L00A1111
Department of Agriculture – PAYGO

Pay-As-You-Go Capital Budget Summary

($ in Millions)

	FY 2007 Approp.	*FY 2008 Approp.*	*FY 2009 Allowance*	*Percent Change*	*DLS Recommd.*
Maryland Agricultural Land Preservation	$89.554	$69.412	$45.705	-34.2%	$45.705
Tobacco Transition Program	7.650	9.880	9.330	-5.6%	9.330
Total	**$97.204**	**$79.292**	**$55.035**	**-30.6%**	**$55.035**
Fund Source					
Special	$90.619	$74.292	$42.035	-43.4%	$42.035
Federal	5.000	2.000	10.000	400.0%	10.000
PAYGO Subtotal	**$95.619**	**$76.292**	**$52.035**	**-31.8%**	**$52.035**
GO Bonds	1.585	3.000	3.000	0.0%	3.000
Total	**$97.204**	**$79.292**	**$55.035**	-30.6%	**$55.035**

Summary of Issues

Research Questions the Maryland Agricultural Land Preservation Foundation (MALPF) Easement Payment Amount: A draft paper presented at the fall 2007 "Smart Growth @ 10" conference found that the Maryland Agricultural Land Preservation Program (MALPP) may be paying more than necessary for agricultural land preservation easements. The research suggested that 2002 land value reductions of $660 per acre due to conservation easements were more than compensated for by average MALPF easement payments of $2,717 per acre. **MALPF should brief the committees on how the current ranking and easement valuation methodology impacts easement acquisition costs, acres preserved, prime soils retention, geographic spread, and farmland contiguity; why MALPF has chosen the current methodology over others; and what deliberations have taken place in the MALPF committee formed to look at the ranking and easement valuation process.**

For further information contact: Andrew D. Gray Phone: (410) 946-5530

Audit Finds Problems with Inspections, Certifications, and Annual Report Submission: The Office of Legislative Audits found three areas of concern in its fiscal 2006 audit of MALPF: easement inspections were not performed as required; the process of certifying county agricultural land preservation programs was inadequate; and annual reports were not submitted. **MALPF should be prepared to brief the committees on the status of its inspections, including its staffing levels to accomplish this task; on the regulations for certifying county agricultural land programs; and on the fiscal 2007 annual report.**

Lack of Funding Holding Up Full Implementation of New Agricultural Land Conservation Programs: MALPF's biggest challenges remain securing adequate funding to meet general demand, purchase large conservation easements, and acquire easements on farms facing development pressure. To these ends, MALPF is in the process of rolling out an Installment Purchase Agreement (IPA) Program but is still waiting for dedicated funding for the proposed Critical Farms Program. **The Maryland Department of Agriculture (MDA) should be prepared to brief the committees on the status of IPA and Critical Farms Program development including any legislation for the 2008 legislative session as well as the potential impact these approaches would have on MALPP's implementation and future funding.**

Strategies for Handling Federal Funds Pursued: MALPF has been appropriated a significant amount of federal funding over the past few years – $4.0 million in fiscal 2004, $4.6 million in fiscal 2005, $6.0 million in fiscal 2006, and $1.7 million in fiscal 2007 – but it has not been able to spend most of this funding. Due to recent and significant changes in federal requirements for committing U.S. Department of Agriculture Federal Farm and Ranch Lands Protection Program funds, MALPF has not been able to apply federal funds to its easement offers since December 31, 2005. **MDA should brief the committees on how the barriers to the use of federal funds will be resolved and what this would mean for spending future federal fund allocations, including the $10.0 million in the allowance.**

Summary of Recommended Actions

1. Concur with Governor's allowance.

Overview Issues

Status of Combined Agricultural Land Preservation Recommendations

Agricultural policy received two overlapping reviews in recent years. During the 2005 interim, the Presiding Officers formed the Agricultural Stewardship Commission, a joint legislative commission to examine and identify incentives to help farmers implement sound agricultural practices while enhancing the viability of farming in the State. In response to the commission's recommendations, the General Assembly passed the Agricultural Stewardship Act of 2006 (Chapter 289 of 2006) which addressed a variety of issues, including the State's agricultural land conservation efforts.

Prior to entering office in January 2007, Governor Martin J. O'Malley assembled a number of transition teams to report on the direction of various policy areas and to make recommendations for improvement. The Agricultural Transition Team conducted a review similar to that of the Agricultural Stewardship Commission and the transition team's implementation committee decided to combine the two sets of recommendations.

Exhibit 1 describes the recommendations that relate to MALPF's role in agricultural land conservation and whether the recommendations were already addressed in the Agricultural Stewardship Act.

Exhibit 1
Agricultural Land Conservation Recommendations

Recommendation	Description	Status
	Addressed in Agricultural Stewardship Act	
Priority Preservation Area Program	Authorize the implementation of a Priority Preservation Area Program that seeks to concentrate the acquisition of agricultural easements in priority preservation areas, which are large areas in which much of the land is engaged in agricultural production and is also rich in productive soils.	No program created. Occurring at the county level now.
MALPF Funding Increase	Appropriate $20.0 million in general funds annually to MALPF over and above any other funding received from other sources.	No general funds have been appropriated.
New Easement Programs	Allow MALPF to conduct on its own, or transfer funds to the Maryland Agricultural and Resource-Based Industry Development Corporation or counties with certified programs to be used for the purchase of easements through a Critical Farms Program, Installment Purchase Agreements (IPA) Program, or a Next Generation Farmland Acquisition Program.	No additional funding has been provided to allow for these grants; although a self-funded IPA is moving forward.

Recommendation	Description	Status
	Not Included in Agricultural Stewardship Act	
Allowed Uses	Improve MALPF's flexibility on what agricultural uses are allowed on preserved farms.	Guidelines for non-agricultural and non-silvicultural activities were approved November 2007.
Water Rights	Monitor the issue of transferring water rights on MALPF protected farmland.	MALPF has created a task force.
New or Increased Non-GF Funding	Explore and adopt new funding sources for agricultural land preservation including additional Program Open Space funding.	No new funding sources or expansion of existing sources has occurred.

MALPF: Maryland Agricultural Land Preservation Foundation

Source: Maryland Department of Agriculture; Department of Legislative Services

MDA should brief the committees on the current status of each of these recommendations and how MALPF prioritizes each of the recommendations in terms of its agricultural land preservation goals.

Maryland Agricultural Land Preservation Program (Statewide)

PAYGO SF	**$35,704,604**	**Recommendation:**	**Approve**
PAYGO FF	**$10,000,000**		

Program Description: The General Assembly created the Maryland Agricultural Land Preservation Program (MALPP) to preserve productive agricultural land and woodland which provides for the continued production of food and fiber; limit the extent of urban development; and protect agricultural land and woodland as open space. The Maryland Agricultural Land Preservation Foundation (MALPF), with the assistance and cooperation of landowners and local governments, purchases development rights easements as a means of protecting agricultural land and woodland production activities. Participation in MALPP is voluntary on the part of landowners.

As of July 1, 2007, agricultural districts are no longer a requirement to participate in the easement application process for MALPF, per Chapter 650 of 2007, and MALPF is prohibited from accepting a district petition for any purpose after June 30, 2008. However, districts in which an easement has been transferred to MALPF and districts established by a county and a landowner for the purpose of providing a property tax credit to the landowner will remain in force and may not be terminated.

MALPF qualifications include the requirement that parcels be at least 50 contiguous acres in active agricultural use with at least 50% of the total soils on the land classified as U.S. Department of Agriculture soil capability Class I, II, III, or woodland group one or two. Landowners also agree to maintain the land in agricultural use for a minimum of five years and not subdivide the land for residential, commercial, or industrial use.

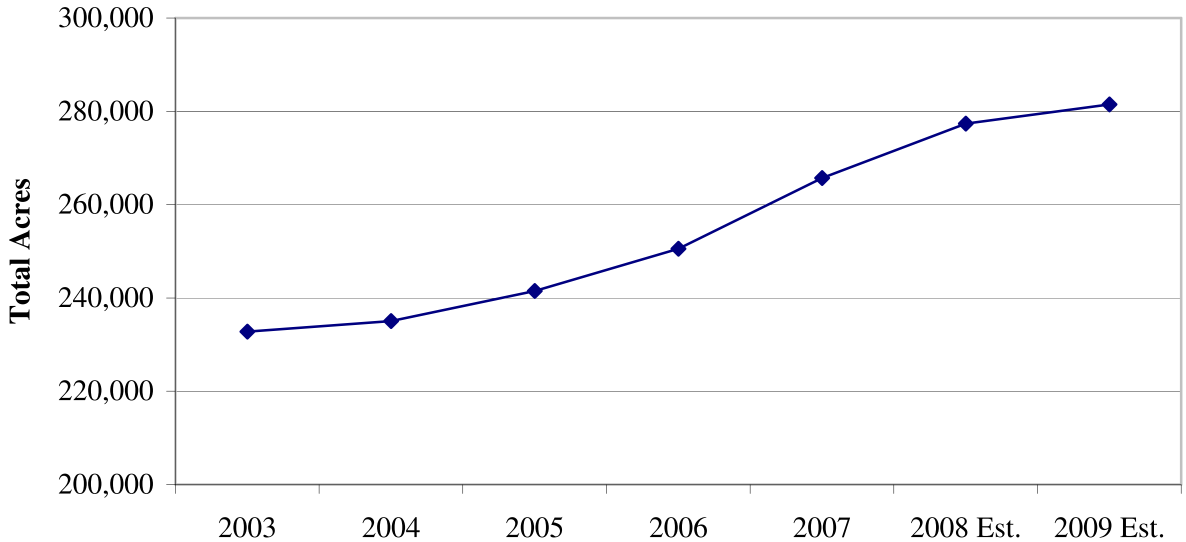
An owner of land that is at least 50 acres in size and actively devoted to agriculture use who is interested in selling an easement to MALPF is required to file an application with the county governing body. The county governing body refers the application and accompanying materials both to the agricultural preservation advisory board and to the county planning and zoning body. Within 60 days after the referral of the application, the agricultural preservation advisory board is required to advise the county governing body as to whether the land in the proposed easement meets MALPF qualifications and to make a recommendation on whether the easement should be purchased.

If either the agricultural preservation advisory board or the planning and zoning body recommend approval, the county governing body is required to hold a public hearing on the proposed easement. Within 120 days after the receipt of the application, the county governing body is required to render a decision as to whether the application will be recommended to MALPF for approval.

The maximum price MALPF may pay for an easement is the landowner's asking price or the easement value, whichever is lower. The easement value is determined by subtracting the agricultural value from the appraised fair market value of the property. Once the development rights have been sold, the property is perpetually protected from further development, with certain rights available only to the owners who originally sold the easement.

Program Performance Analysis: MALPP continues to increase the total agricultural acres under protective easements. As shown in **Exhibit 2**, between fiscal 2006 and 2007, there was a 15,161-acre, or 6.1%, increase in total MALPP easement acreage. However, the Maryland Department of Agriculture projects that the increase in easement acreage will grow by only 11,660 acres, or 4.4%, between fiscal 2007 and 2008 and will slow to a growth of 4,100, or 1.5%, between fiscal 2008 and 2009.

Exhibit 2
Total Acres of MALPP Easements
Fiscal 2003-2009



MALPP: Maryland Agricultural Land Preservation Program

Note: Includes easements under the Maryland Agricultural Land Preservation Foundation and the now defunct GreenPrint Program.

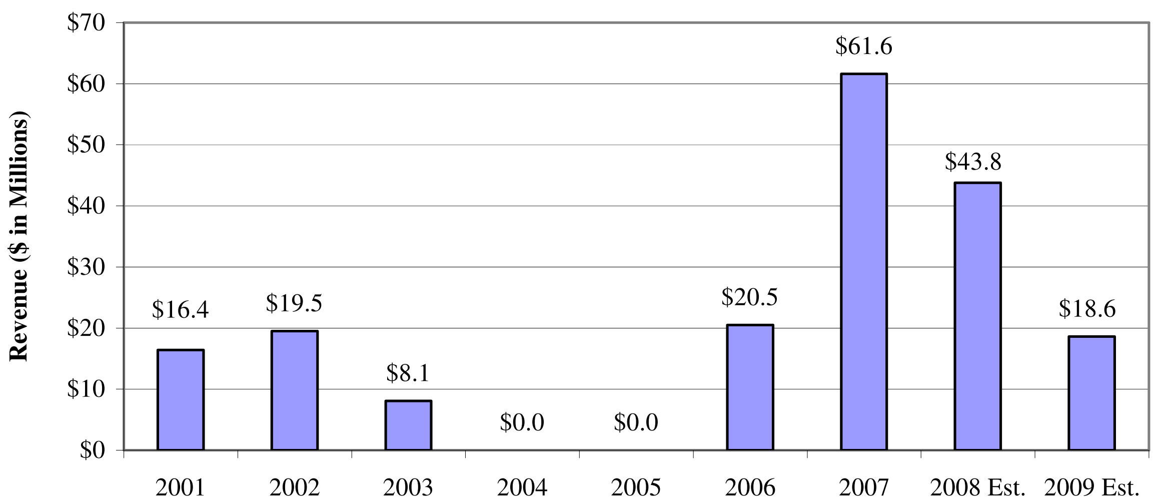
Source: Governor's Budget Books, Fiscal 2006-2009

Comments: The Administration's total proposed fiscal 2009 funding for MALPP is $45.7 million and is comprised of $35.7 million in special funds and $10.0 million in federal funds. The MALPP allowance includes a significant increase in federal funds due to the expectation that MALPF will be able to negotiate workable easement restrictions with the U.S. Department of Agriculture after several years of impasse.

The pay-as-you-go special fund allowance includes $18.6 million in property transfer tax revenue, $5.0 million in estimated agricultural land transfer tax revenues, and $14.0 million in matching funds from local jurisdictions – although, $1.8 million of the allowance is obligated for operating expenses and $200,000 for indirect expenses, which reduces the special fund allowance to $35.7 million. As shown in **Exhibit 3**, the property transfer tax funding for fiscal 2009 is $25.2 million, or 57.5%, lower than the fiscal 2008 appropriation primarily due to a decrease in estimated property transfer tax revenue and an underattainment of revenues for fiscal 2007, which reduces the allocation of funding in fiscal 2009.

Based on an average cost of $6,500 per acre, the overall fiscal 2009 allowance would allow MALPF to acquire easements on approximately 7,030 acres. **MALPF should be prepared to brief the committees on the discrepancy between the 4,100-acre increase estimated for the Measuring for Results performance information and the 7,030-acre increase estimated based on available funding.**

Exhibit 3
Property Transfer Tax Revenue Dedicated to MALPP
Fiscal 2001-2009

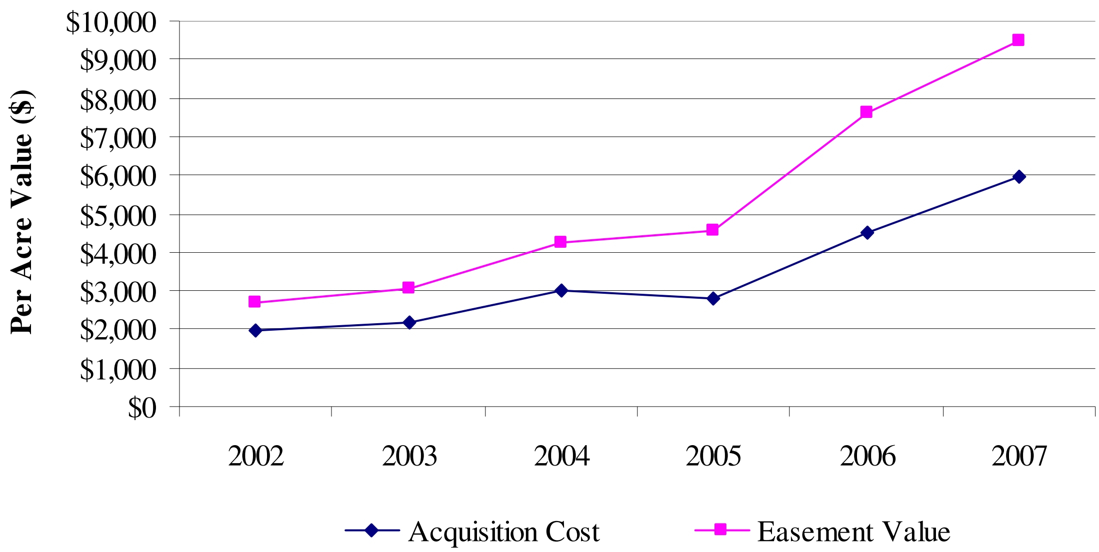


MALPP: Maryland Agricultural Land Preservation Program

Source: Governor's Budget Books, Fiscal 2006-2009

The impact of lower transfer tax revenue on the amount of agricultural land preserved is exacerbated by an increase in the price of conservation easements. **Exhibit 4** illustrates the average per acre acquisition cost increase of 204% and per acre easement value increase of 250% between fiscal 2002 and 2007. This shows that due to landowners discounting their property value in order to receive funding, acquisition cost (what MALPF pays) is below the easement value (what MALPF could pay). This trend is not expected to continue as shown by the more rapid increase in acquisition cost (112%) than easement value (109%) between fiscal 2005 and 2007. MALPF attributes the greater rate of increase of acquisition costs to the reduced weighting of discounting in the ranking of properties for MALPF funding.

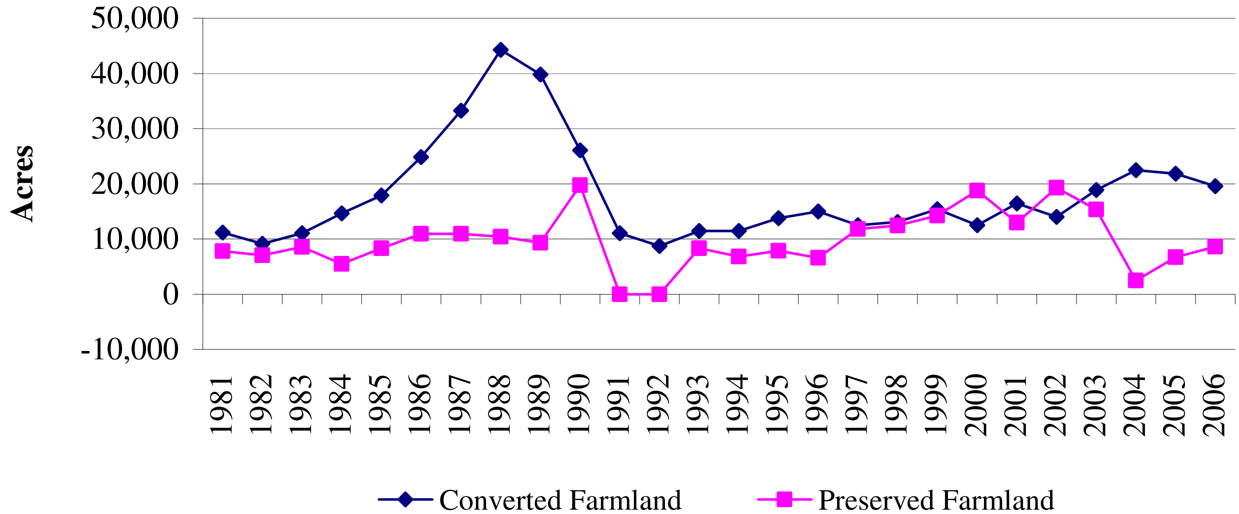
Exhibit 4
Per Acre Easement Value and Acquisition Costs
Fiscal 2002-2007



Source: Maryland Department of Agriculture

Exhibit 5 compares the agricultural land preserved and the amount of land converted to non-agricultural uses in each fiscal year. The period between fiscal 1983 and 1993 shows a significant difference in the two measures. Since then, significant differences in the two measures were again experienced between fiscal 2003 and 2006. While agricultural land has been converted throughout the period shown, the difference in the two measures reflects that agricultural land preservation has not been keeping pace with agricultural land conversion.

Exhibit 5
Converted Farmland vs. Preserved Farmland
Fiscal 1981-2006



Source: Maryland Department of Agriculture

After its annual October hearing, the Joint Subcommittee on Program Open Space and Agricultural Land Preservation requested that the Department of Natural Resources, the Department of Agriculture, and the Department of Planning prepare and submit a report to the joint subcommittee by December 1 concerning the potential magnitude of the baby boomer generation land transactions in terms of acreage, number, and location and how the State is positioned in terms of funding, staff, and operational planning. **MALPF should be prepared to brief the committees on the status of the joint committees request as it relates to agricultural land preservation.**

Maryland Agricultural Land Preservation Program Fund Data

Fund History

	FY 2007 Actual	*FY 2008 Estimated*	*FY 2009 Estimated*
Beginning Balance	$2,230,887	$0	$0
Revenue			
Transfer Tax	$62,313,447	$43,762,507	$18,644,604
Agricultural Transfer Tax	4,757,570	8,500,000	5,000,000
County Participation	19,438,009	18,000,000	14,000,000
Federal Grant	2,348,843	2,000,000	10,000,000
Other Income	55,655	90,000	60,000
Total Revenue	**$88,913,524**	**$72,352,507**	**$47,704,604**
Total Available	**$91,144,411**	**$72,352,507**	**$47,704,604**
Encumbrances			
Foundation Commitments	$86,902,843	$69,961,820	$45,704,604
Operating Expenses	1,626,568	2,190,687	1,800,000
Indirect Expenses	200,000	200,000	200,000
Grant to the Tri-County Council	2,415,000	0	0
Total Encumbrances	**$91,144,411**	**$72,352,507**	**$47,704,604**
Ending Balance	**$0**	**$0**	**$0**

($ in Millions)

Description	*2007 Approp.*	*2008 Approp.*	*2009 Request*	*2010 Estimate*	*2011 Estimate*	*2012 Estimate*	*2013 Estimate*
PAYGO SF	$84.554	$67.962	$35.705	$44.000	$50.450	$51.500	$52.700
PAYGO FF	5.000	2.000	10.000	2.000	2.000	2.000	2.000
Total	**$89.554**	**$69.962**	**$45.705**	**$46.000**	**$52.450**	**$53.500**	**$54.700**

Issues

1. Research Questions the Maryland Agricultural Land Preservation Foundation (MALPF) Easement Payment Amount

A draft paper presented at the fall 2007 "Smart Growth @ 10" conference found that the Maryland Agricultural Land Preservation Program (MALPP) may be paying more than necessary for agricultural land preservation easements. For instance, the research suggested that 2002 land value reductions of $660 per acre due to conservation easements were more than compensated for by average MALPF easement payments of $2,717 per acre. In addition, the research indicated that preserving 686,000 additional acres, which would meet the 2002 Senate Joint Resolution 10 goal of 1,030,000 acres preserved, would require a budget of $4.58 billion.

However, the research also indicated a measure of success of the MALPP. **Exhibit 6** depicts some of the details of preserved parcels and non-preserved parcels, which indicate that the MALPP conservation easements are having the desired effect. The preserved parcels have 2.5 to 3.0 times as much preserved land surrounding them, are more than twice the size, and have 17% more prime soils than non-preserved parcels.

Exhibit 6
Comparison of Preserved Parcels and Non-preserved Parcels
Calendar 1997- 2003

Characteristic	Preserved Parcel	Non-preserved Parcels
Price Reduction	11.4% to 19.8%	n/a
Ratio of Preserved Land in Vicinity to Non-preserved Parcels (1 km sample area around parcel)	2.5	1.0
Ratio of Preserved Land in Vicinity to Non-preserved Parcels (5 km sample area around parcel)	Almost 3.0	1.0
Size (acres)	86	39
Soil Quality (% prime soils)	58%	41%

Source: *An Evaluation of Working Land and Open Space Preservation Programs in Maryland*, Lori Lynch, Wayne Gray, and Jacqueline Geoghegan (August 2007)

MALPF should brief the committees on how the current ranking and easement valuation methodology impacts easement acquisition costs, acres preserved, prime soils retention, geographic spread, and farmland contiguity; why MALPF has chosen the current methodology over others; and what deliberations have taken place in the MALPF committee formed to look at the ranking and easement valuation process.

2. Audit Finds Problems with Inspections, Certifications, and Annual Report Submission

The Office of Legislative Audits found three areas of concern in its fiscal 2006 audit of MALPF. The findings are as follows:

- ***Easement Inspections Were Not Performed as Required*** – Inspection reports for 71 of 109 easement properties funded by the Federal Farm and Ranch Lands Protection Program and 70 of 166 inspection reports from 10 counties were not filed (counties are required to inspect 10% of the easement properties in their local subdivision).

- ***Process of Certifying County Agricultural Land Preservation Programs Inadequate*** – Of 17 test counties, 7 counties were considered certified despite expiration of the certification, 5 counties did not recertify in a timely manner, and 2 counties were retroactively certified by MALPF and the Maryland Department of Planning (joint responsibility) despite not having submitting the required paperwork.

- ***Annual Reports Not Submitted*** – Annual reports for fiscal 2003 through 2006 had not been submitted as of November 8, 2006.

MALPF has since taken action to remedy the findings. In fiscal 2007, MALPF hired a contractual employee to perform easement monitoring, easement compliance, and database management. In addition, MALPF plans to rely less on county administrators to do inspections and instead have three senior administrative positions do the inspections.

In terms of certification, MALPF stated that its existing workload has precluded timely recertifications and that its policy has been to consider a county certified until a county decision was made to not recertify. As of March 2007, MALPF was in the process of submitting regulations regarding its certification process.

A combined 2003-2006 report was received January 14, 2008. This report is meant to cover the time period omitted.

MALPF should be prepared to brief the committees on the status of its inspections, including its staffing levels to accomplish this task, and on the regulations for certifying county agricultural land programs.

3. Lack of Funding Holding Up Full Implementation of New Agricultural Land Conservation Programs

MALPF's biggest challenges remain securing adequate funding to meet general demand, purchasing large conservation easements, and acquiring easements on farms facing development pressure. To these ends, MALPF is in the process of rolling out an Installment Purchase Agreement (IPA) Program but is still waiting for dedicated funding for the proposed Critical Farms Program, both of which are described below.

IPA Program

IPAs are a conservation easement financing strategy that may advance the State's short-term land conservation efforts. IPAs spread out payments so that landowners receive semi-annual, tax-exempt interest over a term of 10 to 30 years. The principal is due at the end of the contract term and is paid with the investment of the easement offer. The interest payments can either be paid with the remaining portion of the easement offer not invested for the principal payment (the self-funded IPA) or from a dedicated future revenue stream (the leveraged IPA, which would require a new or expanded dedicated revenue source).

Chapter 448 of 2007 formally authorized MALPF:

- to provide grants to the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) in order to allow for purchase easements of greater than the 15 years stipulated for State agency debt; and

- to make grants to county partners with approved IPA programs, to purchase co-held easements on farmland and woodland properties.

Between 2005 and 2007, the Maryland Department of Agriculture (MDA) contracted financial consultants and legal counsel to establish an IPA Program and develop IPA implementation and funding recommendations. MDA notes that MARBIDCO is in the process of figuring out the contracting for the banking services with the Treasurer's Office and that the self-funded IPA option (investing a small portion of the principal) should be available for the late fiscal 2008 easement acquisition cycle. A leveraged IPA would enable greater easement purchases but will have to wait until a dedicated revenue source is found.

Critical Farms Program

In accordance with Chapter 155 of 2005, MDA and the Maryland Department of Planning released a February 2007 report proposing a statewide Critical Farms Program. This program would provide interim or emergency financing for (1) easement acquisition; or (2) fee simple acquisition and resale with an easement, to permanently protect farmland that would likely be sold for non-agricultural uses. The report recommended legislation to authorize and fund a Critical Farms Program. Specifically, it recommended that the General Assembly establish a Critical Farms

Revolving Account by providing $4.0 million in general funds annually, over a four-year period. The report proposed draft program implementation legislation, which has yet to be submitted.

MDA should be prepared to brief the committees on the status of IPA and Critical Farms Program development including any legislation for the 2008 session and on the potential impact these approaches would have on MALPP's implementation and future funding.

4. Strategies for Handling Federal Funds Pursued

MALPF has been appropriated a significant amount of federal funding over the past few years – $4.0 million in fiscal 2004, $4.6 million in fiscal 2005, $6.0 million in fiscal 2006, and $1.7 million in fiscal 2007 – but it has not been able to spend most of this funding. Due to recent and significant changes in federal requirements for committing U.S. Department of Agriculture (USDA) Federal Farm and Ranch Lands Protection Program (FFRP) funds, MALPF has not been able to apply federal funds to its easement offers since December 31, 2005. According to MALPF, the new federal funding requirements require that MALPF:

- conduct "before-and-after" appraisals that meet a new appraisal standard, which would increase costs per easement transaction $3,500-$5,000, and increase settlement time by at least 13 weeks;

- restrict eligible properties to those with forested acreage less than 50% and impervious surface between 2% and 6% despite MALPF considering forestry an agricultural activity and the possible exclusion of agricultural activities that have higher levels of impervious surface or farms that include adjacent roadways in their ownership;

- coordinate additional title review by the federal government that would increase processing time by three to four weeks and would involve an unrealistic subordination of all interests;

- implement indemnification in the deed of easement, which may require a $5,000 Phase I Environmental Site Review and seven weeks of bid solicitation in order to assure landowners that they will not be held responsible for environmental problems in the future; and

- revise Maryland's deed of easement to include the USDA as a "co-holder" of the easement instead of just a "contingent" interest, which would expand the federal role to that of an equal interest to MALPF.

MALPF advises that it is working to resolve the barrier to the use of federal funds on two tracks. First, MALPF has worked out an agreed-upon deed of easement with USDA that will allow MALPF to use its remaining unspent fiscal 2005 and 2006 federal funds, approximately $8.8 million. However, it appears that $1.7 million of the fiscal 2007 funds may be in jeopardy. Second, MALPF has engaged members of Congress to revise the provisions of the FFRP, and thus change the requirements for receiving federal funds for agricultural preservation, through the federal Farm Bill.

MDA should brief the committees on how the barriers to the use of federal funds will be resolved and what this would mean for spending future federal fund allocations, including the $10.0 million in the allowance.

Recommended Actions

1. Concur with Governor's allowance.

Tobacco Transition Program (Statewide)

PAYGO SF	**$6,330,000**	**Recommendation:**	**Approve**
GO Bond	**$3,000,000**		

Program Description: In 1999, the General Assembly created the Cigarette Restitution Fund (CRF). Part of this fund is to be earmarked to end tobacco growing in Maryland. Under the legislation, the CRF is to fund the "…implementation of the Southern Maryland Regional Strategy Action Plan for Agriculture adopted by the Tri-County Council for Southern Maryland (TCC) with an emphasis on alternative crop uses for agricultural land now used for growing tobacco." Funds are appropriated to the Maryland Department of Agriculture, which then issues grants to TCC. TCC is a nonprofit, quasi-governmental body that works with the Southern Maryland Agricultural Development Commission to develop programs to stabilize the region's agricultural economy as Maryland growers' transition away from tobacco production.

TCC's Strategy Action Plan has three main components: the tobacco buyout (first priority), agricultural land preservation (second priority), and infrastructure/agricultural development (third priority).

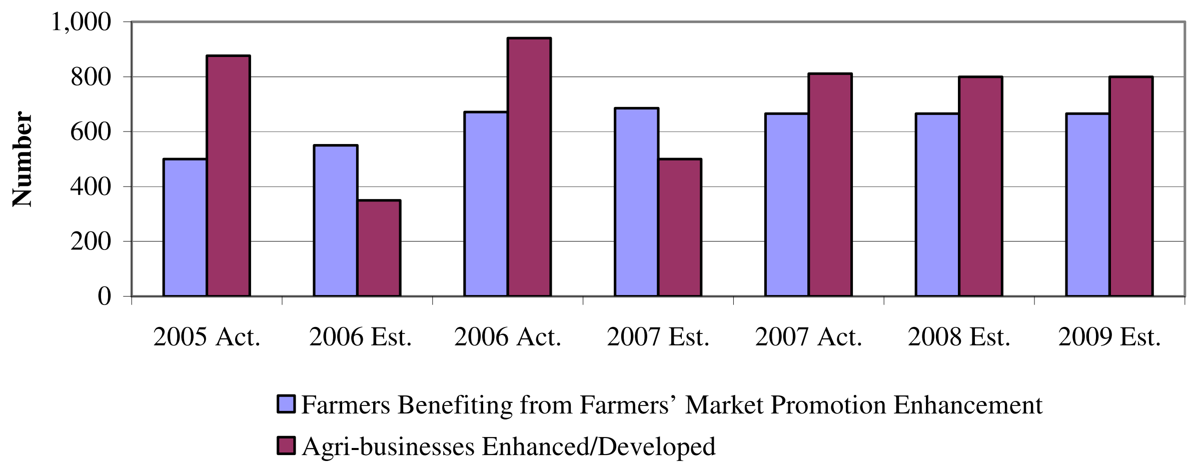
- The tobacco buyout component is a voluntary program that provides funds to (a) support all eligible Maryland tobacco growers who choose to give up tobacco production forever while remaining in agricultural production; and (b) restrict the land from tobacco production for 10 years should the land transfer to new ownership. A total of 854 farmers and 7.65 million pounds of tobacco are enrolled in the program and out of production.

- The agricultural land preservation component seeks to provide an incentive to tobacco farmers to place land in agricultural preservation, enhance participation in existing preservation programs, and assist in the acquisition of land for farmers' markets.

- The infrastructure/agricultural development program seeks to foster profitable natural resource-based economic development for Southern Maryland by helping farmers and related businesses to diversify and develop and/or expand market-driven agricultural enterprises in the region through economic development and education.

Program Performance Analysis: The performance data associated with TCC's efforts to help farmers transition to other agricultural opportunities suggest a performance plateau. As shown in **Exhibit 7**, the number of agri-businesses benefiting from TCC's marketing efforts decreased by 129 between fiscal 2006 and 2007; however, the fiscal 2007 performance is significantly better than originally estimated. The number of farmers benefiting from farmers' market promotions also decreased between fiscal 2006 and 2007, but only by 20. Both farmers benefiting and agri-business enhanced/developed are expected to have no change in performance measures in fiscal 2008 and 2009. **TCC should be prepared to discuss why there was an increase in agri-businesses enhanced/developed in fiscal 2007 relative to the estimate and why TCC expects no improvement in the performance measures for fiscal 2008 and 2009.**

Exhibit 7
Tobacco Transition Program Performance Measurements
Fiscal 2005-2009



Source: Governor's Budget Books, Fiscal 2006-2009

Comments: The fiscal 2009 allowance includes a total of $9.33 million in operating and capital funds for the Tobacco Transition Program. The allowance reflects a $721,000 write-down of CRF special funds as part of the July 11, 2007, Board of Public Works cost containment actions.

Funds in the fiscal 2009 allowance are spread among three different areas of the Maryland Department of Agriculture's allowance:

- $2,209,000 in CRF special funds in the operating budget for administrative expenses ($440,000) and non-capital grants for infrastructure/agricultural development programs ($1,769,000);

- $6,330,000 in CRF special funds in the pay-as-you-go budget for the tobacco buyout program; and

- $3,000,000 in general obligation bonds in the capital budget for the tobacco buyout ($1,320,000) and agricultural land conservation programs ($1,680,000).

This allocation assumes that a total of $7,650,000 will be dedicated to buyout payments and $1,680,000 to agricultural land conservation.

The 2008 *Capital Improvement Program* reflects the beginning of the planned bond repayment of $3,323,000 in fiscal 2011. Instead of receiving the CRF special funds and then immediately paying them back, TCC's special fund appropriation is reduced to reflect the repayment. The start of bond repayment in fiscal 2011 coincides with an approximately $5.4 million decrease in the tobacco buyout payment. Assuming that the Cigarette Restitution Fund revenue estimate does not change significantly in the out-years, the TCC's agricultural land preservation program, infrastructure grants program, and administrative expense needs appear to be funded at no less than $3.0 million annually.

The fiscal 2008 actual funding reflects a transfer of $626,102 from TCC's third priority, infrastructure grants, to its second priority, agricultural land preservation. One planned use of the funding – development of a farmer's cooperative slaughterhouse operation – has experienced difficulties getting started. **TCC should be prepared to brief the committees on why it is having difficulties spending its infrastructure grants funding, what this means for TCC's ability to help tobacco farmers transition to new types of employment, and the status of the efforts to create a farmer's cooperative slaughterhouse operation.**

Tobacco Transition Fund Data

Fund History

	FY 2007 Actual	*FY 2008 Estimated*	*FY 2009 Estimated*
Beginning Balance	$0	$0	$0
Revenue			
CRF Funds	$7,565,000	$8,308,000	$8,539,000
GO Bonds	1,585,000	3,000,000	3,000,000
MALPF Grant	2,415,000	0	0
Total Revenue	**$11,565,000**	**$11,308,000**	**$11,539,000**
Total Available	**$11,565,000**	**$11,308,000**	**$11,539,000**
Encumbrances			
Buyout Program	$7,649,586	$7,650,000	$7,650,000
Ag. Land Preservation Program	3,041,102	1,680,000	1,680,000
Infrastructure Grants	472,382	1,538,000	1,769,000
Operating Expenses	401,930	440,000	440,000
Total Encumbrances	**$11,565,000**	**$11,308,000**	**$11,539,000**
Ending Balance	**$0**	**$0**	**$0**

($ in Millions)

Description	*2007 Approp.*	*2008 Approp.*	*2009 Request*	*2010 Estimate*	*2011 Estimate*	*2012 Estimate*	*2013 Estimate*
PAYGO SF	$6.065	$6.330	$6.330	$6.350	$3.750	$3.500	$3.350
GO Bonds	1.585	3.000	3.000	5.000	0.000	0.000	0.000
Total	**$7.650**	**$9.880**	**$9.330**	**$11.350**	**$3.750**	**$3.500**	**$3.350**

Recommended Actions

1. Concur with Governor’s allowance.

Fiscal Summary
Department of Agriculture – PAYGO

Program/Unit	FY07 Actual	FY08 Wrk Approp	FY09 Allowance	Change	FY08-FY09 % Change
11 Capital Appropriation	$ 86,902,843	$ 69,961,820	$ 45,704,604	-$ 24,257,216	-34.7%
13 Tobacco Transition	6,065,000	6,330,000	6,330,000	0	0%
Total Expenditures	**$ 92,967,843**	**$ 76,291,820**	**$ 52,034,604**	**-$ 24,257,216**	**-31.8%**
Special Fund	$ 90,619,000	$ 74,291,820	$ 42,034,604	-$ 32,257,216	-43.4%
Federal Fund	2,348,843	2,000,000	10,000,000	8,000,000	400.0%
Total Appropriations	**$ 92,967,843**	**$ 76,291,820**	**$ 52,034,604**	**-$ 24,257,216**	**-31.8%**

Note: The fiscal 2008 appropriation does not include deficiencies.