

L00A
Department of Agriculture

Operating Budget Data

(\$ in Thousands)

	FY 06	FY 07	FY 08	FY 07-08	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$24,813	\$29,521	\$32,262	\$2,741	9.3%
Special Fund	15,757	20,605	21,374	769	3.7%
Federal Fund	3,887	5,608	4,908	-700	-12.5%
Reimbursable Fund	<u>3,244</u>	<u>3,867</u>	<u>3,910</u>	<u>43</u>	<u>1.1%</u>
Total Funds	\$47,701	\$59,602	\$62,454	\$2,852	4.8%

- The Maryland Department of Agriculture (MDA) submitted a fiscal 2007 budget deficiency request for \$0.5 million in general funds for the Cooperative Gypsy Moth Suppression Program, which would replace decreasing federal funds.
- MDA's fiscal 2008 allowance exceeds the fiscal 2007 working appropriation by \$2.9 million, or 4.8%. This increase is primarily due to a 9.3% increase in general funds. However, adjusting for the one-time health insurance cost savings, MDA's underlying budget growth is \$4.5 million, or 7.7%.
- MDA's \$32.3 million fiscal 2008 general fund allowance is \$2.7 million, or 9.3%, more than the fiscal 2007 working appropriation. This significant change reflects the following funding increases: \$2.0 million for the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) and \$1.0 million for Soil Conservation District (SCD) positions and operations.
- The \$21.4 million fiscal 2008 special fund allowance is \$768,500, or 3.7%, more than the fiscal 2007 working appropriation. The majority of this increase is \$649,000 for infrastructure grants and administration in the Tobacco Crop Conversion Program, \$512,400 for "Hulless Barley" and other commodity cover crops, and \$259,600 for increased Maryland Agricultural Land Preservation Foundation appraisal and settlement costs. These increases are partially offset by decreases of \$201,097 due to decreased chemical costs and reduced spraying for mosquitoes and \$200,000 for less cost matching with counties since less federal funding is available to spray for gypsy moths.
- Federal funds decrease in the allowance by \$699,683, or 12.5% relative to the fiscal 2007 working appropriation. Decreases of \$335,500 for dairy herd grants and \$222,000 for gypsy moth funding account for the majority of the federal fund decrease.

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

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Personnel Data

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>
Regular Positions	427.50	435.50	447.50	12.00
Contractual FTEs	<u>35.50</u>	<u>42.25</u>	<u>46.50</u>	<u>4.25</u>
Total Personnel	463.00	477.75	494.00	16.25

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	31.64	7.03%
Positions Vacant as of 12/31/06	37.50	8.60%

- The fiscal 2008 allowance provides for 447.5 regular positions, a net increase of 12 positions from the fiscal 2007 working appropriation. The allowance reflects the proposed addition of 12 new soil conservation positions in the Office of Resource Conservation to help meet the legislatively mandated goal of 110 Soil Conservation District field positions, which will be used to implement the Cover Crop, Manure Transport, and Maryland Agricultural Cost Share programs. A fiscal services position is also included in the allowance which is offset by the reduction of one position in the Turf and Seed program.
- MDA’s turnover rate of 7.03% is a 34.4% increase from the fiscal 2007 working appropriation. To achieve this turnover rate in fiscal 2008, it will be necessary for MDA to maintain 31.46 vacancies.

Analysis in Brief

Issues

Emerald Ash Borer on the Rise: The emerald ash borer, a small green insect that has killed over seven million ash trees in Michigan alone, has re-emerged in Maryland. Ash trees are a preferred urban shade tree and are also a foundation of the nursery business, which means the economic losses could be high if the emerald ash borer expands beyond its current Prince George’s County infestation. **The Department of Legislative Services (DLS) recommends that MDA discuss what is being done to reduce the likelihood that invasive plant pests are brought into Maryland (including efforts to enforce product labeling laws), what can be done to stop the spread of the emerald ash borer (including a burn-where-you-buy firewood campaign), and how the emerald ash borer monitoring effort could be improved.**

Agricultural Stewardship Funding Comes through for MARBIDCO and Soil Conservation Districts: Chapter 289 of 2006 (Agricultural Stewardship Act of 2006) was an agricultural development package that implemented the recommendations of the Agricultural Stewardship Commission. The bill had two significant funding mandates: MARBIDCO capitalization (\$2.0 million) and Soil Conservation District position funding (\$1.0 million). **DLS recommends that MARBIDCO comment on what level of risk it anticipates with its loan programs and the likelihood of timely loan repayment; the reception its rural economic development model has received from commercial lending institutions, county economic development departments, local chambers of commerce and the agricultural/resource-based industry community; and whether the necessary infrastructure is or will be available to facilitate production and distribution of the products the loans are intended to finance. DLS recommends that MDA discuss why 10 of the SCD field positions are vacant despite MDA’s goal to increase the number of SCD field positions to 110 and how MDA prioritizes the filling of its vacant positions.**

Are Farm Operations Still Complying with Nutrient Management?: MDA began enforcing the Water Quality Improvement Act (WQIA) in the middle of 2005 and has had success in both bringing farm operations into compliance and identifying land that is no longer actively farmed. However, once MDA has worked through the operations that are not in compliance, it still needs to go back and enforce the compliance for the operations that were originally in compliance and identify any farm operations not originally identified for compliance. **DLS recommends that MDA discuss how many additional farm operations have not yet been identified as eligible for nutrient management plans; what inhibits farmers from complying with the WQIA requirements and how this situation may be improved; and what may be done to leverage the compliance resources currently available at MDA.**

Agriculture Recommendations Report Not Forthcoming: Fiscal 2007 budget bill language required MDA to submit a report that compared and analyzed the relationship between the State’s fiscal 2007 legislative appropriation and the budgetary and programmatic recommendations released in calendar 2006 by the Agricultural Stewardship Commission and the Maryland Agricultural Commission. **DLS recommends that MDA brief the committees about why the required report was not submitted in response to the fiscal 2007 budget bill language. MDA should present a synopsis of what would have been included in the report had it been completed.**

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Recommended Actions

	<u>Funds</u>
1. Increase turnover for 12 new Soil Conservation District positions to 25%.	\$ 90,264
Total Reductions	\$ 90,264

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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. In fiscal 2004, the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) was created within MDA.

MDA's primary goals are:

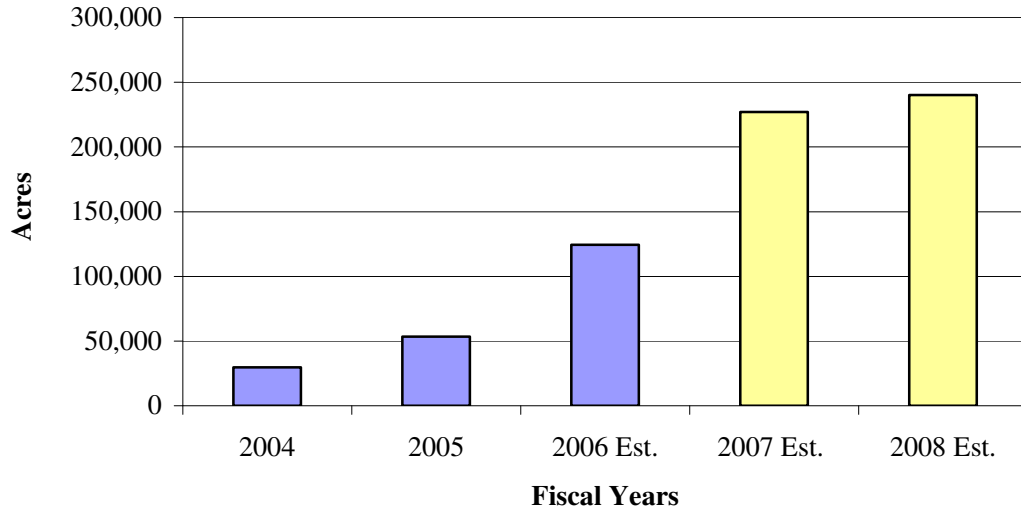
- to promote profitable production, use, and sale of Maryland agricultural products;
- to protect the health of the public, plant, and animal resources in Maryland;
- to preserve adequate amounts of productive agricultural land and woodland in Maryland;
- to provide and promote land stewardship, including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

Performance Analysis: Managing for Results

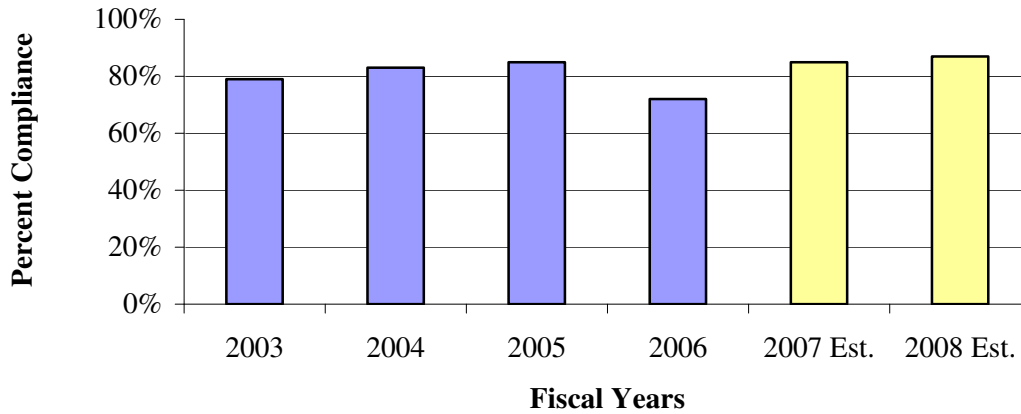
MDA's fiscal 2008 Managing for Results submission indicates moderating levels of activity in three program areas. **Exhibit 1** presents data on three performance measurements that describe progress in these three program areas. The data provided in this exhibit indicate the following trends:

- leveling off of projected increases in cover crop acres due to limited general funds and Bay Restoration Fund revenue relative to the demand for cover crop funding;
- increasing compliance with pesticide laws and regulations since fiscal 2006 but overall a steady trend; and
- leveling off of reductions in pounds of nitrogen and phosphorus loading into the Chesapeake Bay.

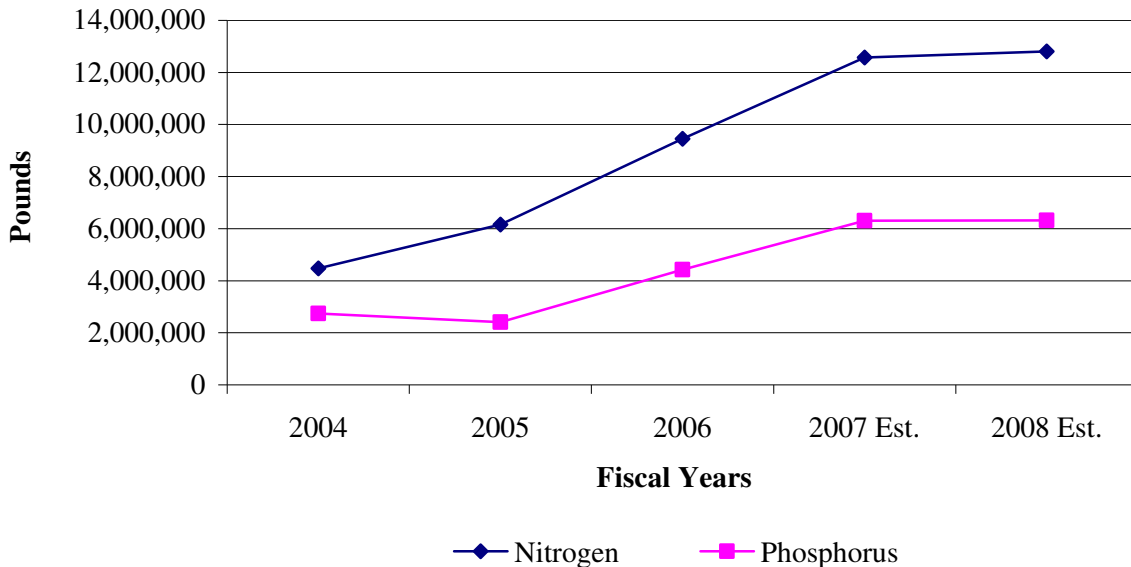
**Exhibit 1
Acres of Cover Crops Planted**



Compliance with Pesticide Laws and Regulations



MDA Programs: Reduction in Nutrient Loading



Source: Governor's Budget Books, Fiscal 2006-2008

The Department of Legislative Services (DLS) recommends that MDA discuss what factors have resulted in a leveling off of estimated cover crop acres, what actions need to be taken to increase compliance with pesticide laws and regulations, and why reductions in pounds of nitrogen and phosphorous loading into the Chesapeake Bay are expected to plateau.

Fiscal 2007 Actions

Proposed Deficiency

The Governor has submitted a deficiency appropriation for the fiscal 2007 operating budget, which would increase MDA's general fund appropriation by \$500,000. The general funds would replace lost federal funds for gypsy moth suppression (the federal government has shifted its attention to containment to make sure that the gypsy moth does not move into the Midwest) and would be allocated similarly to the original federal fund appropriation. The deficiency appropriation would be allocated as follows:

- \$411,895 for salaries, wages, and fringe benefits;
- \$33,105 for contractual services;
- \$32,500 for supplies and materials;
- \$10,000 for travel;

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- \$6,500 for communication; and
- \$6,000 for motor vehicle operation and maintenance.

MDA advises that 48,482 acres in 12 different counties have been identified as requiring spraying for gypsy moths in fiscal 2007. Of the 48,482 acres identified for spraying in fiscal 2007, Garrett County and Frederick County have been identified as needing over half of the acres at 13,698 and 13,597 acres respectively.

According to the Department of Natural Resources estimates, approximately \$38.6 million worth of oak hardwood lumber could be lost over the next couple of years in Garrett County if gypsy moth suppression is not conducted in a timely manner. Garrett County had no significant gypsy moth defoliation between calendar 1999 and 2005; however, it had 15,422 acres of defoliation in calendar 2006, which is 98% of all gypsy moth defoliation in that year and is the highest defoliation since 25,194 acres were defoliated in Allegany County in calendar 2001. With the potential loss of so many oak trees comes the possibility of increased fire hazard, soil loss, and overall forest habitat loss.

Governor's Proposed Budget

MDA's fiscal 2008 allowance exceeds the fiscal 2007 working appropriation by \$2.9 million, or 4.8%. This increase is primarily due to a 9.3% increase in general funds as shown in **Exhibit 2**.

Overall, MDA's personnel expenses decrease \$276,000 in the fiscal 2008 allowance. This decrease is primarily due to a one-time health insurance cost decline of \$1.2 million, which is partially offset by \$578,000 for 12 new Soil Conservation District field positions and a fiscal services position, \$455,000 for employee retirement contributions, and \$302,000 for other forms of employee compensation.

Programmatic changes in MDA's fiscal 2008 allowance result in a \$3.1 million increase. In terms of MDA's goal to promote profitable production, use, and sale of State agricultural products, MDA's allowance increases \$2.0 million for legislatively mandated Maryland Agricultural and Resource-Based Industry Development Corporation funding, which is MDA's single largest funding increase. Also in terms of this goal, the allowance increases \$659,000 for education about and promotion of agricultural products, businesses, and services under the Tobacco Crop Conversion Program. The land stewardship goal is addressed by \$512,000 for cover crop grants for "Hulless Barley" and other commodity cover crops, \$259,000 for appraisal and settlement cost increases in the Maryland Agriculture Land Preservation Fund program, and \$250,000 to supplement Soil Conservation District operating funds.

Significant decreases in the budget relate to MDA's goal to provide health, safety, and economic protection for customers. Projections of lower West Nile Virus virulence accounts for a \$201,000 decrease and a \$200,000 decrease in gypsy moth matching funds from counties is due to the anticipation of spraying fewer acres since federal funds have decreased. This decrease in federal funds has led MDA to request a deficiency appropriation in fiscal 2007; it will need to be addressed in fiscal 2008 as well.

Exhibit 2
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>Reimb. Fund</u>	<u>Total</u>
2007 Working Appropriation	\$29,521	\$20,605	\$5,608	\$3,867	\$59,602
2008 Governor's Allowance	<u>32,262</u>	<u>21,374</u>	<u>4,908</u>	<u>3,910</u>	<u>62,454</u>
Amount Change	\$2,741	\$769	-\$700	\$43	\$2,852
Percent Change	9.3%	3.7%	-12.5%	1.1%	4.8%

Where It Goes:

Personnel Expenses

New positions for Soil Conservation Districts (12) and fiscal services (1).....	\$578
Employee retirement contributions.....	455
Increments and other compensation	302
Social Security and Medicare contributions	85
Workers’ compensation premium assessment.....	47
Other fringe benefit adjustments	20
Health insurance costs decline due to one-time savings.....	-1,246
Turnover adjustments	-467
Abolished position in Turf and Seed program.....	-50

Other Changes

To promote profitable production, use, and sale of State agricultural products

MARBIDCO's mandated funding increase	2,000
Infrastructure grants and administration in Tobacco Crop Conversion Program	659

To provide and promote land stewardship

Cover crop grants for hulless barley and other commodity cover crops	512
MALPF appraisal and settlement cost increases	259
Soil Conservation Districts operations funds	250

To provide health, safety, and economic protection for consumers

Mosquito spraying reduced due to lower West Nile Virus projections	-201
Reduced gypsy moth matching funds from counties due to lower federal funds.....	-200

Promote State Agriculture

Other adjustments	-151
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Total **\$2,852**

MALPF: Maryland Agriculture Land Preservation Foundation

MARBIDCO: Maryland Agriculture and Resource-Based Industry Development Corporation

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

Cover Crop Funding

Cover crop funding in the fiscal 2008 allowance increases by \$578,323 over the fiscal 2007 working appropriation as shown in **Exhibit 3**. However, \$240,000 of this increase will be for planting a “Hulless Barley” commodity cover crop and thus will not increase the overall cover crop acreage. In general, the difference between cover crops and commodity cover crops is that cover crops are plowed under at the end of the winter planting cycle while commodity cover crops are harvested and sold.

MDA’s fiscal 2007 appropriation for cover crops was \$8.2 million. Farmers actually requested 448,979 acres of cover crops, which MDA estimated would have cost \$17.2 million. Taking into account limited funding and attrition from the program, MDA approved contracts for 290,000 acres, or approximately 40% of the acres requested by farmers. Of the 290,000 acres in approved contracts, only 243,000 acres have actually been “certified” as planted as of December 2006. This breaks down to 177,000 traditional cover crop acres for \$7,230,000 and 66,000 commodity cover crop acres for \$1,320,000 – a total of \$8.6 million.

MDA estimates that by June 2007 the actual number of cover crop acres to be planted by farmers and paid for by the State will be 233,490 acres (approximately 81% of the original approved contracts) at a cost of \$8.2 million. Therefore, MDA believes that the fiscal 2007 cover crop appropriation will be sufficient.

**Exhibit 3
Cover Crop Funding
Fiscal 2007-2008**

<u>Type of Cover Crop</u>	<u>Fund</u>	<u>2007 Working</u>	<u>2008 Allowance</u>
Cover crop	Special Fund (Bay Restoration Fund)	\$4,656,982	\$4,672,905
Cover crop	Reimbursable Fund (EPA pass-through grants)	250,000	300,000
Cover crop	General Fund	750,000	710,000
Tributary strategy cover crop	General Fund	1,400,000	1,790,000
Tributary strategy commodity cover crop	General Fund	1,000,000	650,000
Tributary strategy commodity cover crop	Special Fund (Chesapeake Bay Trust and MD Grain Producers grants)	0	512,400
Targeted watershed cover crop	Reimbursable Fund (EPA and DNR)	160,000	160,000
Total – Cover Crop Funding		\$8,216,982	\$8,795,305
Funding by Fund Type	General Fund	\$3,150,000	\$3,150,000
	Special Fund	4,656,982	5,185,305
	Reimbursable Fund	410,000	460,000
Total – Funding by Fund Type		\$8,216,982	\$8,795,305

DNR: Department of Natural Resources
EPA: Environmental Protection Agency

Source: Governor’s Budget Books, Fiscal 2007-2008

Issues

1. Emerald Ash Borer on the Rise

The emerald ash borer, a small green insect that has killed over seven million ash trees in Michigan alone, has re-emerged in Maryland. Ash trees are a preferred urban shade tree and are also a foundation of the nursery business, which means the economic losses could be high if the emerald ash borer expands beyond its current Prince George's County infestation.

First found in Michigan in 2002, the emerald ash borer came to Prince George's County in 2003 in an illegal ash tree sale perpetrated by a Michigan nursery. The Michigan nursery both broke a prohibition on sales of Michigan ash trees and fraudulently labeled the trees as having a Tennessee origin. Upon MDA's discovery of the emerald ash borer in late 2003, a half-mile quarantine followed by an eradication and monitoring effort was conducted which was believed to have been successful. However, 2 of the initial 121 infected ash trees sold before the quarantine could not be tracked to customers, and these trees are believed to be one potential source of the recent emerald ash borer outbreak. Another likelihood is that emerald ash borer adults flew beyond the original quarter mile radius and infested trees that were not identified and destroyed in the fiscal 2004 eradication project.

The U.S. Department of Agriculture is intent upon eradicating the emerald ash borer before it can spread beyond Prince George's County. Federal money that was originally allocated to Midwest eradication efforts has now been re-directed to Maryland since the emerald ash borer has overwhelmed the Midwest eradication campaign and has forced a retrenchment to a containment policy. A fiscal 2007 budget amendment brought in \$3,560,000 in federal funds for emerald ash borer eradication.

Timely eradication of the emerald ash borer is critical because of its April emergence cycle. MDA went to the Board of Public Works in February to contract out the second and third phases of the emerald ash borer eradication (using the \$3,560,000 federal fund appropriation) as follows:

- First phase – identify all of the outbreak areas and mark all of the infected trees;
- Second phase – develop a tree grinding area (State tobacco house in Cheltenham); and
- Third phase – log and grind the infected trees (began at the end of December).

Beyond the eradication phase, MDA will need to engage in monitoring, which has yet to receive funding in fiscal 2008.

The Department of Legislative Services recommends that MDA discuss what is being done to reduce the likelihood that invasive plant pests are brought into Maryland (including efforts to enforce product labeling laws), what can be done to stop the spread of the emerald ash borer (including a burn-where-you-buy firewood campaign), and how the emerald ash borer monitoring effort could be improved.

2. Agricultural Stewardship Funding Comes through for MARBIDCO and Soil Conservation Districts

Chapter 289 of 2006 (Agricultural Stewardship Act of 2006) was an agricultural development package that implemented the recommendations of the Agricultural Stewardship Commission. The bill had two significant funding mandates:

- MARBIDCO capitalization (\$2 million); and
- Soil Conservation District funding to increase field personnel (\$1.0 million).

MARBIDCO

MARBIDCO is a quasi-public development corporation budgeted under MDA. It was created in 2004 and received its first appropriation (\$1 million) in fiscal 2007. As of January 2007, it began operations with the hiring of an executive director. As a result of the Agricultural Stewardship Act of 2006, MARBIDCO is budgeted at \$3 million in fiscal 2008, and funding will increase to \$3.5 million in fiscal 2009 and then \$4 million in fiscal 2010 through 2020. By fiscal 2020, it is expected to function largely as a self-sufficient revolving loan fund.

MARBIDCO's mission is to help Maryland's farm, forest, and seafood businesses achieve sustainable viability and profitability now and into the future. The program has two main focuses: rural business development assistance and rural land preservation facilitation. The rural business development assistance will begin in spring 2007 and will be conducted through four low interest loan and rural business development programs. Details and fiscal 2007 capitalization for these loans and development programs are as follows:

- **Maryland Resource-Based Industry Financing Fund** – low interest loan financing up to 50% (requires a 50% commercial lender match) for farms and resource-based businesses to purchase land/equipment for production/processing activities, or to finance environmental/water-quality enhancement projects (\$300,000);
- **Rural Business Energy Efficiency Loan Fund** – facilitation of low interest loans for farms and resource-based businesses to purchase energy efficient equipment (\$250,000);
- **Rural Business Working Capital Fund** – low interest loans to purchase working capital and equipment by farms and resource-based businesses located in 1 of the 18 rural counties and that will result in the creation of at least one new job (U.S. Department of Agriculture – \$95,000, MARBIDCO – \$50,000); and
- **Maryland Farm and Producer Viability Program** – provision of business plan development assistance via a Request for Proposals process to select four firms (\$60,000).

In addition, MARBIDCO is developing three rural land preservation facilitation programs, which are as follows:

- **Installment Purchase Agreements** – self-funded (funding from the Maryland Agricultural Land Preservation Fund) and leveraged (funding from future revenues) proactive easement purchase agreements with 15- to 40-year annual tax free interest payments and a final balloon payment to landowners (the self-funded version will be available in fiscal 2007 and the leveraged version will begin when legislation is passed designating a dedicated funding source);
- **Critical Farms** – interim financing for agricultural preservation easements on farms under imminent threat of development (legislation will most likely be introduced in the 2008 session); and
- **Next Generation Farmland Acquisition** – purchase of an option on development rights from young farmers to provide them with the equity or cash flow needed for farm mortgage loan approval (no funding identified in either fiscal 2007 or 2008).

DLS recommends that MARBIDCO comment on what level of risk it anticipates with its loan programs and the likelihood of timely loan repayment; the reception its rural economic development model has received from commercial lending institutions, county economic development departments, local chambers of commerce and the agricultural/resource-based industry community; and whether the necessary infrastructure is or will be available to facilitate production and distribution of the products the loans are intended to finance.

Soil Conservation Districts

The second funding mandate in the Agricultural Stewardship Act of 2006 was to provide \$1 million in additional funding for the Soil Conservation Districts (SCDs) in fiscal 2008.

Fiscal 2008 funding for SCDs has been divided between field positions and operating support. Twelve new general fund positions have been authorized in the budget, which will bring the total general funded field positions up to 99.5. However, of these 99.5 SCD field positions, 10 are vacant. In addition, MDA reports that some of the new fiscal 2008 positions may not be filled because of salary concerns. The fiscal 2008 allowance provides sufficient funding to fill the positions immediately upon the beginning of the new fiscal year.

DLS recommends that MDA discuss why 10 of the SCD field positions are vacant despite MDA’s goal to increase the number of SCD field positions to 110 and how MDA prioritizes the filling of its vacant positions.

3. Are Farm Operations Still Complying with Nutrient Management?

According to the federal Chesapeake Bay Program’s model, in 2005, 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 70% of the sediment loads. Under the Water Quality

Improvement Act (WQIA) of 1998, farmers that have more than \$2,500 in revenue or more than eight animal units are required to have nutrient management plans developed and implemented by specific dates.

MDA began enforcing the WQIA in the middle of 2005 and has had success in both bringing farm operations into compliance and identifying land that is no longer actively farmed. However, once MDA has worked through the operations that are not in compliance, it still needs to go back and enforce the compliance for the operations that were originally in compliance and identify any farm operations not originally identified for compliance.

Current Status of Compliance

Exhibit 4 shows nutrient management plan compliance levels as of December 31, 2006, which is calendar 2006 data. This data reflects plans developed by the private sector, individual farmers, and cooperative extension staff. MDA estimates that plans are required for 6,691 farms covering approximately 1.33 million acres. To date, MDA has received 6,044 plans for the management of 1.25 million acres.

Exhibit 4
Nutrient Management Program Compliance
(As of December 31, 2006)

	<u>Total Eligible</u>	<u>In Compliance</u>	<u>Out of Compliance</u>
Farm Operations	6,691	6,044 (90%)	647 (10%)
Acres	1,333,661	1,251,277 (94%)	82,384 (6%)

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

Source: Maryland Department of Agriculture

Substantial compliance progress has been made in recent years as shown in **Exhibit 5** which illustrates nutrient management plan compliance rates over the past five years. Compliance increased significantly between fiscal 2003 and 2004 and again between fiscal 2005 and 2006. However, it is difficult to say how much of this trend is as a result of farm operations coming into compliance because a significant number of the farms originally identified for compliance actions have turned out to be ineligible for nutrient management plans. For instance, of the 1,500 farm operations inspected out of the 2,051 farm operations believed to be out of compliance in July 2005, the WQIA requirements did not apply to approximately 60% of the farm operations because of such factors as land conversion and not meeting the revenue and animal unit standards. These farm operations and the associated acres are taken off the total eligible list, thereby improving the compliance rate among the remaining eligible farm operations.

Exhibit 5
Lacking Nutrient Management Plans

	December <u>2002*</u>	December <u>2003*</u>	November <u>2004*</u>	December <u>2005</u>	December <u>2006</u>
Farms	56%	42%	21%	21%	10%
Acres	55%	32%	16%	20%	6%

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

Next Steps

MDA advises that it is still in the first stage of compliance activities. Future steps could include doing compliance checks on farms that have been labeled as being in compliance at some point in the past and expanding the set of farms that are checked for compliance. A staff of only six regional nutrient management specialists, however, limits MDA's ability to move quickly to these future steps. Despite its small staff and the rather short 18-month period of increased enforcement, MDA has been able to conduct 606 enforcement contacts in 2005 and 981 in 2006. In addition, Annual Implementation Report information is already being collected about compliance of farm operations that are expected to be in compliance. The Annual Implementation Report data shows that in 2005 MDA received 5,147 Annual Implementation Reports from the 5,969 eligible farm operations. This represents an 86% compliance rate for farm operations that are expected to provide an annual report on the status of their nutrient management plans.

Enforcement actions are another possible area of increased activity for MDA's WQIA compliance program. To date, MDA has charged 25 operations with a fine. The fine is \$350, which includes \$250 for not having a nutrient management plan and \$100 for not implementing the plan. A maximum \$2,000 fine per year is possible, but so far MDA has only imposed minimum fines for first violations. MDA reports that 4 of the 25 operations it has charged with a fine have signed a consent form, 13 are either procuring nutrient management plans or are in the queue for being turned over to Central Collections in the Comptrollers Office's, and 8 either have been or soon will be turned over to Central Collections. MDA may follow up with further enforcement against the 8 farm operations being turned over to Central Collections, and repeated violations may warrant turning over delinquent farm operations to the Maryland Department of the Environment for fines up to \$10,000 per water quality violation.

DLS recommends that MDA discuss how many additional farm operations have not yet been identified as eligible for nutrient management plans; what inhibits farmers from complying with the WQIA requirements and how this situation may be improved; and what may be done to leverage the compliance resources currently available at MDA.

4. Agriculture Recommendations Report Not Forthcoming

Fiscal 2007 budget bill language required MDA to submit a report that compared and analyzed the relationship between the State’s fiscal 2007 legislative appropriation and the budgetary and programmatic recommendations released in calendar 2006 by the Agricultural Stewardship Commission and the Maryland Agricultural Commission. MDA missed the September 29, 2006 deadline, apparently due to the belief that the required report submissions for the Agricultural Stewardship Act of 2006 satisfied the budget bill language. In addition, position turnover with the change in administrations left responsibility for report authorship unclear. However, repeated reminders have failed to elicit the required report. **DLS recommends that MDA brief the committees about why the required report was not submitted in response to the fiscal 2007 budget bill language. MDA should present a synopsis of what would have been included in the report had it been completed.**

Recommended Actions

	<u>Amount Reduction</u>
1. The Department of Budget and Management budgeted turnover for 12 new Soil Conservation District positions at 3.21%. This action increases the turnover to 25%, which is in line with the Department of Budget and Management’s new position turnover policy.	\$ 90,264 GF
Total General Fund Reductions	\$ 90,264

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 2006					
Legislative Appropriation	\$23,114	\$15,920	\$4,319	\$3,615	\$46,968
Deficiency Appropriation	1,350	0	99	0	1,449
Budget Amendments	359	843	496	373	2,071
Reversions and Cancellations	-10	-1,006	-1,027	-743	-2,786
Actual Expenditures	\$24,813	\$15,757	\$3,887	\$3,245	\$47,702
Fiscal 2007					
Legislative Appropriation	\$29,263	\$20,119	\$5,608	\$3,867	\$58,857
Budget Amendments	258	486	0	0	744
Working Appropriation	\$29,521	\$20,605	\$5,608	\$3,867	\$59,601

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

Fiscal 2006

MDA's general fund appropriation increased by a net of \$1,699,121. The increase was due to allocation of the cost-of-living adjustment general fund appropriation (\$203,011) as authorized in the fiscal 2006 budget bill (Budget Amendment 004-06) and to reallocation of the health insurance appropriation (\$155,886) as authorized in the fiscal 2006 budget bill (Budget Amendment 197-06). In addition, deficiency appropriations were approved for Resource Conservation Grants (\$1,000,000) and Forest Pest Management (\$350,000). The general fund increase was offset by a \$9,766 cancellation in Resource Conservation Grants.

Special funds dedicated to operating functions decreased by a net of \$163,347. The following special funds were brought in via budget amendment:

- \$215,000 for lab-related expenses for employees, supplies, and utilities associated with testing in the horse disease lab;
- \$131,008 for the Horse Racing Purses and Racing Special Fund – Allocation (Chapter 410 of 2005) to the Rural Maryland Council's office operations;
- \$131,008 for the Horse Racing Purses and Racing Special Fund – Allocation (Chapter 410 of 2005) to the Maryland Agricultural Education and Rural Development Assistance Fund's rural economic development grants;
- \$125,000 for the Rural Maryland Council to implement a direct services grants program that targets non-profit organizations working to strengthen rural families;
- \$89,800 for a replacement large test truck for the 1981 international tractor trailer large scale test unit and for three new vehicles to replace existing vans with over 120,000 miles;
- \$86,000 for a project by Resource Conservation Operations to manage nutrient delivery in drainage systems on the Eastern Shore;
- \$70,000 for laboratory supplies, chemicals, and equipment repairs within the State Chemist Program;
- \$64,900 for additional and replacement laboratory equipment;
- \$30,459 for salary costs in the Turf and Seed Program from higher than expected custom seed mixing contracts and turf certification fees;
- \$12,000 for costs associated with hosting the annual Rural Maryland Summit;

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- \$10,000 for promoting knowledge about the equine industry by the Maryland Horse Industry Board; and
- \$8,400 for contractual services associated with maintaining laboratory equipment.

These special fund increases were offset by \$1.0 million in cancellations. The major cancellations were in the following programs: Maryland Agricultural Land Preservation Foundation (\$289,716), Marketing and Agricultural Development (\$161,195), Mosquito Control (\$140,548), and Resource Conservation Grants (\$106,991).

Federal funds dedicated to operating functions decreased by a net of \$432,028, which includes a \$99,000 deficiency appropriation for Program Planning and Development. The following funds were brought in via budget amendment:

- \$200,000 for implementing cooperative agreements related to the identification of animals afflicted with various diseases;
- \$115,000 for higher than expected federal participation in joint federal/State activities to control and monitor pests and plant diseases in Maryland;
- \$75,000 for higher than expected funding in several State and federal cooperative projects;
- \$45,964 for organic certification and meat inspection by the Food Quality Assurance Program;
- \$33,619 for equipment purchases and vehicle costs in the Pesticide Regulations Program from higher than expected federal fund reimbursements;
- \$16,000 for laboratory supplies, chemicals, and equipment repairs within the State Chemist Program; and
- \$10,000 for an agreement with the United States Department of Agriculture to publish agricultural statistics.

Federal funds dedicated to operating functions decreased by \$1.0 million. The major cancellations were in the following programs: Pesticide Regulation (\$277,952), Resource Conservation Operations (\$174,346), Animal Health (\$165,324), and State Tobacco Authority (\$104,662).

Fiscal 2007

The general fund appropriation has increased by a net of \$258,139. Allocation of \$262,697 to MDA for the salary increase general fund appropriation to State agencies as authorized in the fiscal 2007 budget bill (Budget Amendment 001-07) was offset by a \$4,558 reduction for the costs of a comprehensive salary study.

The special fund appropriation has increased by \$486,175. This increase reflects a \$383,287 budget amendment to bring in residual fiscal 2005 and 2006 racing fees for the Maryland Agricultural Education and Rural Development Assistance Fund and Rural Maryland Council that became available too late in fiscal 2006 to be expended and thus went to fund balance. The increase also reflects the allocation of the \$102,888 salary increase special fund appropriation as authorized in the fiscal 2007 budget bill (Budget Amendment 011-07).

Audit Findings

Audit Period for Last Audit:	July 10, 2003 – April 30, 2006
Issue Date:	January 2007
Number of Findings:	5
Number of Repeat Findings:	4
% of Repeat Findings:	80%
Rating: (if applicable)	n/a

Finding 1: **The security features on the State’s Financial Management Information System were not fully used for purchases and disbursements.**

Finding 2: The appropriate online method was not used to ensure that purchase orders were prepared for all expenditures and that purchase orders matched invoices.

Finding 3: **Cash receipts were not restrictively endorsed upon receipt, and the existing computer system could not reconcile licenses issued with revenue collected.**

Finding 4: **Non-cash receipts were not authorized by supervisory personnel and non-cash credit adjustments were not independently verified.**

Finding 5: **Inadequate physical inventory and recordkeeping procedures were used.**

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

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

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	427.50	435.50	447.50	12.00	2.8%
02 Contractual	35.50	42.25	46.50	4.25	10.1%
Total Positions	463.00	477.75	494.00	16.25	3.4%
Objects					
01 Salaries and Wages	\$ 24,018,551	\$ 26,826,978	\$ 26,551,312	-\$ 275,666	-1.0%
02 Technical and Spec. Fees	1,062,999	1,092,331	1,296,232	203,901	18.7%
03 Communication	683,066	750,848	722,025	-28,823	-3.8%
04 Travel	379,852	557,058	585,391	28,333	5.1%
06 Fuel and Utilities	1,097,007	1,071,793	1,363,180	291,387	27.2%
07 Motor Vehicles	1,057,638	1,210,742	1,253,164	42,422	3.5%
08 Contractual Services	5,351,179	6,311,478	6,088,691	-222,787	-3.5%
09 Supplies and Materials	1,707,777	1,715,542	1,590,824	-124,718	-7.3%
10 Equip – Replacement	449,152	319,789	205,737	-114,052	-35.7%
11 Equip – Additional	357,918	332,796	449,030	116,234	34.9%
12 Grants, Subsidies, and Contributions	10,889,126	18,416,652	21,074,169	2,657,517	14.4%
13 Fixed Charges	328,505	284,594	303,426	18,832	6.6%
14 Land and Structures	318,057	711,000	970,600	259,600	36.5%
Total Objects	\$ 47,700,827	\$ 59,601,601	\$ 62,453,781	\$ 2,852,180	4.8%
Funds					
01 General Fund	\$ 24,812,709	\$ 29,521,302	\$ 32,262,115	\$ 2,740,813	9.3%
03 Special Fund	15,756,786	20,605,060	21,373,560	768,500	3.7%
05 Federal Fund	3,887,356	5,607,899	4,908,216	-699,683	-12.5%
09 Reimbursable Fund	3,243,976	3,867,340	3,909,890	42,550	1.1%
Total Funds	\$ 47,700,827	\$ 59,601,601	\$ 62,453,781	\$ 2,852,180	4.8%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

**Fiscal Summary
Department of Agriculture**

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
01 Executive Direction	\$ 2,307,252	\$ 2,928,405	\$ 2,514,313	-\$ 414,092	-14.1%
02 Administrative Services	958,157	1,110,819	1,160,269	49,450	4.5%
03 Central Services	1,962,383	2,356,774	2,498,529	141,755	6.0%
04 Maryland Agricultural Commission	172,938	169,285	172,002	2,717	1.6%
05 Maryland Agricultural Land Preservation Foundation	1,148,440	1,926,714	2,297,293	370,579	19.2%
01 Office of the Assistant Secretary	169,763	171,378	171,682	304	0.2%
02 Weights and Measures	1,904,515	1,964,296	1,931,389	-32,907	-1.7%
03 Egg Inspection, Grading and Grain	1,306,362	1,549,939	1,493,779	-56,160	-3.6%
04 Maryland Agricultural Statistics Services	147,696	266,300	127,100	-139,200	-52.3%
05 Animal Health	4,018,272	3,920,988	4,257,421	336,433	8.6%
07 State Board of Veterinary Medical Examiners	293,899	358,855	405,324	46,469	12.9%
08 Maryland Horse Industry Board	164,911	345,828	163,240	-182,588	-52.8%
09 Aquaculture Development and Seafood Marketing	485,124	533,873	510,461	-23,412	-4.4%
10 Marketing and Agriculture Development	3,143,085	3,702,602	4,353,616	651,014	17.6%
11 Maryland Agricultural Fair Board	1,459,850	1,459,658	1,456,202	-3,456	-0.2%
12 State Tobacco Authority	2,205	13,460	6,660	-6,800	-50.5%
18 Rural Maryland Council	301,896	553,326	404,670	-148,656	-26.9%
19 MD Agricultural Education and Rural Development Fund	0	348,587	253,000	-95,587	-27.4%
20 MD Ag. and Resource-Based Industry Development Corp.	0	1,000,000	3,000,000	2,000,000	200.0%
01 Office of the Assistant Secretary	176,943	164,996	166,614	1,618	1.0%
02 Forest Pest Management	1,784,731	1,955,691	1,105,659	-850,032	-43.5%
03 Mosquito Control	2,955,185	3,127,781	2,980,820	-146,961	-4.7%
04 Pesticide Regulation	928,215	972,484	1,008,273	35,789	3.7%
05 Plant Protection	2,089,357	2,029,987	2,076,906	46,919	2.3%
06 Turf and Seed	925,801	976,647	905,758	-70,889	-7.3%
09 State Chemist	2,004,704	2,081,744	2,207,383	125,639	6.0%
01 Office of the Assistant Secretary	163,930	168,101	168,677	576	0.3%
02 Program Planning and Development	3,376,945	3,971,814	3,918,400	-53,414	-1.3%
03 Resource Conservation Operations	8,189,013	8,748,479	9,979,359	1,230,880	14.1%
04 Resource Conservation Grants	5,159,255	10,722,790	10,758,982	36,192	0.3%
Total Expenditures	\$ 47,700,827	\$ 59,601,601	\$ 62,453,781	\$ 2,852,180	4.8%
General Fund	\$ 24,812,709	\$ 29,521,302	\$ 32,262,115	\$ 2,740,813	9.3%
Special Fund	15,756,786	20,605,060	21,373,560	768,500	3.7%
Federal Fund	3,887,356	5,607,899	4,908,216	-699,683	-12.5%
Total Appropriations	\$ 44,456,851	\$ 55,734,261	\$ 58,543,891	\$ 2,809,630	5.0%
Reimbursable Fund	\$ 3,243,976	\$ 3,867,340	\$ 3,909,890	\$ 42,550	1.1%
Total Funds	\$ 47,700,827	\$ 59,601,601	\$ 62,453,781	\$ 2,852,180	4.8%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.