultural practices while helping to enhance the viability of farming in the State. The commission was charged with developing recommendations to be considered during the 2006 session. The commission's final report, released in January 2006, summarizes its findings and recommendations. The bill as introduced was a direct result of those recommendations.

## **State Expenditures:**

### ***Funding Provisions***

**Exhibit 2** illustrates the bill's mandatory and discretionary funding provisions as compared to the fiscal 2006 and fiscal 2007 legislative appropriations. Once fully phased in, the bill's intended funding levels represent an increase of \$78.5 million over fiscal 2006 legislative appropriations. The fiscal 2007 budget contains increases in funding for several of these programs.

**Exhibit 2**  
**Intended Annual Increases in Funding Over FY 2006 Levels**  
(\$ in Millions)

<b><u>Program (Agency)</u></b>	<b><u>FY 2006 Legislative Appropriation</u></b>	<b><u>FY 2007 Legislative Appropriation</u></b>	<b>Intended Increases in Annual Funding Over FY 2006</b>				
			<b><u>FY 2007</u></b>	<b><u>FY 2008</u></b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>
<i><b>Mandatory</b></i>							
MARBIDCO (capitalization)	\$0	\$1.0	n/a	\$3.0	\$3.5	\$4.0	\$4.0
SCDs (MDA)	\$7.3	\$7.8 <sup>a</sup>	n/a	\$1.5	\$1.9	\$2.3	\$2.7
<i><b>Subtotal</b></i>				<b>\$4.5</b>	<b>\$5.4</b>	<b>\$6.3</b>	<b>\$6.7</b>
<i><b>Discretionary</b></i>							
MACS (MDA)	\$5.5	\$4.6	\$7.0	\$14.0	\$21.0	\$28.0	\$35.0
Cover Crop Program (MDA) <sup>b</sup>	\$4.0	\$8.3 (includes \$3.15 in GFs)	\$3.0	\$6.0	\$9.0	\$9.2	\$9.2
Manure Transport Program (MDA) <sup>c</sup>	\$0.3	\$0.7	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4
MALPF (MDA) <sup>d</sup>	\$42.2	\$89.6	\$20.0	\$20.0	\$20.0	\$20.0	\$20.0
MARBIDCO (rural/young farmers)	\$0	\$0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
MAERDAF (MDA)	\$0	\$0.15	\$0.15	\$0.15	\$0.15	\$0.15	\$0.15
MCE (UMCP)	\$17.4	\$18.4 <sup>e</sup>	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0
Unit 12 (MDA) <sup>f</sup>	\$1.4	\$1.5	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0
Linked Deposit <sup>g</sup>	\$3.0	\$3.0 – 4.0	\$0.0	---	\$0.0	\$0.0	\$0.0
<i><b>Subtotal</b></i>			<b>\$37.6</b>	<b>\$47.7</b>	<b>\$57.6</b>	<b>\$64.8</b>	<b>\$71.8</b>
<b>Total</b>			<b>\$37.6</b>	<b>\$52.2</b>	<b>\$63.0</b>	<b>\$71.1</b>	<b>\$78.5</b>

<sup>a</sup> Includes increase of \$0.2 million in GFs for six new field staff.

<sup>b</sup> The FY 2006 legislative appropriation includes a \$1.0 million GF deficiency appropriation. Total funding from Bay Restoration Fund is estimated at \$4.8 million annually. The increases in the out-years are based on the original FY 2006 legislative appropriation, which did not include any GFs, and do not reflect any federal funds.

<sup>c</sup> Amounts shown do not include poultry company matching funds.

<sup>d</sup> No GFs in FY 2006 or FY 2007 budgets; intended increases would be GFs.

<sup>e</sup> FY 2007 legislative appropriation does not include any additional funds for purposes specified in bill.

<sup>f</sup> Unit 12 programs include Agricultural Statistics, Aquaculture and Seafood Marketing, Marketing and Agricultural Development, the Rural Maryland Council (RMC), and MAERDAF. Amounts shown above do not include funds for MAERDAF or RMC's FY 2007 \$1.0 million grant for MARBIDCO.

<sup>g</sup>The bill encourages the Governor to include additional funding in FY 2008 but does not specify an amount. The program is funded through MDE's Water Quality Revolving Loan Fund. Amounts included as FY 2006 and FY 2007 legislative appropriations reflect anticipated allocations.

Source: Maryland Department of Agriculture, Maryland Department of the Environment, Department of Legislative Services

### *Mandatory Funding*

The mandatory funding provisions, which would begin in fiscal 2008, relate to MARBIDCO and the SCDs. The mandated increases over the fiscal 2006 legislative appropriations would total \$4.5 million in fiscal 2008, increasing to \$6.7 million in fiscal 2011. The fiscal 2007 budget includes approximately \$1.5 million of that increase.

### *Discretionary Funding*

In addition to the bill's mandated appropriations, the bill provides that, to the extent funds are available, it is the intent of the General Assembly that the Governor provide additional funding for several existing programs. The bill does not *require* the Governor to increase funding for these programs. The discretionary increases over the fiscal 2006 legislative appropriations would total \$37.6 million in fiscal 2007, increasing to \$71.8 million in fiscal 2011. The fiscal 2007 budget includes approximately \$3.5 million of that increase.

Although the bill specifies that the funding source for many of the bill's funding provisions would be general funds, a funding source is not identified for all of the provisions. It is assumed that general funds would be used to comply with the bill's mandatory appropriations provisions. With respect to the discretionary funding provisions, it is assumed that general funds would be used for all programs except MACS, which would be funded with GO bonds, and the Linked Deposit Program, which could be funded with a combination of general, special, and federal funds.

It is assumed that affected agencies could handle the bill's reporting requirements relating to any increase in funding using existing budgeted resources.

Legislative Services notes that, if the Governor provides additional funding in accordance with the bill's intent, the administrative expenditures of some of the affected programs could increase. For example, MDA advises that, if the Governor were to provide additional funds for MACS and MALPF, additional staff would likely be needed to handle the increased workload.

### ***Mandatory Policy Provisions***

*Maryland Department of Planning:* General fund expenditures within MDP could increase by an estimated \$50,100 in fiscal 2007, which assumes an implementation date of October 1, 2006. This estimate reflects the cost of hiring one planner to administer the PPA portion of the certification program within MDP and review PPA elements in local comprehensive plans. It includes the salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salary and Fringe Benefits	\$44,905
Equipment/Operating Expenses	<u>5,195</u>
<b>Total FY 2007 MDP Expenditures</b>	<b>\$50,100</b>

Future year expenditures reflect: (1) a full salary with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

*Maryland Department of Agriculture:* Special fund administrative expenditures within MALPF could increase by an estimated \$46,103 in fiscal 2007, which assumes an implementation date of October 1, 2006. This estimate reflects the cost of hiring one administrative officer to certify PPAs in conjunction with MDP. It includes the salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salary and Fringe Benefits	\$40,533
Equipment/Operating Expenses	<u>5,570</u>
<b>Total FY 2007 MALPF Admin. Expenditures</b>	<b>\$46,103</b>

Future year administrative expenditures reflect: (1) a full salary with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

The bill provides that, beginning in fiscal 2009, counties with certified programs would be eligible for specified additional funding provided to MALPF. Although the bill establishes the intent of the General Assembly that \$20.0 million in general funds be provided to MALPF and that MALPF could use any portion of that additional funding for a PPA program, among other things, the bill does not mandate such funding. In the absence of additional funds, funding for such easements would simply compete under MALPF's existing easement acquisition program.

It is assumed that MDA could handle the bill's reporting requirements with existing budget resources.

*University System of Maryland/University of Maryland, College Park:* The bill establishes an agriculture and natural resources internship program within UMCP. The bill does not specify how many students would be required to participate in the program. UMCP advises that costs could increase to administer the internship program and to reimburse students for travel and housing expenses. Because the number of students that would participate in the program is unknown, however, a reliable estimate of any increase in costs cannot be made at this time.



*Incentives for Agriculture Task Force:* Any expense reimbursements for task force members and staffing costs for DLS are assumed to be minimal and absorbable within existing budgeted resources.

*Maryland Department of the Environment:* It is assumed that MDE could handle the bill's reporting requirement regarding its Linked Deposit Program with existing budgeted resources.

### ***Discretionary Policy Provisions***

The bill establishes the intent of the General Assembly that MDA modify its Cover Crop Program to allow farmers to harvest small grains for biofuels; the bill specifies that participants that harvest such crops should receive a reduced cost share payment per acre. According to MDA, it plans on implementing such a cover crop harvest program in fiscal 2007.

The bill also establishes the intent of the General Assembly that UMCP provide a greater focus on agriculture and extension education and establish a unique major in this area. USM advises that, if UMCP were to implement this provision, it would cost approximately \$300,000 in fiscal 2007 to implement the new academic major, which includes the cost to hire three faculty members and one administrative assistant. Future year expenses would reflect annualization, inflation, and ongoing operating expenses. The Maryland Higher Education Commission advises that it could handle the review and approval of the new program proposal with existing resources.

**State Revenues:** Because certified counties retain a greater portion of the agricultural land transfer tax than uncertified counties, to the extent any counties that are currently certified cannot meet the bill's requirements regarding PPAs, State agricultural land transfer tax revenues would increase.

**Local Fiscal Effect:** According to MDP and the Maryland Association of Counties, counties already have extensive land preservation policies and programs; in fact, several already have de facto preservation areas. Accordingly, counties that choose to include PPA elements in their local comprehensive plans should be able to do so using existing resources.

Beginning in fiscal 2009, counties that already have certified agricultural land preservation programs would have to include a PPA element in their comprehensive plans in order to remain certified; likewise, any counties wishing to become certified would also have to meet this new requirement. According to MDP, currently, the following counties have certified programs: Anne Arundel, Baltimore, Calvert, Carroll, Cecil, Charles, Frederick, Harford, Howard, Kent, Montgomery, Queen Anne's, St. Mary's, Talbot, Washington, Wicomico, and Worcester. The impact of the bill's changes on the total number of certified counties cannot be predicted. However, according to MDP, the number of certified counties is more likely to decrease under the bill than

increase. Because certified counties are allowed to retain a greater portion of the agricultural land transfer tax for local easement purchases, to the extent any counties that are currently certified cannot meet the bill's requirements regarding PPAs, local agricultural land transfer tax revenues would decrease.

Beginning in fiscal 2009, counties with certified programs would be eligible for specified additional funding provided to MALPF. In the absence of any additional funds, funding for such easements would simply compete under MALPF's existing easement acquisition program.

In addition, certified counties would be able to use their certification funds for additional uses, including the purchase of easements in their PPAs, a critical farms program approved by MALPF, an installment purchase agreement program approved by MALPF, or the Next Generation Farmland Acquisition Program approved by MALPF.

**Small Business Effect:** Most farms are small businesses. According to the 2002 Census of Agriculture, there were 12,198 farms in Maryland covering just over 2 million acres of land. In 2002, the market value of agricultural products sold in Maryland totaled nearly \$1.3 billion. While Maryland farms contribute greatly to the economy, the viability of Maryland agriculture is currently threatened. Decreasing farm profitability and skyrocketing property values in the region are putting farmers under more pressure than ever to sell their farms to developers. This bill is intended to help farmers be better stewards of the land while maintaining economic viability.

MDP advises that the PPA provisions are intended to help protect farmers from conflicts created by suburban development. According to MDA, PPAs have the potential to benefit farming operations by instituting better land preservation policies to help support long-term success at preservation efforts. The establishment of an internship program is intended to help maintain and create resource-based businesses. Any additional funding provided for the various agricultural and resource-based industry programs will also help farmers maintain viability and encourage new farmers to enter into the industry. This, in turn, will benefit small businesses that supply goods and services to farmers as well as those involved in agri-tourism.

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 5 (Senator Miller, *et al.*) – Education, Health, and Environmental Affairs and Budget and Taxation.

**Information Source(s):** Maryland Department of Agriculture, Maryland Department of Planning, University System of Maryland, Maryland Agricultural and Resource Based Industry Development Corporation, Maryland Higher Education Commission, Maryland

Association of Counties, U.S. Department of Agriculture, Department of Legislative Services

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