

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 1551 (Delegate Manno)
Environmental Matters

Maryland Organic Transition Investment Pilot Program - Extension of Sunset

This bill extends the termination date of Chapter 554 of 2009, which established the Maryland Organic Transition Investment Pilot Program (MOTIPP), from June 30, 2012 to June 30, 2015.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: Due to the continuation of MOTIPP, special fund revenues and expenditures may increase by up to \$60,000 annually from FY 2013 through 2015 reflecting the receipt of federal or other (non-State) funding for the program and payments made to organic producers. No funding has yet been provided for this program. Administrative expenses/responsibilities of the program are assumed to be accounted for with federal or other funding or absorbed by the Maryland Department of Agriculture (MDA) within existing resources at the expense of other responsibilities.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Chapters 553/554 of 2009 created MOTIPP within MDA to provide financial assistance to producers for eligible costs associated with transitioning to organic agricultural production. The Acts also created the Organic Agriculture Development Fund, consisting primarily of money received from the federal government or any entity

receiving federal funding for purposes consistent with the program. The Secretary of Agriculture is required to develop and implement the program, subject to the availability and appropriation of funding, and MDA is also required to report annually to the Governor and General Assembly on the status of organic agriculture in the State. Chapters 553/554 specified that the Acts were not to be interpreted as requiring the use of State funding for the program. The pilot program terminates June 30, 2012.

Under MOTIPP, a producer is eligible for funding for a period of three consecutive years upon satisfying certain conditions, including entering into an agreement with MDA that obligates the producer to maintain organic certification for five consecutive years. The amount payable to a producer under the program is limited to \$100 per acre for up to 20 acres. The Secretary of Agriculture, however, may establish by regulation conditions under which assistance may be provided for acreage that exceeds 20 acres.

Background: Subject to certain exemptions and exclusions, operations or portions of operations that produce or handle agricultural products intended to be sold, labeled, or represented as “100 percent organic,” “organic,” or “made with organic (specified ingredients or food group(s))” must be certified under the U.S. Department of Agriculture’s (USDA) National Organic Program (NOP). MDA administers the Maryland Organic Certification Program, and in doing so, serves as an accredited certifying agent under NOP.

Among other requirements for organic certification under NOP, no prohibited substances can have been applied to the land from which harvested crops are intended to be sold, labeled, or represented as “organic” for three years preceding the harvest of the crop. MDA indicates that, during this transition period, crop yields are usually reduced and farmers usually experience a revenue loss. The farmers, however, cannot represent their products as organic and obtain the price premium paid for organic products until the completion of the transition period. Funding under MOTIPP would help offset farmers’ revenue loss and/or account for other transition costs. However, no federal or other non-State funding has been available to this point to develop and implement the program established by Chapters 553/554 of 2009. Federal funding for farmers transitioning to organic production, however, is available directly from USDA’s Natural Resources Conservation Service under the Environmental Quality Incentives Program.

There are currently 86 organic farms certified, and 16 registered exempt, by MDA. Registered exempt farms are exempt from certification, due to having gross sales of organic products of \$5,000 or less, but still must comply with NOP production requirements in order to sell products as organic. Of the 86 certified farms, 22 have additional acreage in transition to organic production and 1 additional farm is transitioning under an MDA transitional certification, which allows transitioning farms to ensure compliance with NOP during the transition period leading up to certification.

MDA indicates there are also additional certified organic farms in the State other than those certified by MDA (NOP also accredits private businesses and organizations as certifying agents, in addition to State agencies) as well as other farms transitioning without MDA transitional certification.

State Fiscal Effect: Due to the continuation of MOTIPP, special fund revenues and expenditures may increase by up to \$60,000 annually from fiscal 2013 through 2015, reflecting the receipt of federal or other (non-State) funding for the program and payments made to producers for eligible costs associated with transitioning to organic agricultural production. The estimate assumes:

- a maximum of 30 producers receive funding each year;
- each producer only receives funding for up to 20 acres, limiting the maximum payment to each producer to \$2,000; and
- the Organic Agriculture Development Fund will hold only the funding for financial assistance provided to producers, and not funding for administrative costs of the program.

Legislative Services notes that no federal or other non-State funding has been available to this point to develop and implement the program and it is unclear whether a future source of funding will be available.

MDA advises that developing, implementing, and administering MOTIPP will require a portion (0.3) of an administrator position and associated ongoing operating expenses at a cost of \$20,557, \$21,564, and \$22,623 in fiscal 2013, 2014, and 2015, respectively. Given that Chapters 553/554 of 2009 indicate that the Acts may not be interpreted as requiring the use of State funding for the establishment and implementation of the program, these costs/administrative responsibilities, along with the responsibility of complying with the annual reporting requirement established by Chapter 553/554 of 2009, will need to be accounted for with federal or other funding or be absorbed within existing resources. Administering the program with existing resources, however, will divert staff time away from existing responsibilities.

Small Business Effect: Farmers interested in transitioning to organic production may benefit from any available funding under the program as extended by the bill. The farmers, however, also will be committed to maintaining organic certification for five consecutive years once certified. MDA indicates that the majority of transitioning farms are small businesses.

The 2008 Organic Production Survey, conducted by USDA's National Agricultural Statistics Service, indicates that there were 129 certified or exempt organic farms and a

total of \$10.4 million in organic product sales in Maryland in 2008. The majority of the 114 farms the organic product sales were attributed to had relatively smaller amounts of sales, with over two-thirds selling less than \$40,000 of organic products.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Agriculture, U.S. Department of Agriculture, Department of Legislative Services

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ncs/lgc

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