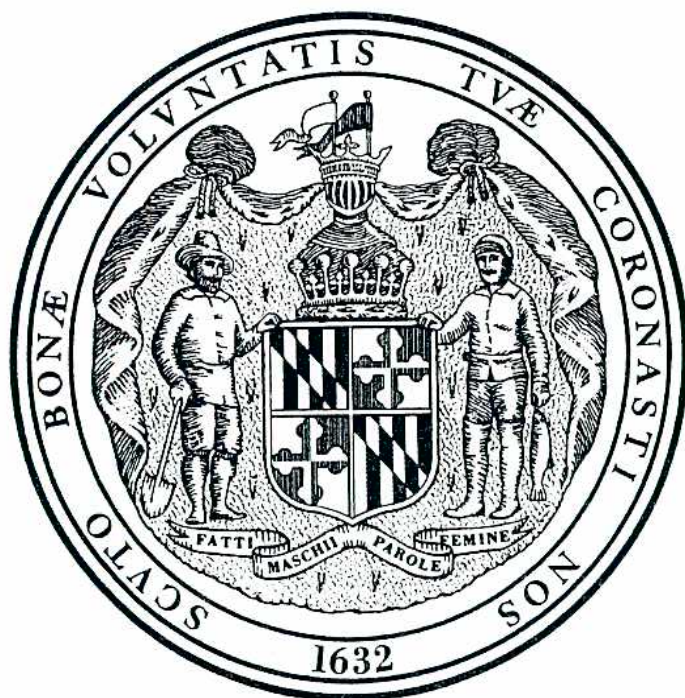


REPORT OF THE TASK FORCE ON RESOURCE BASED INDUSTRY IN MARYLAND



ANNAPOLIS, MARYLAND
JANUARY 2002

For further information concerning this document contact:

Library and Information Services
Office of Policy Analysis
Department of Legislative Services
90 State Circle
Annapolis, Maryland 21401

Baltimore Area: 410-946-5400 • Washington Area: 301-970-5400
Other Areas: 1-800-492-7122, Extension 5400
TDD: 410-946-5401 • 301-970-5401
Maryland Relay Service: 1-800-735-2258
E-mail: libr@mlis.state.md.us

The Department of Legislative Services does not discriminate on the basis of race, color, national origin, sex, religion, or disability in the admission or access to its programs or activities. Sherry M. Little has been designated to coordinate compliance with the non-discrimination requirements contained in Section 35.107 of the Department of Justice regulations. Requests for assistance should be directed to Ms. Little at the telephone numbers shown above.



THE MARYLAND GENERAL ASSEMBLY

ANNAPOLIS, MARYLAND 21401-1991

January 31, 2002

The Honorable Parris N. Glendening
Governor of Maryland

The Honorable Thomas V. Mike Miller, Jr.
President of the Senate

The Honorable Casper R. Taylor, Jr.
Speaker of the House

Gentlemen:

On behalf of the Task Force on Resource Based Industry in Maryland, we are pleased to submit a report of the task force's final recommendations.

The 17-member task force was established in the fall of 2000 pursuant to Chapter 433 of the Laws of Maryland (2000). It was charged with examining the need for and the feasibility of establishing a financing development authority to assist Maryland's agriculture, fishing, forestry, and mining extraction industries. Specifically, the task force was required to: (1) consider the types of loans, financing, training, technical and business planning assistance services and other programs that a financing development authority should implement; (2) consider the amount in which a financing development authority should be funded; and (3) consider whether the financing development authority should be an independent State government entity or be incorporated into an existing State government agency.

Chapter 196 of the Laws of Maryland (2001) extended the task force through January 31, 2002, expanded the membership to 21 members, and required that the task force's final recommendations be based on a comprehensive interagency assessment of the needs of affected industries. During the 2001 interim, a workgroup of the task force sought and received permission to hire consultants to conduct such a needs assessment. Based on a survey of affected industries and related organizations, the consultants concluded that in today's rural economies there seems to be no compelling need for a new financing development authority at this time. However, the consultants made several recommendations to the task force, including:

- conduct a full scale economic impact study of resource based industries;
- sponsor regular seminars to improve the network;
- identify or create a point person staff position for resource based industries;
- enhance or create a pool of grant funds for research and development; and

- address the inclusion of resource based industries in the charter of the Department of Business and Economic Development.

The legislation extending the task force required it to report its final recommendations to the Governor and the General Assembly on or before December 31, 2001. However, in the course of conducting its work this interim, the task force determined that it needed more time to thoroughly consider the findings of the needs assessment conducted by the consultants. In light of the importance of the task force's work, the task force sought and received permission from the General Assembly to extend its reporting deadline until January 31, 2002.

This report describes the final recommendation of the task force. At its last meeting, the task force agreed that its charge to examine the need for and the feasibility of establishing a financing development authority had been fulfilled. Based on the findings of the needs assessment, however, members agreed that additional work related to the economic development of resource based industries is needed. Accordingly, the task force recommends that it be extended for one year and five months and recharged to examine the current and anticipated economic development needs of resource based industries and to develop related recommendations. To reflect this new charge, the task force recommends that it be renamed as the Task Force on Resource Industry Business Development.

Under the task force's recommendation, the task force membership would be modified and the task force would be recharged to: (1) establish an interagency workgroup and its charge; (2) study the need for grants and loans for niche market development, technology transfer, research and development, and micro-enterprise development; (3) consider the consultants' recommendations relating to creating a staff position to act as an information clearinghouse, enhancing or creating a pool of grant funds for innovation research, and sponsoring seminars to improve the economic development network; (4) develop specific recommendations for improving the economic development of resource based industries and for improving innovation, information sharing, technology transfer, coordination, and business training; (5) monitor the performance and progress of State agencies in their service of resource based industries; and (6) monitor relevant economic impact studies. The task force would be required to submit a report of its recommendations to the Governor and the General Assembly by September 30, 2003. The task force would sunset on October 31, 2003. Draft legislation implementing the task force's recommendation is included in the report as **Appendix 3**.

The task force looks forward to the work that lies ahead with its refocused charge.

Sincerely,

Senator Thomas M. Middleton
Senate Chairman

Delegate Charles A. McClenahan
House Chairman

cc: Members of the Task Force on Resource Based Industry in Maryland
Members of the Senate Education, Health, and Environmental Affairs Committee
Members of the House Environmental Matters Committee
Members of the Rural Caucus
Mr. Karl S. Aro
Mr. Warren G. Deschenaux

Task Force on Resource Based Industry in Maryland Membership Roster

The Honorable Thomas M. Middleton (Senate Co-Chairman)

The Honorable Charles A. McClenahan (House Co-Chairman)

J. Lowell Stoltzfus	Senator, State of Maryland
Barry Glassman	Delegate, State of Maryland
Bob Agee	Mineral Extraction Industry
Don Darnall	Maryland Food Center Authority
Gerald P. Duckett	Western Maryland "One Maryland" Task Force
J. Philip Gottwals	Forum for Rural Maryland
Robert D. Halman	Department of Agriculture
Jim Hinebaugh	Garrett County Economic Development Department
Steve Koehn	Department of Natural Resources
Jim Mallow	Maryland Forests Association
Andrew McLean	Rural Commercial Finance and Lending Industry
William Miles	Maryland Forestry Task Force
Rich Novotny	Fisheries Industry
Edwin Richards	Eastern Shore "One Maryland" Task Force
David Ryan	Salisbury-Wicomico Economic Development, Inc.
Vernon Thompson	Department of Business and Economic Development
Linda Vassallo	Calvert County Department of Economic Development
James C. Wade	Maryland Cooperative Extension
Steve Weber	Agricultural Industries

Staff

Lesley Frymier
Margaret McHale

Contents

Letter of Transmittal	iii
Background	1
The Needs Assessment	2
Methods	2
Findings and Recommendations	3
Analysis of the Consultants' Recommendations	3
Recommendation of the Task Force	5
Other Issues	6
Appendices	
Appendix 1 - Minutes of Task Force Meetings	7
Appendix 2 - Consultants' Final Report to the Task Force	45
Appendix 3 - Draft Legislation	103
Appendix 4 - Other Issues Raised by Task Force Members	111

Report of the Task Force on Resource Based Industry in Maryland

Background

Chapter 433 of 2000 enacted the Task Force on Resource Based Industry in Maryland to examine the need for, and the feasibility of, establishing a finance development authority to assist Maryland's farming, fishing, forestry, and mining extraction industries with loans, financing, training, and technical and business planning assistance services. The task force was required to:

- consider the types of loans, financing, training, technical and business planning assistance services and other programs that a financing development authority should implement;
- consider the amount in which a financing development authority should be funded;
- consider whether the financing development authority should be an independent State government entity or be incorporated into an existing State government agency;
- develop recommendations regarding the establishment of the financing development authority; and
- report its recommendations to the Governor and the General Assembly by December 1, 2000.

The task force issued a report of its preliminary findings and recommendations in January 2001. In that report, the task force recommended that it be extended in order to further examine the feasibility of establishing a financing development authority for resource based industries. The task force also recommended that a comprehensive interagency needs assessment be conducted in order to better understand the volume of loans and grants needed to adequately address the needs of resource based industries.

Chapter 196 of 2001 implemented the task force's preliminary recommendations. Specifically, it extended the task force through January 31, 2002, and expanded the membership of the task force to include a representative from the Maryland Food Center Authority (MFCA) as well as representatives from three local economic development agencies. Chapter 196 of 2001 also required the task force to report its final recommendations to the Governor and the General Assembly on or before December 31,

2001. The legislation required that the task force's recommendations be based on a comprehensive interagency assessment of the needs of affected industries.

The task force held four meetings during the 2001 interim. At those meetings, the task force was briefed on a number of topics relating to resource based industries. Minutes of each task force meeting from both the 2000 and 2001 interims are presented in **Appendix 1**.

After the first two meetings, it was determined that in order to complete a comprehensive needs assessment, expertise beyond that of the task force membership was needed. Accordingly, the task force sought to hire a consultant to conduct a thorough needs assessment of Maryland's resource based industries. An interagency workgroup of task force members met to discuss the proposed scope of work and funding sources for such a study.¹ The interagency workgroup received resumes from potential consultants and secured funding for the study from the MFCA and the Economic Action Program of the U.S. Department of Agriculture's Forest Service through the Maryland Department of Natural Resources (DNR). The interagency workgroup requested permission from the presiding officers to hire such a consultant, and on August 31, 2001, permission to do so was granted.

The MFCA, acting on behalf of the interagency workgroup of the task force, administered the contract for the needs assessment. Two consultants, Mr. Don Hering and Ms. Sujata Roy, were jointly hired to conduct the needs assessment. Throughout the contract period, the consultants met with the interagency workgroup and task force staff to update them on the status of the needs assessment. They also met twice with the full task force.

The Needs Assessment

Below is a summary of the consultants' final report to the task force. The full report, which provides a detailed description of the methods used in conducting the needs assessment, an overview of resource based industries, the findings of the needs assessment, as well as other issues, is attached as **Appendix 2**.

Methods

In conducting the needs assessment, the consultants interviewed 90 organizations and individuals that support or advocate for the resource based

¹The interagency workgroup consisted of a representative from each of the following agencies: the Maryland Department of Agriculture, the Department of Business and Economic Development, the Department of Natural Resources, the Maryland Cooperative Extension, the Maryland Food Center Authority, and the Forum for Rural Maryland.

industries, companies in the resource based industries, financing entities, and economic development agencies. The consultants also contacted more than 25 additional individuals for background information for the study.

Findings and Recommendations

Based on the interviews, the consultants found that in today's rural economies, there is no great need for additional lending to resource based industries in Maryland. Accordingly, the consultants conclude that the establishment of a financing development authority for resource based industries is not recommended at this time. However, the consultants noted that there was a sense among industry groups, regulatory agencies, and support organizations (collectively referred to as "infrastructure organizations" in the consultants' report) that several areas of development require State attention in order to maintain the resource based industries as the backbone of rural communities in Maryland. Specifically, the need for public education, better communication between business operators and State agencies, innovation and technology transfer, and management and marketing training was raised.

The consultants also noted that credit availability runs in cycles. Now is the time to lay the foundation for continued financial access by improving the economic development network and by developing a staff position to act as a facilitator, coordinator, and point person for resource based projects.

Based on the findings of the needs assessment, the consultants made several recommendations to the task force, including:

- conduct a full-scale economic study of resource based industries;
- sponsor lenders' seminars to improve the economic development network;
- identify or create a staff position that specializes in facilitating development of resource based industries and that can serve as an information clearinghouse;
- enhance or create a pool of grant funds for innovation and research; and
- refine program eligibility language of the Department of Business and Economic Development (DBED) to specifically include resource based industries.

Analysis of the Consultants' Recommendations

Conduct a full-scale economic study of the resource based industries. The task force notes that currently, the University of Maryland is conducting an economic study of the agricultural industry in Maryland. As of the publication of this report, however,

final results of that study were not yet available. In addition, the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDAF) Board has recommended to the Board of Public Works that an economic impact study of resource based industries be conducted on a regional and county basis. The MAERDAF Board recommended that Salisbury University conduct the study. The Board of Public Works will be considering this recommendation in January 2002. The task force believes that this study, if completed, would address the consultants' recommendation.

Sponsor regular seminars to improve the economic development network. The task force agrees that improving the economic development network is essential to maintaining resource based industries in Maryland. The task force notes that currently seven counties (Carroll, Cecil, Harford, Howard, Frederick, Montgomery, and St. Mary's) employ an agricultural economic development specialist to focus on business retention, expansion, and attraction. An expansion of this work for the more rural counties, perhaps through the existing regional councils, should be considered.

Identify or create a staff position that specializes in facilitating development of resource based industries and can serve as an information clearinghouse. The task force believes that while a full-time staff position may be needed, at this time it is not clear where such a position would be housed and what resources would be needed to support such a position. The task force believes that the State should begin to consider where such a position could be housed. Specifically, the potential for such a position to be located in an independent State agency, such as the Forum for Rural Maryland or the MFCA, should be researched. The task force has addressed this issue in its final recommendation, as described below.

Enhance or create a pool of grant funds for innovation and research. The task force has not specifically focused on grants for innovation and research. Further research is necessary before a new grant program could be recommended. The task force has addressed the need to further consider grants for innovation and research in its final recommendation, as described below.

Refine DBED's program eligibility language to specifically include the resource based industries. The task force notes that the Maryland Economic Development Commission has adopted agriculture and forestry as growth industries, and based upon the recommendation of that commission, DBED has included agriculture and forestry as eligible industry sectors under the Maryland Economic Development Authority and Assistance Fund (MEDAAF) statute. In its January 2001 report to the Governor and the General Assembly, the task force noted that it expects DBED to take steps to incorporate all resource based industries in its strategic plan and its individual program goals. The task force also urged DBED to include all resource based industries as eligible industry sectors under the MEDAAF statute.

Recommendation of the Task Force

Based on the findings of the comprehensive needs assessment and the recommendations made by the consultants, the task force has developed one recommendation, which is described below.

Recommendation:

The task force recommends that the task force be extended for one year and five months and be recharged to examine current and anticipated economic development needs of resource based industries and to develop related recommendations. The name of the task force should be changed to the Task Force on Resource Industry Business Development to reflect the new focus of the task force.

What changes would be made to the current membership?

The task force believes that the current membership should be expanded to include:

- one representative from each of the four regional councils (Tri-County Council for Southern Maryland, Tri-County Council for Western Maryland, Tri-County Council for the Lower Eastern Shore, and the Mid-Shore Regional Council), to be appointed by the respective council's executive director;
- one local agricultural economic development specialist, to be appointed by the Forvm for Rural Maryland;
- one representative from the Maryland Watermen's Association; and
- one representative from the Maryland Nursery and Landscape Association.

In addition, the task force should add an additional member from DNR to ensure that both the Fisheries Service and the Forest Service are represented on the task force. The existing member of the task force that represents the rural commercial finance industry would be removed from the task force as recharged. Accordingly, the task force would consist of 28 members.

Staffing for the task force would continue to be provided by the Department of Legislative Services, with assistance from the Forvm for Rural Maryland. The task force would be required to submit a report of its recommendations to the Governor and the General Assembly by September 30, 2003. The task force would sunset on October 31, 2003.

How would the task force's responsibilities be changed?

Under its new charge, the task force would be required to:

- establish an interagency workgroup and its charge (the interagency workgroup would be called the Interagency Resource Industry Consortium (IRIC) and would consist of the members of the task force from the Maryland Department of Agriculture, DBED, DNR, MFCA, Maryland Cooperative Extension, and the Forvm for Rural Maryland);
- study the current and anticipated needs for grants and loans for niche market development, technology transfer, research and development, and micro-enterprise development for resource based industries;
- consider the consultants' recommendations relating to creating a staff position to act as an information clearinghouse, enhancing or creating a pool of grant funds for innovation and research, and sponsoring seminars to improve the economic development network for resource based industries;
- develop specific recommendations for improving the economic development of resource based industries and for improving innovation, information sharing, technology transfer, coordination, and business training;
- monitor the performance and progress of State agencies in their service of resource based industries; and
- monitor relevant studies, including those conducted by the University of Maryland and Salisbury University.

The task force would have the authority to establish ad hoc committees as necessary to fulfill its charge.

Draft legislation to implement the task force's recommendation is attached as **Appendix 3**. The bill will be cross-filed.

Other Issues

Several task force members identified a number of issues related to resource based industries that warrant discussion in this report, even though they may fall outside the specific jurisdiction of the task force. Specifically, several members noted that the regulatory process in the State hampered the economic development of resource based industries. Specific items raised by task force members are attached as **Appendix 4**.

Appendix 1

Minutes of the Task Force Meetings

Task Force on Resource Based Industry in Maryland

Draft Minutes

October 17, 2000, Meeting

**James Senate Office Building, 2nd Floor Conference Room
9:30 a.m. to 11:40 a.m.**

Members in Attendance:

Senator Middleton (co-chair), Delegate McClenahan (co-chair), Senator Stoltzfus, Delegate Glassman, Bob Agee, Gerald Duckett, Philip Gottwals, Jim Mallow, Andrew McLean, William Miles, Rich Novotny, Brad Powers, Edwin Richards, Vernon Thompson, James Wade.

Others in Attendance:

Lesley Frymier (Legislative Services staff), Valerie Gonlin, Vince Guida, Ernie Kent, Brian Levine, Kenneth Lewis, Steve McHenry, Jody Minnich (Legislative Services staff), Louise Beauregard Meyers, Emily Wilson (for member Steve Weber).

I. Introductions and Welcome

Senator Middleton and Delegate McClenahan welcomed the members to the initial meeting of the Task Force on Resource Based Industry in Maryland. Senator Middleton acknowledged the significance of the task force's responsibilities and emphasized the need for cooperation among the State agencies involved -- the Department of Business and Economic Development, the Department of Agriculture, and the Department of Natural Resources. Members introduced themselves and identified the agencies or industries they represent. Senator Middleton introduced the task force staff, Jody Minnich and Lesley Frymier. Jody Minnich provided an overview of the legislation.

II. The Origins of the Task Force

Steve McHenry from the Forvm for Rural Maryland highlighted the need for a discussion between all interested parties to determine the best way to assist Maryland's resource based industries. Philip Gottwals, task force member from the Forvm, further highlighted the need for developing a partnership and having a broad discussion among policy makers to address the shortage of risk capital.

III. Agency Comments

Department of Business and Economic Development (DBED). Vernon Thompson explained that most of DBED's programs focus on industry development and that the performance standard most used is job creation. DBED sees a need to broaden the focus of its financing programs, but they are already stretched tightly.

Maryland Department of Agriculture (MDA). Brad Powers discussed the need for assistance from MDA's perspective. Mr. Powers indicated that the task force needs to remember that many of these businesses fail and that the industries are high-risk, long-term investments with high capital costs. He identified the need for business planning services in addition to funding, and that the task force's strategy should be economic development, not just financing.

Department of Natural Resources (DNR). Jim Mallow stated that assisting these industries is our best hedge against further sprawl and fragmentation. The industries may employ a small number of people, but the rural communities where these industries are located depend on them.

IV. Discussion of Workplan

Senator Stoltzfus mentioned the need to discuss regulatory issues that could impede the development of resource based industries. Senator Middleton indicated that this would be added to the draft workplan.

V. Roundtable

Representatives from different geographic areas of the State briefly discussed the needs in their respective areas. Senator Middleton, representing Southern Maryland, mentioned that although the Governor has committed funding to diversify agriculture in the area, he is concerned about the conversion of land out of agricultural use. He suggested one way to address this is to float bonds to purchase development rights. Edwin Richards, representing the Eastern Shore, discussed the need for diversification as well as maintenance of existing industries. Gerry Duckett, representing Western Maryland, highlighted the need to assist Maryland's mineral extraction industries. Delegate Glassman, representing Harford County, highlighted the need to develop value-added markets in areas with suburban pressures.

Industry representatives briefly addressed what they see as the needs for their respective industries. Bill Miles, representing the forestry industry, highlighted the importance of the industry to the State and identified the key issues facing the industry as modernization and efficiency. Bob Agee, representing the mining extraction industry, emphasized the need for training, technical assistance, and business planning assistance to develop value-added markets. Emily Wilson, representing the agriculture industry, focused her discussion on regulatory impediments, smart growth issues, and the

need to disseminate information to these industries so they know what is available to them. Andrew McLean, representing the rural commercial finance and lending industry, suggested that one option for assistance would be to provide down payment assistance to make resource based industries more attractive to lenders.

Senator Middleton suggested that in light of the rising cost of fuel and environmental issues surrounding gasoline additives, another industry the task force should address is the production of ethanol.

VI. General Discussion

An underlying theme was the need to assist in the development of value-added, on-site production facilities. In addition to financing, several members indicated the need for business planning services. Impediments to growth, such as regulatory issues and priority funding areas, were also discussed. Members repeatedly indicated the need to develop appropriate performance measures.

Senator Middleton reminded the committee that several of these projects are controversial and that the task force needs to anticipate the reaction of the environmental community and be sensitive to it.

VII. Follow up and Next Meeting

Senator Middleton asked if someone from DBED could give a presentation at the next meeting on the pros and cons of developing a separate financing authority and how it would impact DBED. Mr. Thompson indicated that Bob Brennan would do so, and suggested that the task force also invite Hans Mayer from MEDCO to speak.

Senator Middleton asked if each agency could prepare a white paper addressing the number of requests for assistance received, current performance measures used, the needs of the industry, and the agency's ability to provide for those needs. Senator Middleton also asked the industry representatives to prepare a short briefing paper on the needs of their industries.

Jim Wade from Maryland Cooperative Extension mentioned the availability of federal funding for resource conservation and recommended contacting Dan Kuennan, Director of the Rural Development Center at the University of Maryland-Eastern Shore. Senator Middleton asked if Dan Kuennan could provide the task force with information on what federal funding is available.

The next meeting will be held on **November 1 at 9 a.m.**

Task Force on Resource Based Industry in Maryland

Draft Minutes

November 1, 2000 Meeting

Room 406, Lowe House Office Building
1:30 p.m. to 5:00 p.m.

Members in Attendance:

Senator Middleton (co-chair), Senator Stoltzfus, Delegate Glassman, Gerald Duckett, Philip Gottwals, Jim Mallow, Andrew McLean, William Miles, Rich Novotny, Brad Powers, Edwin Richards, Kevin Simpson, Vernon Thompson, James Wade.

Others in Attendance:

Betsy Allison, Sandy Cohen, Don Darnall, Devon Dodson, Lesley Frymier (Legislative Services staff), Don Hering, Lynn Hoot, Ernie Kent, Dan Kuennan, Brian Levine, Hans Mayer, Steve McHenry, Jody Minnich (Legislative Services staff), John Roen, Larry Simms, Emily Wilson (for member Steve Weber).

I. Introductory Remarks

Senator Middleton welcomed the members to the second meeting of the Task Force on Resource Based Industry in Maryland and discussed the agenda for the afternoon.

II. Briefings

Bob Brennan - Department of Business and Economic Development (DBED)

Mr. Brennan discussed DBED's recent consolidation of programs and explained that although DBED's primary mission is the attraction and retention of jobs, DBED also wants to meet the needs of resource-based industries. Mr. Brennan briefly described DBED's current programs -- MEDAAF, MCAAF, MIDFA, MSBDFA -- and how they could be used to meet these needs. Mr. Brennan explained that DBED has the expertise in lending and the vehicles needed to include resource-based industries in their programs, but added that the expertise of the industries themselves resides in other agencies.

Hans Mayer - Maryland Economic Development Corporation (MEDCO)

Mr. Mayer briefly discussed MEDCO's operations and highlighted the need for a lending agency to understand its clients. Mr. Mayer indicated that MEDCO is not involved in the day-to-day servicing of transactions and that it does not provide technical assistance. Mr. Mayer stated that MEDCO is not large enough to handle the operations of a financing authority dedicated to resource-based industries. Mr. Mayer also added that in his experience at DBED, DBED does not have the knowledge of the industries to house the new authority. Mr. Mayer emphasized the need for local knowledge and lending experience.

Dan Kuennan - Rural Development Center (RDC) at University of Maryland-Eastern Shore

Mr. Kuennan briefly described the RDC and how it operates. Mr. Kuennan indicated that the RDC relies heavily on local lenders and county economic development officers. The RDC is primarily a gap financier, dealing with smaller loans. The RDC works closely with the USDA.

Don Darnall - Maryland Food Center Authority (MFCA)

Mr. Darnall indicated that the MFCA has expertise with small businesses and spends much time learning about the industries that they assist. The MFCA has proposed a project - a food incubator project - that would provide business services, skills, marketing, and financing to assist the agriculture industry. If it gets funding for the project, the MFCA would be in a good position to help with the new authority. If it doesn't, it could still serve as a shell where the new authority could be housed. Currently, the MFCA does not have the lending expertise that would be needed for such an authority. Currently, the MFCA is nonbudgeted. The MFCA's statute and mission would need to be changed to incorporate the new authority. The MFCA would be willing to expand its current board or to create a new board to reflect resource-based industries not currently represented on the board - such as DNR and DBED.

III. White Paper Presentations by Task Force Members

Vernon Thompson - DBED

Mr. Thompson emphasized that DBED has the capability to house the new authority and an interest in being part of the solution to the problem, but there would have to be an investment in staffing and expertise to be effective. Mr. Thompson indicated that regional offices of SBDC could be used to reach the customer. DBED could handle the middle-market loans.

Jim Mallow - DNR

Mr. Mallow identified the need to expand and create business related to fisheries and forestry. Mr. Mallow explained the benefits of the proposed authority to the resource and to the State,

including that these industries reduce sprawl, are consistent with Smart Growth, and perpetuate the retention of open spaces.

Rich Novotny - Fisheries Industry

Mr. Novotny explained the importance of the recreational fishing industry on the State's economy, including secondary impacts on hotels, motels, gas stations, restaurants, and bait and tackle shops. Mr. Novotny indicated that small businesses related to the recreational fishing industry have a difficult time getting loans because of the risk associated with the businesses.

Larry Simns - Maryland Watermen's Association

Mr. Simns agreed with Mr. Novotny and added that from the commercial fishing industry's perspective, loans are needed to upgrade to new technologies.

Emily Wilson - Maryland Farm Bureau

Ms. Wilson indicated that in addition to regulatory reform, technical assistance and the dissemination of information is critical to helping the agriculture industry.

Brad Powers - Maryland Department of Agriculture (MDA)

Mr. Powers explained MDA's Agribusiness Development Program which assists individuals in permitting, licensing, technical assistance, and finding financing. Mr. Powers indicated that there is a need for grants and loans for first-time farmers as well as an interest rate buy-down program for existing farmers. Mr. Powers indicated that because MDA has no lending arm now, it would not be suitable to house a financing authority. Mr. Powers suggested that a new authority should be located outside all of the agencies but related to the agencies.

Bill Miles - Forestry Industry

Mr. Miles discussed needs from the forestry industry's perspective and emphasized the fact that the forestry industry has been identified as a growth industry, along with agriculture, and so it should be a priority in funding.

IV. General Discussion

General discussion focused primarily on what entity would be the most appropriate to house a new authority. From the briefings and discussion, Senator Middleton concluded that no one agency or organization had all the skills necessary to house a new authority. Phil Gottwals suggested that a hybrid of different agencies be used to handle the different components needed - small business assistance, middle-market deals, and technical assistance. There was general consensus that the

regional approach to providing technical assistance would be most appropriate. Phil Gottwals suggested that the “back office” of a new authority could be centrally housed and could be responsible for applications, making the deals, and technical assistance training. He then suggested that a circuit rider system could be used to deliver the technical assistance at the local level.

Senator Middleton asked all the agency members where a new authority should be housed. MDA indicated the MFCA would be the best place. DNR indicated that DBED would be the most appropriate vehicle. DBED indicated that there doesn't seem to be an external organization that has the broad scope of what is needed, and that DBED could put together an effective collaboration.

V. Follow up and Next Meeting

Senator Middleton suggested that a workgroup of task force members be established to develop a skeletal model of a proposed new authority and how it would work. The workgroup will consider needs and look at the experience of other states in developing a model.

The next meeting will be held on **November 17 at 12 p.m.**

Task Force on Resource Based Industry in Maryland

Draft Minutes

November 17, 2000 Meeting

**Room 150, Lowe House Office Building
12:00 p.m. to 2:10 p.m.**

Members in Attendance:

Senator Middleton (co-chair), Senator Stoltzfus, Bob Agee, Gerald Duckett, Philip Gottwals, Andrew McLean, William Miles, Rich Novotny, Brad Powers, Vernon Thompson, James Wade.

Others in Attendance:

Valerie Connelly (for member Steve Weber), Sandy Cohen, Don Darnall, Lesley Frymier (Legislative Services staff), Valerie Gonlin, Don Hering, Brian Levine, Steve McHenry, Jody Minnich (Legislative Services staff).

I. Introductory Remarks and Presentation of Proposed Model

Senator Middleton welcomed the members to the third meeting of the Task Force on Resource Based Industry in Maryland and discussed the agenda for the afternoon. Senator Middleton indicated that the workgroup had met and had developed a skeleton proposal for the task force's review and discussion. Lesley Frymier then presented the proposed model to the task force.

II. Discussion of Proposed Model

Mr. Thompson indicated that he thought the development of performance measures shouldn't rest solely with DBED. Perhaps there should be general guidelines in the proposed legislation.

Mr. Powers expressed concern over a large advisory council. Senator Middleton clarified that it will be smaller than 40 members, but that the council will have the authority to establish ad hoc committees as needed.

Mr. Wade cautioned that in developing legislation to implement the proposal, the task force needs to be careful about how it defines "resource based industry". Senator Middleton responded that questions about eligibility, if not specified in the legislation, will be handled by the loan review committee.

Mr. Miles expressed his concern that if middle market loans are going to be handled by DBED within its current capacities of MEDAF, what is going to make them provide loans to these industries? In further discussion between Mr. Miles, Mr. Thompson, and Senator Middleton, it was suggested that MEDAF could be amended to add in resource based industries under the special purposes loans. Senator Stoltzfus clarified that there is no set-aside currently for the special purposes loans. Ms. Minnich indicated that the only benefit these industries receive is reduced requirements. Mr. Miles suggested that in order to protect the money from other uses, perhaps all the money could be put into the MFCA and that DBED could underwrite the loans. Mr. Thompson indicated that he didn't think this would work. Mr. McLean suggested that in order to make sure resource based industries are serviced appropriately, an additional staff member could be hired within DBED in order to focus on these industries. Mr. Thompson agreed that perhaps this would set an expectation within DBED to help these industries.

Mr. Agee asked if the Maryland Department of the Environment should be involved. Several task force members indicated that this was not necessary. Mr. Agee then made a comment about the proposal to have DBED encourage local jurisdictions to specify resource based industries in their local economic development plans. He indicated that many county comprehensive plans have statements about things like this that they are supposed to mention, but that often these statements are meaningless. He expressed his concern that just encouraging locals to focus on resource based industries won't ensure that they will do so. Mr. Thompson indicated that one way to deal with this is to have the MFCA do it if locals don't.

On the topic of technical assistance, Mr. Wade expressed his concern that this could become an unfunded mandate on Maryland Cooperative Extension. He also clarified that Extension should not serve on any of the committees.

III. Follow up

Senator Middleton suggested that the task force direct the staff to develop a report of the task force's findings and recommendations and develop legislation to implement the proposal as discussed. Mr. Agee made a motion to direct the staff to develop the report. Senator Stoltzfus seconded the motion. The motion passed unanimously. Mr. Duckett made a motion that the staff draft legislation. Mr. Gottwals seconded the motion. The motion passed unanimously.

Senator Middleton indicated that the task force could either have another meeting to discuss the report, or the staff could send it to the task force for comments. Senator Middleton suggested that staff send a draft report to task force members by December 15 and that members would have until Christmas to provide comments. The task force will reconvene for a final meeting sometime between January 5-10, 2001. Due to the statutory reporting deadline of December 1, Senator Middleton indicated that the task force will need to request an extension from the presiding officers until after the first of the year. Mr. Agee made a motion that the task force formally request such an extension. Senator Stoltzfus seconded the motion. The motion passed unanimously.

Task Force on Resource Based Industry in Maryland

Draft Minutes

January 11, 2001 Meeting

James Senate Office Building, Presidential Wing
11:00 a.m. to 12:30 p.m.

Members in Attendance

Senator Middleton (co-chair), Delegate McClenahan (co-chair), Senator Stoltzfus, Delegate Glassman, Bob Agee, Philip Gottwals, Andrew McLean, William Miles, Brad Powers, Edwin Richards, Kevin Simpson, Vernon Thompson, Steve Weber

Others in Attendance

Sandy Cohen, Don Darnall, Lesley Frymier (Legislative Services staff), Steve McHenry, Jody Minnich (Legislative Services staff), Emily Wilson (for member James Wade)

I. Introductory Remarks

Senator Middleton welcomed the task force members and thanked them for coming. He noted that the task force has had near perfect attendance at every meeting, and he thanked everyone for their hard work.

Senator Middleton suggested that the task force begin by discussing each recommendation in the draft report.

II. Discussion of Recommendations

Draft Recommendation #1 read as follows:

Establish a new program within the Maryland Food Center Authority (MFCA) to provide financial and technical assistance to Maryland's resource based industries. The MFCA is a non-budgeted State agency. It's current mission is to develop, own, operate, improve and maintain real estate projects that provide economical, sanitary, and modern facilities for food distribution in the State. The MFCA currently has statewide jurisdiction, the authority to issue bonds, and extensive experience with project management. The MFCA has also expressed an interest in becoming more involved with resource based industries, as evidenced through its proposed Agribusiness Incubator

Program. The MFCA is governed by a 12-member board and an 11-member advisory council. The task force proposes an expansion of the MFCA's statute to include as part of its mission to promote, develop, and manage an environment where resource based industries can thrive. The task force proposes that the MFCA work in collaboration with DBED, other State agencies, local governments, and related organizations in order to meet its expanded mission.

The task force recommends that the new program be a Statewide clearinghouse for financial and technical assistance to resource based industries. The task force recommends that the MFCA:

- manage the new program;
- provide small grants and loans up to \$250,000;
- refer larger deals to DBED; and
- develop and maintain a technical assistance network by training appropriate State and local agency personnel and by providing specialized assistance providers in various regions of the State.

Discussion

After much discussion about the need for more information, Mr. Gottwals made a motion that the task force recognizes the importance of establishing a new program as outlined in the draft recommendation, but that the task force be extended beyond the January 15, 2001 reporting deadline, that a comprehensive needs assessment be conducted (with the assistance of the State agencies represented on the task force, the University System of Maryland, the Maryland Food Center Authority, a representative of the commercial fisheries industry, and local governments), and that the task force issue a final report of its recommendations after the needs assessment is completed. The motion also recommended that the MFCA be added to the task force membership and that staff be directed to rewrite the report based on the outcome of today's discussion. The motion also recognized the importance of the draft recommendation #2 (described below). The motion was seconded by Senator Stoltzfus. The motion was approved unanimously.

Draft Recommendation #2 read as follows:

Address need for large deal financing by specifying resource based industries as potential recipients of special purpose loans within the Maryland Economic Development Assistance Authority and Fund. Loans from MEDAAF range from \$250,000 to \$10 million. While some resource based businesses may be eligible for MEDAAF assistance, the task force contends that the eligibility should be explicit in statute. DBED has five financing capabilities to choose from under MEDAAF. The special purpose loan capability ensures that certain industries and initiatives deemed critical to the State's economy have access to funds. Currently, Brownfields, seafood and aquaculture, day care and animal waste projects are specifically identified as eligible for special

purpose loans. This eligibility affords such businesses certain exemptions from local participation requirements and other MEDAAF requisites. The task force recommends that “resource based industry projects” be added to the MEDAAF statute so as to include projects in agriculture, forestry, fishing, and mining.

Discussion

Mr. Thompson indicated that DBED is hesitant about amending the MEDAAF statute, and argued that DBED already has the authority to lend to these industries and has the authority to identify resource based industries as eligible industry sectors under MEDAAF. He recommended that the Authority be requested to include these industries. Senator Middleton suggested that budget bill language could be drafted to require this. Mr. Powers expressed his concern that if DBED does this internally, rather than with a statute change, how will additional funds be added to MEDAAF? Mr. Thompson suggested that this will be an incremental process.

Mr. Miles expressed his concern that DBED’s argument is a “trust me” argument and that just because DBED is saying they’ll pay more attention to resource based industries, it doesn’t mean that these industries will get any more funding than they do currently. Mr. Thompson agreed that if it is a bad deal for the State, DBED won’t do it, but that by recognizing them as eligible industry sectors, they will get more recognition than they do now.

Senator Stoltzfus indicated that everyone will be keeping a close eye on DBED this year and that if DBED doesn’t respond appropriately, that ultimately a statute change may be needed. Mr. Thompson argued that DBED needs to be armed with the capacity to do so by having performance criteria changed.

Senator Middleton suggested that Mr. Thompson, Mr. Miles, and Mr. Gottwals draft budget bill language that addresses these concerns by February 15, 2001.

Mr. Thompson made a motion to put together a committee to develop the budget bill language. The motion was seconded and passed unanimously. Mr. Gottwals made a motion to direct Legislative Services to draft legislation to extend the task force, modify its membership, and require the needs assessment. The motion was seconded by Delegate Glassman and passed unanimously.

Draft Recommendation #3 read as follows:

Encourage the inclusion of resource based industries in economic development strategic plans at both the State and local level. The Maryland Economic Development Commission establishes economic development policy and drafts a strategic plan for economic development in the State. Agriculture and forestry have been adopted by the Commission as growth industries. Based upon the recommendation of the commission, DBED has included agriculture and forestry as eligible industry sectors under the MEDAAF statute. As such, businesses engaged in these two industries may compete with other eligible businesses for financial assistance. Conversely, fishing and mining

are not considered eligible industry sectors and therefore are not qualified to receive funding from MEDAAF, except as specified under the special purpose loan program. The task force encourages that DBED and the Commission consider a statewide plan for all resource based industries.

Furthermore, DBED should encourage the inclusion of resource based industries in local economic development plans. Under MEDAAF, local governments are eligible for up to 50% of the costs of preparing a county or municipality's strategy or plan for economic development. Additionally, counties are required to submit economic development plans to DBED for approval to qualify as a distressed county. Only distressed counties are eligible for assistance under the Smart Growth Economic Development Infrastructure Fund (One Maryland). The task force contends that DBED should use the opportunities afforded by these programs to encourage localities to address resource based industry needs within their economic development plans.

Discussion

Senator Middleton stated that he believed encouraging DBED to do this is appropriate. Mr. Thompson indicated that perhaps the Forum for Rural Maryland could make a formal request to DBED and the Governor that fishing and mining extraction be added to the list of eligible industry sectors under MEDAAF. Senator Middleton suggested that he'd be happy to speak to the Authority to brief them on the task force's recommendations.

Draft Recommendation #4 read as follows:

Conduct a comprehensive, interagency needs assessment. Although the task force has identified various types of assistance that are needed by resource based industries in Maryland, additional information is needed to determine the level of demand for specific types of assistance. Accordingly, the task force recommends that a comprehensive survey of affected industries be performed in order to better understand the volume of loans and grants needed to adequately address the needs of resource based industries. It is anticipated that this assessment will determine the level of State funding needed in order to start the new program. The task force recommends that a report of the findings of the needs assessment be provided to the General Assembly prior to any appropriations are made for the program.

Discussion

Mr. Thompson suggested that this recommendation be amended to include eligibility criteria, performance expectations, and return on investment in order to make it clear that these industries will be judged differently than other industries.

Mr. Agee asked how the needs assessment would be funded. Senator Middleton indicated that it was their understanding that the assessment could be accomplished within existing budgeted resources of entities involved.

Mr. Agee made a motion to accept the report with modifications made by staff so that it can be submitted by the deadline of January 15, 2001. Andrew McLean seconded the motion. The motion passed unanimously.

The meeting adjourned at approximately 12:30 p.m.

Task Force on Resource Based Industry in Maryland

Draft Minutes

August 1, 2001 Meeting

**Miller Senate Building, 3 West
10:00 a.m. to 1:00 p.m.**

Members in Attendance

Senator Middleton (co-chair), Delegate McClenahan (co-chair), Senator Stoltzfus, Bob Agee, Philip Gottwals, Robert Halman, Jim Hinebaugh, Steve Koehn, Andrew McLean, William Miles, Edwin Richards, David Ryan, Vernon Thompson, James Wade.

Others in Attendance

Betty Allison (for member Don Darnall), Christine Bergmark, Robert Chase, Sandy Cohen, Valerie Donlon, Jessica Fritz (for member Steve Weber), Lesley Frymier (Legislative Services staff), Jim Gring, Brian Levine, Steve McHenry, Jody Minnich (Legislative Services staff), Ginger Myers, Harley Speir, Emily Wilson

I. Introductory Remarks

Senator Middleton and Delegate McClenahan welcomed the task force members and thanked them for coming. Task force members, staff, and others present then introduced themselves.

Senator Middleton asked the task force staff to review the work of the task force from last interim and the legislation that was enacted to extend the task force. Lesley Frymier gave a brief overview of the work of the task force from last year, the recommendations that were made in the preliminary report of the task force, and the legislation that was enacted to expand and extend the task force.

The chairmen then welcomed our speakers.

II. Briefings

Robert Chase, University of Maryland

Dr. Chase, Faculty Research Associate in the Department of Agriculture and Resource Economics at the University of Maryland, briefed the task force on the agricultural industry in the State. Dr.

Chase indicated that agriculture faces great challenges in the State in the face of increasing population growth, mounting competition, and the perception of damage to natural resources. In recent years, Maryland agriculture has experienced drought, low commodity prices, the concern over environmental damage, and urban encroachment. Farms numbers have decreased, and farms have gotten smaller. Still, agriculture is a major part of Maryland's economy. The study that is being done at the University will focus on what can be done to sustain the industry in the State. This will include a comprehensive assessment of the current state of affairs as well as alternative policies to help sustain agriculture in the future.

Dr. Chase provided several statistics relating to agriculture in Maryland. Farmland as a share of total land is one-third of Maryland's landbase. However, like other states, in recent years, there has been a decline in the number of farms, and a loss of farmland in the State. One clear trend in the industry is the increasing age of farmers. Currently, there are 2 million farms in the U.S., and approximately 12,400 in Maryland. Agricultural land use is half of what it used to be. It has decreased from approximately 4.2 million acres to 2.2 million acres. Maryland has lost one farmer and 144 acres of farmland every 33 hours since 1980.

However, there has been increasing public interest in the preservation of agricultural land in the State, fueled by concerns over food production, a healthy and diverse economy, and preserving open space. Urbanization, Dr. Chase stated, is a two-edged sword. While urbanization increases the pressure of conversion of farmland, it also provides value-added opportunities and markets for agricultural products.

Farm income has been increasingly reliant on off-farm income in recent years due to the uncertain income potential of farming. In 1997, the average farm family in Maryland had net earnings of under \$9,000 from farm activities. However, off-farm activities pulled in an average of \$45,000. As a share of the State's economy, agriculture is less than one percent of the gross state product, and accounts for less than one percent of total employment in the State.

In recent years, the mix of agricultural products has changed. While dairy, eggs, livestock, crops, tobacco, and vegetables used to be the major products, broilers now account for 2/5 of the mix, and the greenhouse industry is the fastest growing segment of the agricultural industry in the State. Tobacco, of course, is decreasing rapidly.

Senator Middleton asked where will agriculture be in the future? Will the study look at trends in other countries, the impact of trade agreements on agriculture in Maryland? Dr. Chase responded that yes, the study will look at change and a number of factors. Senator Middleton asked if he could give a sneak preview of these results. Dr. Chase indicated that Bruce Gardner would be able to provide that information at a later date. Senator Middleton suggested that perhaps we should hear from Dr. Gardner in the future. Phil Gottwals made a motion to have Bruce Gardner brief the task force at the next meeting. Senator Stoltzfus seconded the motion. The motion passed unanimously.

Phil Gottwals asked how local governments will use the study to balance economic development in their areas. Dr. Chase responded that benchmarks will be established and the study will look at

various future scenarios of what agriculture may be. Mr. Gottwals also asked if they were using interviews. Dr. Chase indicated that interviews with farmers, commodity groups, and trade associations were conducted.

Andrew McLean expressed his concern over the difference between full and part-time farmers. Dr. Chase indicated that they are trying to account for this in their study.

Harley Speir, Fisheries Service, Maryland Department of Natural Resources

Mr. Speir provided an overview of the fisheries industry in the State. The Chesapeake is a major producer of fish. On average, 44 million pounds of fish are landed each year; half of this is crabs. Other species that have large harvests include finfish, oysters, and soft clams. In total, the dockside value of the commercial catch was \$46 million in 2000. This does not include any other economic impacts, such as to retailers. The economic impact of the commercial fisheries industry has been said to be approximately 2.3 to 2.5 times the dockside value.

DNR licenses commercial anglers. There are 15 types of licenses, ranging from unlimited tidal fish licenses to hook and line licenses. In 2000, approximately 8,800 licenses were sold to approximately 6,700 people. Most of these are for the limited crab catcher license. In Maryland, there is limited entry to the commercial fishing industry. Approximately 120 people are on the waiting list to become commercial fishermen.

The recreational fishing industry is also important in the State. In 2000, 8.6 million pounds of fish were landed recreationally. Although there is no definitive way to value recreational fishing in the State, one way is to look at what anglers spend to go fishing. In Maryland, recreational anglers spent \$743 million in expenditures (including gas, food, lodging, equipment, etc.) on fishing trips in the State. In all the Northeast states, anglers spent \$4.5 billion. The charter industry in Maryland is also increasing. It currently consists of 530 captains. Last year, there were a total of 16,000 trips. At \$350 to \$400 per trip, the industry is estimated at approximately \$5 million annually.

In 2000, approximately 194,000 freshwater recreational licenses and 255,000 tidewater recreational licenses were sold. Eighty-four percent of recreational fishing trips were to tidewater. In 1996, 330,000 residents and 167,000 nonresidents fished in tidewater.

In 2000, 29 species were landed commercially in the State. Sixty-one species were landed recreationally.

Mr. Speir provided more detailed information on several different types of species, including striped bass, oysters, blue crab, croaker, American shad, catfish, and white perch. He also has other data on other species that he will provide the task force.

Senator Middleton asked Mr. Speir if he could give the task force an idea of the impact of various policy decisions and stock populations on harvesters. For example, how are the financial needs of fishermen met when there are low populations or a moratorium? Mr. Speir indicated that during the

striped bass moratorium, the State paid watermen to do other things related to fisheries. Mr. Speir stated that if yields are down, watermen must be flexible and be able to move around to other species. He also indicated that most species are fished at the maximum level and that he doesn't see expansion in the harvest for most species in the Bay.

Bob Agee asked what role aquaculture plays in the fishery industry in the State. Mr. Speir indicated that the Department of Agriculture would be better suited to answer this question. Senator Stoltzfus indicated that there have been a lot of technical problems with aquaculture, and that to date, those operations have not been all that successful.

Mr. McLean asked how many full-time commercial watermen there are, versus part-time. Mr. Speir indicated that of the 6,600 licensees, approximately 3,000 are part-time, and 3,600 are full-time.

Delegate McClenahan asked if the increase in the crab harvest during the time when oyster populations were down was related to an increase in effort. Mr. Speir indicated that in part it was due to an increase in the crab population and in part, an increase in effort.

David Ryan asked what percentage of total employment in the State is within the fisheries industry. Mr. Speir said that although he did not have that data with him, he could find out and would report back to the task force with this information.

Mr. Gottwals asked if it was really possible, from an input/output standpoint, for watermen to switch to other species and be flexible. For example, are the packing houses and equipment substitutable? Mr. Speir indicated that processors do have multiple capabilities.

Mr. Miles expressed concern over the menhaden harvest in Virginia. Delegate McClenahan added that menhaden is the major diet for rockfish. Mr. Speir indicated that there is concern about this, and the Atlantic States Marine Fisheries Commission does have a management plan for this species.

III. Next Steps

Senator Middleton asked for member input on where the task force should go from here. He envisions having two more meetings. He suggested the following speakers for the next meeting: Dr. Gardner (on the agricultural study), Christine Bergmark (on the Southern Maryland findings), someone from MDA on aquaculture. Bill Miles suggested that someone speak on the forestry study. It was also suggested that someone from UMD agricultural research come speak.

Vernon Thompson suggested that we think about the end product and work backwards from there. Senator Middleton suggested the need for hiring a consultant to do a comprehensive needs assessment, as is required by the legislation extending the task force. Valerie Donlan reminded the task force that the legislation and the task force report from January highlighted items to be included, including the expected level of demand, eligibility criteria, and the expected level of investment. Mr. Gottwals reminded the task force that pursuant to the legislation, the needs assessment is to be

an interagency needs assessment. Betty Allison from the MFCA said that Don Darnall contacted one consultant to get an idea of how much it would cost, and that consultant indicated that a three month study would cost approximately \$35,000 to \$50,000. They contacted USDA about funding but have not heard back. She offered that MFCA could chip in.

Mr. Thompson expressed his concern over the timing of such a study, other studies coming out, and the deadlines of the task force. Mr. Miles also expressed his concern over the timing of the task force's work. Mr. Gottwals suggested that the agencies could get together, come up with a game plan, and the consultant could work with the agencies to do the needs assessment. Senator Stoltzfus asked Mr. Thompson if DBED could do any of this. Mr. Thompson said he'd look into it. Steve McHenry suggested that funding for a consultant could potentially come from the Maryland Agricultural Education and Rural Development Assistance Fund, though there might be a technical issue of the money having to go through a nonprofit organization. Steve Koehn said he could probably secure funding from the Economic Action Program of the USDA Forest Service. Maryland gets \$30,000 annually in federal funds from this program, and to date only \$7,000 has been committed.

Senator Stoltzfus suggested that the agencies come up with a proposal. Senator Middleton said the co-chairs will work with the agencies to come up with a proposal, funding alternatives, the scope of the study, and the hiring of a consultant to do the study. The proposal will be faxed to members soon.

Betty Allison made a motion that the co-chairs work with the agencies to discuss a timeline, availability of funds, scope of services for such a study. Bob Agee seconded the motion. The motion passed unanimously.

Next meeting date: August 22 or August 29, from 10 am until 2 pm. Lunch will be provided. Task force members will be notified as soon as possible.

The meeting adjourned at approximately 1:00 p.m.

Task Force on Resource Based Industry in Maryland

Draft Minutes

August 22, 2001 Meeting

**Miller Senate Building, 3 West
10:00 a.m. to 3:30 p.m.**

Members in Attendance

Senator Middleton (co-chair), Delegate McClenahan (co-chair), Bob Agee, Don Darnall, Philip Gottwals, Robert Halman, Steve Koehn, Jim Mallow, William Miles, David Ryan, Vernon Thompson, James Wade

Others in Attendance

Gary Allen, Anirban Basu, Christine Bergmark, Sam Christine, Sandy Cohen, Peggy Collins, Valerie Connelly (for member Steve Weber), Bob Frazee, Lesley Frymier (Legislative Services staff), Jim Gring, Steve McHenry, Jody Minnich (Legislative Services staff), Ginger Myers, Jack Perdue, Donna Sasscer, Edward Webb, Emily Wilson

I. Introductory Remarks

Delegate McClenahan welcomed the task force members and thanked them for coming. He indicated that Senator Middleton would be joining the meeting shortly. He then went over the agenda briefly and welcomed the speakers.

II. Briefings

Dr. Bruce Gardner, University of Maryland

Dr. Gardner elaborated on what Dr. Chase had discussed at the last task force meeting with respect to the study that is underway at the University of Maryland. Dr. Gardner indicated that the study will look at trends as they pertain to farms, and various scenarios to determine what will work to preserve Maryland agriculture, and what the limitations are. For their study, they decided to stick to the central definition of agriculture (farms only, not forestry).

Dr. Gardner reiterated that the biggest enemy of agriculture is urban development. On the other hand, he pointed out that agriculture can't be viable without commercial activity to create the demand for the products.

Dr. Gardner stated that the decline in the number of farms and the amount of farmland in Maryland is consistent with what is happening on a national basis. He explained nine causal factors driving the trends: (1) land conversion to urban development; (2) environmental pressures; (3) labor issues; (4) agricultural policies; (5) market opportunities; (6) value-added; (7) comparative advantage of Maryland agriculture; (8) financing constraints; and (9) lack of investment in agriculture.

Bob Agee asked about value-added processing in urban areas. Dr. Gardner indicated that users with precise specifications are willing to pay a higher amount for the products. Phil Gottwals asked if there are any qualitative factors driving the lack of investment in agriculture. Dr. Gardner suggested that in their focus groups and stakeholder meetings this concern is coming out. David Ryan suggested that perhaps the decline in acreage for agriculture is inevitable. Dr. Gardner responded that, while some farmland will be developed, it should be manageable. Vernon Thompson asked when the report will be final and Dr. Gardner responded that it will be out in December. Mr. Thompson then asked if the report will make recommendations on what areas the State should pay attention to or what areas the State should invest in. Dr. Gardner said that it will elaborate on the investment issue, but it won't make specific policy recommendations. Bill Miles asked if it was possible for them to give the task force a briefing on what the issues are and how the task force can take it to the next level. Christine Bergmark asked about the impact of trade agreements on agriculture in Maryland. Dr. Gardner suggested that, in Maryland, this is not a huge factor.

Delegate McClenahan asked Dr. Gardner to keep the task force informed on the status of the report and its findings.

J. Robert Frazee, Mid-Atlantic Farm Credit

Mr. Frazee briefed the task force on rural commercial financing. He explained that Mid-Atlantic Farm Credit is made up of member-owned cooperatives that provide credit and related services to agriculture. Their mission is to help ensure the health and well-being of agriculture by providing a dependable source of competitive financing to rural America. They obtain funds through the sale of notes and bonds to investors and can provide attractive rates because they are federally sponsored. They offer short, intermediate, and long-term loans for production, operating, machinery, equipment, livestock, and land improvements. Repayment terms match the useful life of assets financed and cash flow. Interest rates are market competitive and may be fixed or variable. They also offer leasing, export/import financing, record keeping and tax preparation, financial planning and investments, crop insurance, credit life insurance, FSA guaranteed loans, IRB financing, and appraisals.

Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, and rural residents, farm-related businesses and producer-owned operations which process and market agricultural products. Full-time farmers and producers of aquatic products are eligible for full

financing of all needs (even non-agricultural needs). Part-time farmers and producers of aquatic products are eligible for full financing of agricultural needs and more limited financing of non-agricultural needs. Farm-related service businesses and processing and marketing operations are eligible for financing related to their business financing needs. Credit risk is determined using traditional criteria for evaluating credit. Loans are generally made based upon the applicant's history and ability to repay loans. Solvency and liquidity is needed to support the business and absorb adversity.

Mr. Frazee then discussed the needs of farmers. While there is a wide and full range of financial products for agriculture, Mr. Frazee indicated that there is virtually no source of venture capital financing for the industry, so this is one niche that could be filled by a new program. The traditional operating structure and ownership has not fostered an environment attractive to venture capitalists. Special cases may merit public financing and services, such as start-up, expansion, or transition modes. They must be operations that will produce products or services to meet market needs; they must have strong management; and the operations must have reasonable prospects for furthering economic development. Specifically, Mr. Frazee listed five needs: (1) longer-term working capital loans; (2) subordinated term debt; (3) interest rate buy downs; (4) guarantees; and (5) business planning and consulting services.

Mr. Thompson asked what the average size farmer is that is borrowing money, what the level of bad debt is, and what the available amount of money to lend to farmers is. Mr. Frazee indicated that there is an unlimited supply of money to lend. Bad debt is less than 25 basis points (they don't lose a lot of money). They finance everyone, from small farmers (5 to 10 acres) to large ones. They do not turn away many people. Mr. Darnall asked what the average loan amount is. Mr. Frazee indicated that it was probably about \$150,000, but that number is misleading. He said the terms vary, but generally range from 4 to 5 years for vehicle loans, 3 to 10 years for equipment, and 15 to 20 years for land. James Wade asked if they operate like commercial banks when it comes to making decisions on risky loans, and Mr. Frazee said yes. Mr. Ryan asked if they were involved in the Small Business Administration guarantees. Mr. Frazee said no, but they were exploring it. Mr. Koehn asked how much went to the forestry industry. Mr. Frazee indicated less than 5 percent of volume went to the forest products industry. Jim Mallow asked what percentage of loans were in combination with other government loans. Mr. Frazee responded very few if any. Mr. Darnall asked what types of business planning services they provide, and Mr. Frazee provided an example of business planning services for start-ups.

Dr. Basu, Mineral Extraction Industry

Dr. Basu briefed the task force on the natural aggregates (crushed stone and sand and gravel) industry. Natural aggregates are an abundant natural resource, utilized primarily by the construction and agricultural industries as well as those industry segments that employ complex chemical and metallurgical processes. Over 90 percent of U.S. asphalt pavements and 80 percent of concrete are composed of aggregates. Numerous products including paint, paper, plastics, and glass are also composed of aggregates. Aggregates accounted for more than two-thirds of nonfuel minerals produced in the United States in 1996 in terms of volume. Over the past three decades, the industry

has seen substantial rates of growth in terms of production. Crushed stone production has increased at an average annual rate of 3.3 percent over the past three decades; while sand and gravel production has increased at an average annual rate of less than 1 percent. Based on information provided by the USGS, the preliminary estimated value of nonfuel mineral production in Maryland decreased 5 percent from 1998's level to \$336 million in 1999. Maryland ranked 34th among U.S. states in terms of the value of nonfuel mineral production. In 1999, Maryland accounted for 1 percent of the nation's value of nonfuel mineral production. In terms of value, crushed stone was Maryland's leading nonfuel mineral in 1999, followed by portland cement and construction sand and gravel.

Dr. Basu indicated that local economic trends, especially state fiscal conditions play a larger role in local quarry production than national economic indicators. Permitting constraints, staffing shortages, and the political and environmental pressures pose major concerns for aggregates producers nationally. Maryland has identified \$27 billion worth of highway construction needs over the next two decades; but the State has yet to address how this construction will be funded.

In 1998, RESI contracted with the Charles County Economic Development Commission to determine the total economic contribution of the sand and gravel mining industry in Charles County. RESI determined that the total 1998 gross value of goods and services from the sand and gravel industry was \$52.9 million and created 556 jobs.

Gary Allen, Phil Gottwals, Steve Koehn, and Bill Miles, Maryland Forestry Task Force

Gary Allen, Phil Gottwals, Steve Koehn, and Bill Miles discussed the forest products industry and the report of the Maryland Forestry Task Force. Mr. Koehn discussed the State of Maryland forests. Mr. Gottwals discussed the state of the industry, including the economic importance of the Maryland forest products industry. Mr. Allen briefed the task force on guiding Maryland's forest community into the 21st century. Finally, Mr. Miles discussed opportunities for the future. A summary of the final report of the Maryland Forestry Task Force was provided to task force members.

Senator Middleton asked if there is development pressure around the State, and he indicated yes. Mr. Gottwals stated that three sectors (timber management and harvest, primary manufacturing, and secondary manufacturing) were analyzed in the study, including information on output, employment, and value-added. Senator Middleton indicated his interest in getting employment information. Senator Middleton asked what the estimate to retrofit infrastructure is. Mr. Allen said the estimate is \$5 million of state investment per year for five years. Senator Middleton asked if the task force looked at what is going on at the local level (easements, timber rights, etc.) Mr. Allen responded that most are available for harvest. Senator Middleton asked for some specific examples of what the financing needs are for the forest products industry. Mr. Miles cited an example of a computer optimizer, which can cost approximately \$1.5 million, but which increases yields significantly. Mr. Thompson asked if they are able to borrow privately now. If not, how would the State help the industry? Phil Gottwals responded that smaller loans are not competitive. He described a well-defined effort by West Virginia and Pennsylvania to relocate Maryland processors into those states by targeting a perceived need - interest rate buy downs, bridge loans, studies, etc. Mr. Agee indicated that if someone goes in to get a loan on a project that increases efficiency but decreases the

number of jobs, they won't get it, which is the opposite of what should happen. Mr. Ryan indicated that in his area job creation AND retention is used as criteria. Mr. Darnall suggested that the State might want to provide lower interest rates than banks if it is competing with other states.

Christine Bergmark, Tri-County Council for Southern Maryland

Ms. Bergmark discussed a three-part program overseen by the Tri-County Council and the Southern Maryland Agricultural Development Commission: (1) tobacco buyout; (2) infrastructure/agriculture development; and (3) agricultural land preservation. The focus is to help growers identify market niches, and provide incentives for agricultural land preservation. The acreage in Southern Maryland is small, so we need to keep agriculture vibrant. Many tobacco farmers don't know what they will do, so they are waiting to see what is best and how the Tri-County Council can guide them.

Mr. Mallow suggested that agroforestry is an opportunity. Senator Middleton discussed that it is amazing that they are finding that \$83 million for Southern Maryland isn't enough money to find alternative crops for these people. They need an advertising budget, as there is not just going to be one alternative crop. Mr. Wade said that they have to be careful with respect to producing a critical mass to be able to sell to restaurants in DC, for example. Ms. Bergmark said that they have done some research on this, and they are waiting on Phil Gottwal's study. Mr. Agee asked if the regional processing facility will be government, private, or a co-op? Ms. Bergmark said it is premature to answer that, but probably an association or co-op of growers, a brokerage facility, and a processing plant that is run as a business (not government). Mr. Thompson suggested putting public money into industry building projects, such as flower distribution, food processing facilities, etc.

III. Update on Interagency Meeting

Steve McHenry discussed the interagency meeting that was held with representatives of DBED, MDA, DNR, MFCA, and Maryland Cooperative Extension. He briefed the task force on the status of the proposed scope of work that the workgroup developed, as well as potential consultants. Funding for the study has been secured.

Don Darnall indicated that they have received two resumes and, given the timing of the study, it appears that the two may work together. The cost will be approximately \$45,000. \$23,000 has been secured by a DNR grant (through the Forest Service, federal funds), and the MFCA will match that amount. The contract is still being written, but it will be a contract between the consultants and the workgroup, administered by the MFCA. Mr. Darnall was concerned about educating the legislature on how valuable these industries are to the State. The interagency workgroup will continue to meet. They need to address structure issues while the consultant is working on the needs assessment. Mr. McHenry thanked all the agencies, especially the MFCA and DNR, for finding funding, and reiterated that this must be a collaborative process. Mr. Thompson reminded the task force that locals must have a role, have input. Senator Middleton suggested that perhaps at a future meeting a panel of local economic development officials could come in. Mr. Thompson indicated that they could be interviewed by consultants.

Mr. Agee suggested that RESI could be of help.

Mr. McHenry said the target date for completion of the study is November 1, but that they hope to stage the work so that the task force can be educated and updated at each meeting. Senator Middleton indicated that he has no reservations about extending the task force if need be. Mr. Darnall agreed that the more time we have, the better the study will be. Mr. Gottwals said that at least 12 weeks is needed for a good study. Mr. McHenry suggested that if the study were completed by the end of the calendar year, the task force could meet in early January one last time, and be finished. Mr. Thompson asked what we gain by getting legislation in this year versus next? Senator Middleton repeated that the quality of the product is what is most important. If we can do this by the first of the year, then we'll go ahead. But there is a lot going on this session with redistricting and otherwise, so if it doesn't pass we can always come back again the next year and reintroduce it. He said we can decide later if we need to extend the task force. Mr. Darnall asked how difficult it was to extend the life of the task force. The MFCA would like a year to set up a program and to go to the General Assembly with changes it will need to its statute.

Senator Middleton asked Mr. Agee if there are any financing needs for the mineral extraction industry and if not, if they could reword the contract to limit the needs assessment to the other industries. Mr. Agee said he'd get back to him on this.

Senator Middleton then asked the task force staff to check with the presiding officers for permission to hire a consultant to do the needs assessment.

Next meeting date: Tuesday, September 11, 2:30 p.m. until 5 p.m.

Topics to be discussed: Aquaculture, Howard County, update on consultant.

The meeting adjourned at approximately 3:30 p.m.

Task Force on Resource Based Industry in Maryland

Draft Minutes

October 17, 2001 Meeting

**Miller Senate Building, 3 West
1:30 p.m. to 3:30 p.m.**

Members in Attendance

Senator Middleton (co-chair), Delegate McClenahan (co-chair), Senator Stoltzfus, Delegate Glassman, Bob Agee, Don Darnall, Steve Koehn, Jim Mallow, David Ryan, Vernon Thompson.

Others in Attendance

Sandy Cohen, Valerie Gonlin (for member Robert Halman), Lesley Frymier (Legislative Services staff), Don Hering, Brian Levine, Margaret McHale (Legislative Services staff), Steve McHenry (for member Phil Gottwals), Ginger Myers, Karl Roscher, Sujata Roy, James Shepherd (for member Linda Vassallo), Emily Wilson (for member James Wade).

The meeting convened at 1:53 p.m.

I. Introductory Remarks

Senator Middleton and Delegate McClenahan welcomed the task force members and their designees and thanked them for coming. He then went over the agenda briefly and asked Don Darnall to introduce the consultants to provide an update on the status of the needs assessment.

II. Update on Status of Needs Assessment

Don Darnall, with assistance from Sandy Cohen (AAG for the MFCA), spoke briefly about the contract between the interagency workgroup and the consultants. Ms. Cohen indicated that the contract stipulates a mid-November update to the interagency workgroup and a final deadline of December 15. Ms. Cohen also indicated that the needs assessment will be conducted in two steps: the first step will assess the financial needs of the industries, and if a financial need is determined, then the second step will move on to more detailed questions about business and technical assistance and other needs.

Mr. Darnall then introduced Don Hering and Sujata Roy, the consultants hired to conduct the needs assessment. Mr. Hering told the task force that they have already done a fair amount of research and believe they are in good shape to meet the final reporting deadline. Senator Middleton asked Mr. Hering about the types of questions the consultants are asking during the interviews. Mr. Hering indicated that their questions focus on two areas: first, by constituency, that is, industry or organization, and each constituency's specific needs; and second, by the types of funding and financing needed. Open-ended questions about needs are purposely asked, so as to elicit as much related information as possible.

Mr. Hering indicated that to date, it seems that funding is more of an issue than financing. However, it is too early in the research to reach definitive conclusions, and it is important to keep an open mind to see what is really there. Ms. Roy indicated that they are about one-third of the way through the interviews. Senator Middleton asked if they are looking at what programs are available to currently meet the needs of these industries, and Mr. Hering indicated that they are doing this. Already it is clear, though, that the information on what assistance is available is very fragmented, and there is a need for increased public education in this regard.

III. Briefings

Ginger Myers, Agricultural Marketing Specialist, Howard County Economic Development Authority

Ms. Myers began her briefing by highlighting the fact that agriculture is a business and it needs to be treated as such. Farmers have the same needs for training, marketing, and so forth as any other "industry." She indicated that currently seven counties have agricultural marketing specialists in their economic development departments (Cecil, Frederick, Carroll, Harford, Howard, Montgomery, and St. Mary's). Her program, which began in July of 1996, focuses on business retention, expansion, and attraction. Ms. Myers then gave several examples of the work she does in these areas, including: development of "Howard County grown" as a common brand name for goods and services (featured by new restaurants and other businesses); feasibility studies (e.g., virtual farmer's market online with delivery to office buildings); industry surveys so as to determine the economic impact of an industry, and determine its trends and anticipated needs; seminars on options within an industry; and entrepreneur training. Ms. Myers stated that in Howard County, the main agricultural sectors are the equine industry, horticulture, and direct marketing.

Steve McHenry asked Ms. Myers to comment on the volunteer work she does with the other county agriculture specialists. Ms. Myers explained that the seven specialists get together at MDA every two months or so to share information and program experience and to work on continuing education with various State agencies.

Karl Roscher, Aquaculture Coordinator, Maryland Department of Agriculture

Mr. Roscher provided the task force with an overview of aquaculture in the United States. He indicated that the industry is a \$1 billion industry nationwide; catfish represents half of that amount, although shellfish is the fastest growing sector. He indicated that recently there has been a trend of increasing concentration of production, similar to the chicken industry. Currently, there are about 4,000 aquaculture farms nationwide; 210 of these account for 60% of total sales.

In Maryland, there are 140 permitted facilities (60-65 of these are commercial). The total farmgate value is \$7 million. Mr. Roscher indicated that there has been some decline in the industry in recent years, but because early figures are not reliable, the precise extent of this decline is unknown. It is expected that striped bass farming will increase. Overall, it is expected that the farming of saltwater species will increase in response to higher market values. Mr. Roscher then went on to describe the five categories of facilities. He stated that there has not been a consistent pattern of ownership, and that these facilities typically employ few people (2-4). He indicated that the growth has been in recirculating systems; associated problems include high capital costs, higher production costs, and aquatic animal health, and they are working on programs to deal with these issues. Mr. Roscher also stated that the University of Maryland has been involved with economic feasibility studies to determine alternative species.

Locating start-up funding is a big issue for aquaculture farmers. For example, the capital investment needed for a recirculation system is approximately \$420,000. Mr. Roscher indicated that on average, an aquaculture farmer selling 100,000 pounds per year can expect to make a profit of about \$45,000. He believes there is potential for the industry in the future, especially with respect to tobacco and chicken farmers that may choose to move to aquaculture.

Senator Middleton asked if there is a list of the people that have asked for help from MDA, what they asked for, and what was provided? Mr. Roscher indicated that he would try to get that information to the task force. David Ryan asked if the DBED Aquaculture Fund has been used, and Vernon Thompson indicated that they tend to be risky deals, often because people are not well prepared for this industry. Senator Middleton then asked if there is any documentation on why these industries fail? Mr. Roscher said that the economic feasibility is just not there yet. Senator Middleton then asked about the education level of the people interested in becoming aquaculture farmers, and Mr. Roscher indicated that most do not have science backgrounds. In response to a related question by Senator Middleton, Mr. Roscher indicated that there are no institutions in the State where one can get a degree in aquaculture, although courses are available at UMES. Jim Mallow asked what the major issue for aquaculture is, and Mr. Roscher indicated that the lack of education, experience, and the newness of the process and science play a large part in it. He believes some individuals are unwilling to collect all the information they need before they decide to enter into the industry, and then are discouraged to find the process lengthy and cumbersome. Senator Middleton asked about the political support of aquaculture, for example, the opposition to oyster aquaculture. Mr. Roscher indicated that it is a non-traditional form of fishing and that there may be some opposition, but that also aquaculture could provide relief to some industries, such as the blue crab fishery.

IV. General Discussion

Senator Middleton raised the fact that during several task force meetings, many issues were raised that are not related directly to the charge of the task force, but that warrant some attention. He cited sand and gravel and their regulatory and local government issues as examples. He suggested that in an effort to recognize these issues, that perhaps the task force members could identify them and include them in the report as an appendix. Steve McHenry suggested that perhaps each industry could come up with the issues that they'd like addressed in this manner and the task force members could send them to the task force staff to compile them. The group agreed with this direction. It was then suggested that a template be sent to them so that the information could easily be compiled. Task force staff will prepare a template and send it out to the members. Also, it would be of interest to include how other states treat these industries, and whether Maryland is in or out of synch with their overall treatment. In response to an inquiry on the status of the Task Force on Regulatory Reform, staff agreed to follow up on that question.

Bob Agee discussed the fact that the aggregates industry might want to get involved in a small aggregate activity or some value-added activities, such as aquaculture, on their sites. There may be some resource needs for these, but he also believes that issues such as regulatory problems result in the failure of some of these entities.

Mr. Thompson then raised the timing issue. He asked when the results of UMD's agricultural study will be available. Someone indicated that it is expected to be completed in December, and staff indicated that they would verify this. He expressed concern about the timing of the task force report with this study and other studies. Senator Middleton responded that the hope was that the task force would submit its report at the beginning of January. Staff reminded the task force that its reporting deadline is December 31, but that the task force does not end until January 31, so that if an extension is needed until January, the task force could request one from the presiding officers. Senator Middleton suggested that the interagency workgroup meet with the consultants, discuss their findings, and make recommendations to the full task force. The staff will work with Steve McHenry to write the report and send it to members for review and comment. The full task force will meet again in early January to vote on the final report.

Next meeting date: TENTATIVE – Thursday, January 3, 2002, 10:00 a.m. until 2:00 p.m.

The meeting adjourned at approximately 3:35 p.m.

Task Force on Resource Based Industry in Maryland

Draft Minutes

January 3, 2002 Meeting

**Miller Senate Building, 3 West
10:00 a.m. to 12:05 p.m.**

Members in Attendance

Senator Middleton (co-chair), Delegate McClenahan (co-chair), Senator Stoltzfus, Bob Agee, Don Darnall, Andrew McLean, Jim Mallow, Bill Miles, Robert Halman, David Ryan, James Wade.

Others in Attendance

Sandy Cohen (Assistant Attorney General for the Maryland Food Center Authority), Lesley Frymier (Legislative Services staff), Don Hering, Brian Levine, Margaret McHale (Legislative Services staff), Steve McHenry (for member Phil Gottwals), G. Edward Ommert, Sujata Roy, James Shepherd (for member Linda Vassallo).

I. Introductory Remarks

Senator Middleton and Delegate McClenahan welcomed the task force members and thanked them for coming. They also thanked the staff from Legislative Services for their work in putting together the draft task force report. The chairmen then went over the agenda briefly and introduced the consultants to brief the task force on the findings of the needs assessment.

II. Findings of Needs Assessment

Don Hering and Sujata Roy, the consultants who performed the needs assessment, presented their findings. The consultants discussed the project goals, the study outline, the survey distribution, the findings, and their recommendations. As is discussed in the report of the consultants, the consultants concluded that there is no need for a new financing development authority at this time. The consultants' recommendations include:

- conduct a full scale economic impact study of resource based industries;
- sponsor regular seminars to improve the network;
- identify or create a deal-maker or point person position for resource based industries;
- enhance or create a pool of grant funds for research and development; and
- address the inclusion of resource based industries in the charter of the Department of Business and Economic Development (DBED).

The task force discussed the first recommendation at length. Senator Stoltzfus asked the consultants how such a study should be conducted. The consultants recommended an input/output study, and deferred to Steve McHenry from the Forvm for Rural Maryland to provide information about upcoming work in this area. Mr. McHenry indicated that the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDAF) board has recommended to the Board of Public Works (BPW) that such a study be done. The BPW will take the matter up later this month. Salisbury University has agreed to do the study, which is anticipated to be completed in about a year. The study will use the IMPLAN input/output model and will look at the economic impact of resource based industries on a regional and county level in the State. Jim Mallow suggested that such a study could create an opportunity to do some pilot studies to examine the cost of community services for resource based industries compared to that of other businesses. James Wade cautioned the use of the IMPLAN model on a county level because data gets hard to interpret at the local level. Senator Middleton asked Steve McHenry if the Salisbury University study will address the consultants' recommendation regarding an economic impact study; Steve McHenry stated that it would.

The second recommendation involves sponsoring lenders' seminars to strengthen the network. Many people don't know about all the resources available at the State, federal, and local levels. The consultants suggested that the seminars could be held once a year on a regional basis.

The third recommendation the consultants made was to establish a point-person in the State to assist the county economic development agencies and serve as an information clearinghouse, a point person, or a deal-maker for resource based industries. David Ryan asked if this would be a State position. Mr. Hering indicated that yes, one position in the State would be sufficient, but that it was not clear where the position would be located. Senator Middleton indicated that while the State isn't quite ready for this, it is urgent, and the task force should look at legislation this year to establish a position, with the hopes of getting the position funded in the future. He suggested that perhaps the Forvm for Rural Maryland would be a good place to house such a position, and that the Forvm could begin examining this possibility.

The fourth recommendation related to grants for innovation and research, which was identified as a need in the consultants' study.

The fifth recommendation related to refining DBED's charter to include resource based industries, through MCAFF or MEDAAF. Steve McHenry stated that last year, DBED was reluctant to support a statutory change related to MEDAAF regarding resource based industries.

The consultants also identified non-financial priorities such as educating the public and looking into regulatory issues that may be an obstacle to resource industry business development.

Senator Stoltzfus thanked the consultants for a job well done and inquired about a detail in the report. The consultants will get back to him with more information relating to his question.

Delegate McClenahan asked about the position that the consultants recommended. Mr. McHenry said that his personal sense was that the position is needed, but the question was where to put it and

how to fund it. He suggested that an independent State agency, such as the Forvm or the Food Center Authority, might be the best location for such a position. Mr. McHenry indicated that the task force could look into this issue over the next year or so.

Delegate McClenahan thanked the consultants once again.

III. Consideration of Draft Task Force Report

Delegate McClenahan briefly described the draft recommendations before the task force. *Recommendation #1* would establish a new task force to focus on business/economic development issues for resource based industries, while the *Alternative Recommendation #1* would extend the existing task force and recharge it to focus on those same issues. The main difference in the two recommendations is the formal membership of the task force.

As drafted in the draft task force report, the new task force would consist of 16 members, including a core from the existing task force (the legislative members and agency members) as well as a representative from the Fisheries Service at DNR, a local economic development specialist, and a representative from each of the four regional councils. Industry representation would be sought through required public hearings as opposed to formal membership on the task force. As drafted in the draft task force report, the membership of the extended task force might need to be restructured from the current membership, and at a minimum, a representative from the Fisheries Service at DNR, a local economic development specialist, and a representative from each of the four regional councils should be added.

Delegate McClenahan called on Bill Miles, who stated that he thought it would be unwise to establish a new task force given that the current task force has already been through the learning curve. Senator Stoltzfus agreed and suggested that the *Alternative Recommendation #1* be adopted but modified to keep the current industry members and to add a representative from the commercial fisheries industry. Mr. Mallow agreed.

Mr. Miles made a motion to adopt the alternative recommendation (*Alternative Recommendation #1* in the draft report) but modify the language to keep the existing industry members and add a representative from the commercial fisheries industry. Accordingly, the task force would be composed of 28 members: the existing 21 members, a representative from the commercial fisheries industry, a local agricultural economic development specialist, a representative from the Fisheries service at DNR, and a representative from each of the four regional councils. Delegate McClenahan asked the task force staff to survey the existing members to see if anyone would like to opt out now that the task force has been recharged to focus on business/economic development issues instead of financing issues. Jim Mallow seconded the motion. The motion was unanimously approved. Task force staff also recommended that the recommendation be modified so as to change the reporting deadline and sunset date of the extended task force to September 30, 2003, and October 31, 2003, respectively. Task force members agreed to that change.

Mr. Wade asked if the name was going to be changed to reflect the new charge of the task force. Delegate McClenahan suggested that that detail, as well as other drafting issues, could be left to the legislative members of the task force. All task force members supported this decision.

Mr. Mallow asked if we need to change the language of the task force report to reflect the new information relating to the Salisbury University study. Task force staff assured they would do so.

The meeting adjourned at approximately 12:05 p.m.

Appendix 2

Consultants' Final Report to the Task Force

**Assessment of the
Needs of
Resource Based Industries
in Maryland**

Prepared for the
Task Force on Resource Based Industries

December 13, 2001

Prepared by:
Donald F. Hering
Sujata Roy

EXECUTIVE SUMMARY

This report presents the results of 90 formally documented interviews with organizations and individuals that support or advocate for the resource based industries; companies in the resource based industries; financing entities; and economic development agencies. More than 25 additional individuals were contacted for background information for the study.

Based on these interviews, we have prepared an assessment of the financial and other needs of each industry. This assessment shows that there is little to no need for additional lending facilities for these industries. Only six potential loan applicants were named during the interviews, and they, for the most part, had eventually obtained the financing sought.

However, there was a sense among the infrastructure organizations that several areas of development require State attention in order to maintain the resource based industries as the backbone of rural communities in Maryland.

There is a felt lack of connection between business operators and State agencies, which leads to the business operators stating that regulations are excessive and unfair. In addition, they indicated that there is a continuing need for public education, to increase the understanding in non-rural areas of the vital importance of the resource based industries. We feel that an objective study of the industry will remove the emotional heat from these issues so that understanding may be reached by all sides.

We found that the resource based industries do not, at this time, have difficulty accessing financing. However, credit availability runs in cycles, and now is the time to lay the foundation for continued financial access through improvement of the economic development network and developing a point person, dealmaker or ombudsman position to act as a facilitator for resource based projects.

Changes in the markets and business climates of all of the industries studied was a major concern. Innovation or technology transfer, was identified as a key way to assist entrepreneurs in developing new processes or products for their long-term growth. Further, many respondents felt that management and marketing training are continuing needs, to help entrepreneurs adapt to changes. Development of new markets, marketing and business skills training and new product development, are essential elements in a long-term growth strategy for the resource based industries.

Following are our specific recommendations, presented in detail in the following section.

- **Conduct a full-scale economic study of the resource based industries.**
- **Sponsor regular seminars to improve the economic development network.**
- **Identify or create a position that specializes in facilitating RB I development and can serve as an information clearing house and "deal maker".**
- **Enhance or create a pool of grant funds for innovation and research.**
- **Refine DBED's program eligibility language to specifically include the resource based industries.**

RECOMMENDATIONS

1. Conduct a full-scale economic study of the resource based industries.

An in-depth economic study would address several issues identified in the study. It was noted that County planning departments tend to focus on job creation and retention by large employers. They may not fully recognize the need for retention of small employers that have a collectively large impact on the local economy. There are infrastructure issues that stretch beyond county borders, which should be identified so that they may be handled by the appropriate State agency rather than by individual counties with different goals.

Further, the four industries profiled are felt to be the backbone of most rural communities. Issues relating to job creation versus the stability of job retention for the health of these communities can be directly addressed through a well designed study.

And, finally, with hard numbers instead of emotion, an in-depth study would serve to educate the general public as well as legislators in non-rural areas and the business community.

Parameters of the study should include:

- Assessing the objective economic value of the resource based industries at a county, region and State-wide level as well as by the individual and combined industries.
- Evaluating the importance of resource based industries to the diversity and health of the State economy.
- Testing the impact of regulations and policies on the resource based industries.
- Determining the primary factors that influence the health of rural communities, including job creation, job retention, and community development.

2. Sponsor regular seminars to improve the economic development network.

We have not found a credit crunch for the resource based industries. However, to anticipate future needs, knowledge of alternative sources is needed. Regular contact among economic development agencies, technical assistance providers, advocacy groups and lenders will enable the resource based industries to maintain access to credit. In addition, technical assistance providers and industry advocates can maintain contact with lenders, so that their training programs and financing referral networks stay up to date.

Participants should include:

- The key State agencies: DBED, DNR, MDA
- Federal agencies and programs: FSA, USDA-RD, SBA
- County revolving loan funds and community development corporations
- Micro credit providers
- Small Business Development Center
- Support organizations such as the Forum for Rural Maryland, Kellogg Foundation, etc
- Local lenders such as community banks, Farm Credit, Farmer Mac, etc.

3. Identify or create a position that specializes in facilitating RB I development and can facilitate complex projects, serve as an information clearing house and "deal maker".

It was noted by many respondents that industry experts and the economic development officers at the county level do not have the expertise to guide a business owner through the requirements and options of economic development at the State level as well as lending sources and outside capital investment. Such a position could also provide consulting expertise to DBED as the agency increases its focus on resource based industries.

Such a position could be located at any of the relevant State agencies or support organizations, but that position should be filled by a person familiar with all of the resource based industries. If the cost of the position cannot be supported by a single agency, a multi-agency contracted position could be created.

Measurements of success for such a position might include work flow statistics including the number of requests received, applications prepared, and grant or loan approvals. Success would also be measured by the satisfaction of economic development officers and others who would use the clearinghouse service.

4. Enhance or create a pool of grant funds for innovation and research.

It was noted by a significant number of respondents among the business owners and stakeholders that innovation, business planning, and market development should be encouraged to a much greater degree. There are many organizations that fund research and development for the resource based industries, and there are organizations, including Cooperative Extension, that make an effort to publicize research findings.

A grant pool or adaptation of an existing program such as the Maryland Competitive Advantage Financing loan fund, the Challenge Investment program, or the Maryland Industrial Partnerships program may provide a mechanism to encourage investment in pilot programs "on the farm."

The program could be conceived as a matching grant or low interest loan, and could contain requirements such as allowing Cooperative Extension agents and others to review progress and make public the results.

5. Refine DBED's program eligibility language to specifically include the resource based industries.

The MEDAAF program was created to provide DBED more flexibility in allocating funds for the greatest State benefit. By adding the term "resource based industries" to DBED's documented eligible industry sectors in the "Purpose of Fund" section, maximum flexibility is provided without changing the legislative intent.

The same type of wording change can enhance the MCAFF program, currently underutilized, into a needed source of innovation financing for the resource based industries.

6. Further Observations from Industry Respondents

The following issues were raised by the surveyed groups but can not be statistically supported to a level of recommendation.

- Fisheries: Overlap harvest seasons to address abrupt changes to the market due to the supply and demand factors.
- Forestry: Preservation programs and land trusts may be taking excessive timber resources out of production.
- Forestry: Management of State owned forests should be done by the Forest Service, not Parks and Recreation.
- All: Make the MDE Link Deposit program more accessible to all of the resource based industries (currently it is available only to agriculture) and include the Farm Credit System (a non-FDIC institution) as an eligible lender.
- All: For the counties interested in hiring an agriculture/resource based industries specialist, investigate if DBED funds can partially fund the start up cost of the position.
- All: Representatives of each individual resource based industry should be more proactive by making DBED aware of potential prospects on an annual or more frequent basis. This process should allow for the exchange of information to properly determine qualifications and should be done prior to applying for DBED assistance.
- All: There are some instances of local and State regulations in conflict as to agricultural preservation, health codes, and other areas. The Task Force should keep apprised of the progress of the Task Force for Regulatory Reform, active since 1999.

Table of Contents

	EXECUTIVE SUMMARY	i
	RECOMMENDATIONS	ii
1	PROCESS, METHODS AND SOURCES	1
2	OVERVIEW OF THE RESOURCE BASED INDUSTRIES IN MARYLAND	2
	Table 2A: Wholesale Trade Sector in Maryland, 1997.....	2
2.1	THE AGRICULTURE INDUSTRY.....	2
	Table 2B: Maryland Farm Balance Sheet (\$000s), 1990-2000.....	4
2.2	THE FISHERIES INDUSTRY	4
	Table 2C: Commercial Licensees and Respective Average Harvest Levels	5
	Table 2D: Economic Impact of Sportfishing, 1996	5
2.3	THE FORESTRY INDUSTRY	6
	Table 2E: IMPLAN Data on the Forest Industry	6
2.4	THE MINERAL EXTRACTION INDUSTRY	7
	Table 2F: Nonfuel Raw Material Production, 1997-1999.....	8
3	FINDINGS AS TO THE NEEDS OF THE RESOURCE BASED INDUSTRIES	9
3.1	METHODS AND SOURCES.....	9
3.2	AGRICULTURE	9
	Table 3A: Agricultural respondents' vision for the next 10 to 15 years.....	9
3.2.1	<i>Financial Climate for Agricultural Businesses</i>	9
	Table 3B: Finance Needs of Agricultural Businesses.....	9
	Table 3C: Credit Sources for Agricultural Businesses.....	10
3.2.2	<i>Non-Financial Needs</i>	10
	Table 3D: Top Priority Areas for Agricultural Businesses.....	10
3.3	FISHERIES	10
	Table 3E: Fisheries respondents' vision for the next 10 to 15 years	11
3.3.1	<i>Financial Climate for Fisheries Businesses</i>	11
	Table 3F: Finance Needs of Fisheries Businesses	11
	Table 3G: Credit Sources for Fisheries Businesses	11
3.3.2	<i>Non-Financial Needs</i>	12
	Table 3H: Priority Areas for Fisheries Businesses	12
3.4	FORESTRY	12
	Table 3I: Forestry respondents' vision for the next 10 to 15 years.....	12
3.4.1	<i>Financial Climate for Forestry Businesses</i>	12
	Table 3J: Finance Needs of Forestry Businesses	12
	Table 3K: Credit Sources for Forestry Businesses	13
3.4.2	<i>Non-Financial Needs</i>	13
	Table 3L: Top Priority Areas for Forestry Businesses.....	13
3.5	MINERAL EXTRACTION	13
	Table 3M: Mining/Extraction respondents' vision for the next 10 to 15 years	14
3.5.1	<i>Financial Climate for Mining Businesses</i>	14
	Table 3N: Finance Needs of Mining Businesses	14
	Table 3O: Credit Sources for Mining Businesses	14
3.5.2	<i>Non-Financial Needs</i>	15
	Table 3P: Top Priority Areas for Mining Businesses	15
3.6	ADVANTAGES AND DISADVANTAGES OF DOING BUSINESS IN MARYLAND	15

4	INFRASTRUCTURE ORGANIZATIONS' PERSPECTIVES.....	16
4.1	METHODS AND SOURCES.....	16
4.2	PROFILE OF THE INFRASTRUCTURE ORGANIZATIONS.....	16
	Table 4A: Profile of the Infrastructure Organizations Surveyed.....	16
4.3	INFRASTRUCTURE ORGANIZATIONS' VIEW OF FINANCING NEEDS.....	16
	Table 4B: Financing Needs of Resource based Industries.....	17
	Table 4C: Where do Infrastructure Organizations Refer Resource based Industries for Financial Assistance?.....	17
4.4	INFRASTRUCTURE ORGANIZATIONS' VIEWS ON NON-FINANCIAL NEEDS.....	17
	Table 4D: Non-Financial Needs of Resource based Industries.....	18
5	ANALYSIS OF TASK FORCE INTERIM RECOMMENDATION #1.....	19
5.1	TEXT OF RECOMMENDATION #1 OF THE TASK FORCE'S JANUARY 2001 REPORT.....	19
5.2	FINDINGS RELEVANT TO INTERIM RECOMMENDATION #1.....	20
5.3	NON-FINANCIAL ASSISTANCE NEEDS.....	20
6	BUSINESS TRAINING AVAILABILITY.....	22
6.1	MARYLAND COOPERATIVE EXTENSION.....	22
6.2	SMALL BUSINESS DEVELOPMENT CENTERS.....	22
6.3	SERVICE CORE OF RETIRED EXECUTIVES.....	22
6.4	MASTER LOGGER PROGRAM.....	23
6.5	MDA AGRIBUSINESS DEVELOPMENT PROGRAM.....	23
	Table 6A: Agriculture Development Program Inquiries, 2000.....	24
	Table 6B: ADP Clients Seeking Financing, July 1996-October 2000.....	25
7	TECHNOLOGY TRANSFER FOR RESOURCE BASED INDUSTRIES.....	26
7.1	ORGANIZATIONS THAT CONDUCT RESEARCH AND DEVELOPMENT.....	26
7.1.1	<i>Forest Products Laboratory (FPL)</i>	26
7.2	AGENCIES THAT FUND RESEARCH AND DEVELOPMENT.....	27
7.2.1	<i>Maryland Industrial Partnerships Program (MIPs)</i>	27
7.2.2	<i>Sustainable Agriculture Research and Education Program (SARE)</i>	27
7.2.3	<i>National Agroforestry Center (NAC)</i>	27
7.2.4	<i>Alternative Agricultural Research and Commercialization Corp. (AARC)</i>	28
7.3	AGENCIES THAT DISSEMINATE RESEARCH AND DEVELOPMENT FOR RESOURCE BASED INDUSTRIES.....	28
7.3.1	<i>Appropriate Technology Transfer for Rural Areas (ATTRA)</i>	28
7.3.2	<i>Agricultural Research Service (ARS)</i>	29

8	FINANCING VEHICLES IN MARYLAND.....	30
	Table 8A: Farm Debt (000s), 1990-2000.....	30
8.1	COUNTY PROGRAMS.....	30
8.1.1	<i>Eastern Shore</i>	30
8.1.2	<i>Central and Southern Maryland</i>	31
8.1.3	<i>Western Maryland</i>	31
8.2	DBED LOAN PROGRAMS.....	32
	Table 8B: DBED Assistance to Resource Based Industries, 1997 to 2001.....	32
	Table 8C: MEDAAF Loans for Animal Waste Technologies, Fiscal 2001.....	34
8.2.1	<i>Maryland Economic Development Assistance Agency and Fund</i>	35
8.2.2	<i>Maryland Competitive Advantage Financing Fund</i>	35
8.2.3	<i>Other DBED Programs</i>	35
8.3	MDE LINKED DEPOSIT PROGRAM.....	36
8.4	FEDERAL PROGRAMS.....	37
8.4.1	<i>Farm Service Agency (FSA)</i>	37
	Table 8D: Farm Service Agency Summary of Loans, FY 2000-FY 2001.....	37
8.4.2	<i>USDA Rural Development Programs</i>	37
8.4.3	<i>Small Business Administration</i>	38
	Table 8E: SBA Guaranteed Loans in Maryland, 1998-2000.....	39
	Table 8F: SBA Guaranteed Loans to Agriculture and Mining in Maryland, 1998-2000.....	40
8.5	FARM CREDIT.....	40
8.6	RURAL LENDING CORPORATION.....	41
9	FINANCING VEHICLES IN OTHER STATES.....	42
9.1	CONNECTICUT FARM ENHANCEMENT PROGRAM.....	42
9.2	MASSACHUSETTS FARM VIABILITY ENHANCEMENT PROGRAM.....	43
	Table 9A: Massachusetts Farm Viability Program Results, FY 1997-1999.....	43
9.3	MINNESOTA'S AGRICULTURAL UTILIZATION RESEARCH INSTITUTE (AURI).....	44
9.4	DIRECT LENDING PROGRAMS.....	45
9.5	EXAMPLES OF PARTNERSHIPS WITH PRIVATE SECTOR LENDERS.....	45
10	OTHER ISSUES RAISED IN THE SURVEYS.....	46

1 Process, Methods and Sources

The following report was prepared for the Task Force on Resource Based Industries pursuant to the mandate set by the Maryland General Assembly in 2001 Laws of Maryland, Chapter 196 (House Bill 165). The resource-based industries examined here are: agriculture, fisheries, forestry, and mining and aggregates.

This is a needs assessment of the financial and non-financial needs of rural, resource based industries in Maryland. In addition, we were tasked with examining the potential for a loan fund for the resource based industries. The emphasis of this report is on data collection, analysis, and information sharing to support the decision-making processes of the Task Force.

Our methods included primary data collection through survey instruments, and secondary data collection through wide-ranging research on State, local, and federal source of funding and other assistance to the resource based industries.

We surveyed over 90 individuals including business owners in each industry and stakeholder organizations such as advocacy groups, lenders, and government agencies. These stakeholder organizations represent the business infrastructure of the industries, and are called collectively the "infrastructure organizations." In addition, over 25 others were contacted for background information.

This report was prepared using primary data collected from August to December 2001, as well as secondary research from:

- Maryland Department of Business and Economic Development (DBED)
- Maryland Department of Agriculture (MDA)
- Maryland Department of Natural Resources (DNR)
- Maryland Department of the Environment (MDE)
- United States Department of Agriculture (USDA)
- United States Forest Service (USFS)
- United States Small Business Administration (SBA)
- Farm Service Agency (FSA)
- Census Bureau
- and various other sources identified in the text.

2 Overview of the Resource Based Industries in Maryland

The 1997 Economic Census¹ indicates that the resource based industries are a significant proportion of the wholesale trade sector. Taken together, the resource based industries comprise 23% of wholesale sales, 19% of wholesale payroll, and 23% of the paid employees in the wholesale sector. These industries are the largest sector of wholesale trade in Maryland.

Table 2A: Wholesale Trade Sector in Maryland, 1997

<u>Code</u>	<u>Description</u>	<u># Companies</u>	<u>Sales (\$000)</u>	<u>Payroll (\$000)</u>	<u>Paid employees</u>
42	Wholesale Trade	6,283	54,906,650	3,656,274	92,458
	Resource Based Industries	1,091	12,745,324	690,603	21,320
	RBI as % of Wholesale Trade	17%	23%	19%	23%
421	Wholesale Durable Goods	4,282	35,064,096	2,384,487	56,129
4213	Lumber & construction materials (includes brick, stone, aggregate)	221	1,015,191	79,588	2,561
4215	Metal & minerals (includes coal, but not petroleum)	148	2,025,945	83,891	2,130
422	Wholesale Non-Durable Goods	2,001	19,842,554	1,271,787	36,329
4224	Grocery and related (includes dairy products, produce, seafood, poultry, meats)	672	9,278,372	521,248	16,200
4225	Farm-product raw material (includes grains, field beans, livestock)	50	425,816	5,876	429

Source: 1997 Economic Census, Census Bureau

2.1 The Agriculture Industry

The agriculture industry includes dairy, produce, commodity crops, and poultry production. Poultry is an especially important industry, as Maryland is one of the top ten states in broiler production and inventory. Overall, the cash value of Maryland agricultural products was ranked 36 out of the 50 states in the 1997 Agricultural Census. In 1997, 85% of Maryland farms were owned by an individual or family. The average age of farmers in 1997 was 55.2 years.²

The Maryland Agricultural Statistics report for 2000 states that the number of farms in the year 2000 stabilized at 12,400 in 2000, halting a seven year downward trend. The number of farms has declined 18% since 1990, when there were 15,200 farms. Total land in farms was 2.1 million acres, a 7% drop from 1990 when there were 2.25 million acres of farmland. Farms

¹ Census Bureau, "http://www.census.gov/epcd/ec97/md/MD000_42.HTM"

² USDA, Maryland Agricultural Statistics Service, 1997 Census of Agriculture State Profile

consolidated in this decade, with the average farm size increasing from 148 acres in 1990 to 169 acres in the year 2000.³

Farm lending is an indicator of the health of the industry. According to the 2001 USDA Economic Research Service Outlook for Agriculture: "Financial institutions serving agriculture continued to experience improved conditions in 2000 and further gains are expected in 2001. Farm financial conditions remain stable because of large government payments to farmers and greater off-farm income."⁴

The health of agricultural lending nationally was also noted by the Federal Deposit Insurance Corporation: "In general, examiners noted slight or no changes in the frequency of risky practices for agricultural lending at FDIC-supervised banks that were actively making agricultural loans."⁵

Along similar lines, USDA's research on Maryland farm assets indicates that aggregate farm assets have increased by 32% from 1990 to 2000, with the bulk of that increase being the rising value of real estate. In the same period, farm debt decreased from 16% of assets in 1990 to 14% of assets in 2000.⁶

³ USDA, National Agricultural Statistics Service, "Maryland Agricultural Statistics 2000"

⁴ USDA, Economic Research Service, Agricultural Income & Finance publication AIS-76, February 2001

⁵ Federal Deposit Insurance Corporation, Division of Research and Statistics, "Report on Underwriting Practices: October 2000 through March 2001", p 4

⁶ USDA, Economic Research Service, Farm Business Balance Sheet, <http://www.ers.usda.gov/data/farmbalancesheet/fbsdmu.htm>

Table 2B: Maryland Farm Balance Sheet (\$000s), 1990-2000

	1990	1995	2000	Change, 1990-2000
Farm Assets	6,005,469	7,035,488	7,899,247	32%
Real Estate	4,620,845	5,722,252	6,674,009	44%
Livestock and Poultry	281,692	223,188	222,274	(21%)
Machinery and Motor Vehicles	647,675	609,799	553,537	(15%)
Crops	161,637	118,807	100,122	(38%)
Purchased Inputs	10,534	23,077	37,581	257%
Financial	283,086	338,365	311,724	10%
Farm Debt	930,413	963,576	1,134,068	22%
Real Estate – Farm Credit System	285,831	344,192	326,837	14%
Real Estate – Farm Service Agency	36,964	21,594	15,057	(59%)
Real Estate – Commercial Banks	99,069	98,769	161,706	63%
Real Estate – Life Insurance Companies	10,497	18,939	24,435	133%
Real Estate – Individuals and Others	110,035	130,513	133,243	21%
Other – Farm Credit System	210,912	141,618	206,607	(2%)
Other – Farm Service Agency	18,700	14,148	14,305	(24%)
Other – Commercial Banks	42,774	47,044	58,557	37%
Other – Individuals and Others	115,627	146,758	193,320	67%
Equity	5,075,056	6,071,912	6,765,179	33%
Debt/Equity Ratio	18.3	15.9	16.8	(8.2%)
Debt/Assets Ratio	15.5	13.7	14.4	(7.1%)

Source: USDA Economic Research Service

2.2 The Fisheries Industry

Commercial watermen harvest a million pounds of finfish, blue crabs, oysters and clams from Maryland waters each year. The reported ex-vessel value of their harvest has averaged \$51 million a year from 1995-1999. Blue crab is the most important fishery, accounting for 70% of the value of the annual harvest. Finfish represent 18%, oysters represent 10% by dollar value, and clams 3%.

There are approximately 7,000 licensed commercial fishermen in Maryland. Of those who do fish, 90% reported an annual harvest of less than \$30,000. Average annual harvest values for different sized operations are given in Table 2C. DNR estimates the economic impact of the harvest at \$86 million, accounting for over 3,100 jobs in fishing and the subsequent moving of seafood through marketing channels to the customer.⁷

⁷ Maryland Department of Natural Resources, "A Report to the Task Force on Resource Based Industry in Maryland – November 1, 2000"

Table 2C: Commercial Licensees and Respective Average Harvest Levels

Ex-Vessel Value	1996		1997		1998		1999	
	No. of Licenses	Avg Harvest	No. of Licenses	Avg Harvest	No. of Licenses	Avg Harvest	No. of Licenses	Avg Harvest
\$0	2,513	-0-	2,177	-0-	2,284	-0-	2,267	-0-
\$1-30,000	4,421	\$3,832	4,386	\$4,426	4,497	\$4,552	4,263	\$4,803
\$30,001-60,000	157	40,843	174	42,547	182	42,979	192	41,421
\$60,001-100,000	76	76,440	74	75,890	72	76,891	88	77,114
\$100,001-150,000	30	120,886	36	122,622	33	119,548	36	121,792
\$150,001-200,000	16	174,842	15	171,022	12	167,296	15	168,415
\$200,001-300,000	7	243,393	8	240,280	5	268,548	7	274,369
over \$300,001	4	388,309	3	355,431	1	401,497	1	333,824

Source: DNR Report to the Task Force on Resource Based Industry, Appendix B, Tables 2 and 3

The American Sportfishing Association states that expenditures by salt and fresh water anglers totaled \$475 million in 1996. Of that, \$339 million was spent by residents of Maryland and the remainder by visitors whose trip related expenses (lodging, food, etc) were also substantial.⁸

Table 2D: Economic Impact of Sportfishing, 1996

	MD Resident	Nonresident	Total
Number of Anglers	503,680	211,231	714,911
Expenditures	\$338,770,800	\$136,495,419	475,266,219
Fishing Days	8,420,383	1,774,547	10,194,930

Source: American Sportfishing Association

Aquaculture is presently one-tenth the size of the commercial fishing industry. According to the 2000 USDA survey of Aquaculture in Maryland, the combined sales of all aquaculture products in 2000 was \$4.95 million. The largest segment within aquaculture is water gardening, with sales of aquatic plants and ornamental fish totaling over \$3.5 million. Growers produced over 556,000 pounds of food fish worth nearly \$1.15 million. Additionally, growers produced over 10,377 pounds of sport fish worth nearly \$22,000. Two thirds of the sport fish produced were largemouth bass, with most of the remainder in bluegill.

Commercial aquaculture operations are generally operated by sole proprietorships, partnerships, or corporations. Total employment in 2000 was 94 full-time and 128 part-time employees. In

⁸ American Sportfishing Association, <http://www.asafishing.org/statistics/economic/index.cfm?state=Maryland>

addition, several universities operate aquaculture operations for educational purposes. Employment in these facilities was 15 full-time, 32 part-time and numerous student volunteers.⁹

2.3 The Forestry Industry

The Department of Natural Resources' economic impact study shows the forest products industry generates an estimated total \$2.2 billion in "annual output value," which includes timber management and harvesting, primary wood manufacturing and secondary wood manufacturing. Approximately 56% of the industry's output is in secondary wood manufacturing, with 33% in primary wood manufacturing and the remainder in timber management and harvesting. There are 18 sawmills in Maryland, each of which processes over 5 million board feet. Small, independent logging companies supply wood to these mills as well as to pulp and paper facilities. A snapshot of the forest industry using IMPLAN data and analysis is presented in Table 2E.¹⁰

Table 2E: IMPLAN Data on the Forest Industry

	Direct Output (millions)		Employment (FTE)		Value Added (millions)	
Timber Management and Harvesting	\$230	11%	1,375	10%	\$105.6	14%
Primary Wood Manufacturing	\$720	33%	3,449	25%	\$248.8	33%
Secondary Wood Manufacturing	\$1,234	56%	9,074	65%	\$404.5	53%
Totals	\$2,184	100%	13,898	100%	\$759.2	100%

Source: "The Economic Importance of the Forest Industry", Tables 1, 2, and 3
Data from IMPLAN Pro, copyright Minnesota IMPLAN Group, Inc.

The US Forest Service states that Maryland has 2.7 million acres of forest land, of which 90% is privately owned. There are approximately 130,000 landowners. The forest products industry is the largest employer in Allegany and Garrett counties and the second largest employer on the Eastern Shore.¹¹

The Association of Forest Industries prepared a detailed report for the Task Force on the industry's needs.¹²

⁹ Maryland Department of Agriculture, Agriculture Statistics Service, "Maryland Aquaculture: Report of the 2000 Survey of Aquaculture"

¹⁰ ACDS, "The Economic Importance of the Maryland Forest Products Industry", prepared for the Maryland Eastern Shore Resource Conservation and Development Council and the Maryland Department of Natural Resources – Forest Service.

¹¹ US Forest Service, "Maryland Forest Health Highlights", January 2001

¹² Association of Forest Industries, Inc., white paper "RE: Response to Co-Chairs' Request for Information @October 17, 2000 meeting, October 24, 2000.

Key priorities highlighted by the Forestry Task Force and the AFI included:

- Regulations. Update "A Guide to Maryland's Regulation of the Forest Products Industry" and include a regular assessment of forestry compliance with best management practices. This is intended to produce a "one stop" resource guide to regulations to enhance compliance.
- Financing program. Create a Renewable Natural Resource Investment Priority within DBED's financing programs or create a new financing program. The investment focus would be industry modernization, in order to retain jobs.
- Forest management plans. Encourage future forest land acquisitions that come into the public domain to also be accompanied with the development of forest conservation management plans when deemed appropriate.

Of the forestry businesses surveyed who were knowledgeable of the Forestry Task Force study, all agreed with that report's recommendations.

2.4 The Mineral Extraction Industry

The United States Geological Survey states that Maryland is 34th in minerals production in the US, with a 1999 estimated value of non-fuels mineral production of \$336 million. Crushed stone was the leading non-fuel mineral. All non-fuel minerals mined in Maryland were industrial minerals. While Maryland remained 10th in the production of masonry cement, the State continued to produce substantial quantities of crushed stone, portland cement, and dimension stone.¹³

¹³ US Geological Survey, 1999 Minerals Yearbook, Chapter 22

Table 2F: Nonfuel Raw Material Production, 1997-1999

<u>Mineral</u>	<u>1997</u>		<u>1998</u>		<u>1999</u>	
	<u>Quantity</u>	<u>Value</u>	<u>Quantity</u>	<u>Value</u>	<u>Quantity</u>	<u>Value</u>
Portland Cement	1,790	\$115,000/e	1,760	\$123,000/e	1,800	\$126,000/e
Common Clays	287	1,010	339	1,380	342	1,350
Sand and Gravel, Construction	10,100	65,400	10,400	60,500	9,350	55,600
Stone: Crushed	24,700/r	161,000/r	24,300	141,000	21,300	126,000
Stone: Dimension						
Total Values		371,000		352,000		336,000

Quantities in thousand metric tons and thousand dollars.

e Estimated, r Revised

Source: USGS Minerals Yearbook, 1999

Fuel mineral production is primarily coal, mined in Western Maryland. The Georges Creek Basin in Allegany and Garrett counties contains the most recoverable coal reserves in the State, 354.1 million tons. The Potomac Basin, in Garrett county, contains 223.5 million tons. The Casselman Basin, in central Garrett county, contains 116 million tons. The Lower Youghiogheny Basin, in upper northwest Garrett county, contains 107 million tons. The Upper Youghiogheny Basin, in western Garrett county, contains 54.3 million tons.

About three fourths of the Georges Creek Basin reserves are in Allegany County, approximately 265.6 million tons. The remaining 589.3 million tons are in Garrett County.¹⁴

¹⁴ Maryland Department of the Environment, web page: "coal reserves"

3 Findings as to the Needs of the Resource based Industries

3.1 Methods and Sources

Interviews were conducted from October 2001 to December 2001 with business operators in the resource based industries. Forty interviews were conducted to obtain a representative cross-section of the agriculture, fisheries, forestry, and mineral extraction industries in Maryland.

3.2 Agriculture

Most of the agricultural respondents envision their business volume and profit increasing, while the number of customers and territory served remain constant. More volume and more profit from the same customers indicates a larger product offering or possibly more value added products. Businesses were evenly split as to their forecast of labor needs, with one third anticipating more labor, one third the same labor, and one third less labor needs.

Table 3A: Agricultural respondents' vision for the next 10 to 15 years

	<u>More</u>	<u>Same</u>	<u>Less</u>
Business Volume	89%	11%	-0-
Profit	56%	33%	11%
Customers	33%	56%	11%
Territory Serviced	33%	67%	-0-
Labor Needs	33%	33%	33%

3.2.1 Financial Climate for Agricultural Businesses

Nearly all of the businesses surveyed (82%) had applied for a loan in the past two years. Nearly all of those who applied for credit received approval. Terms offered (rate, fees, loan term) were acceptable to the applicants. Loan sizes ranged up to \$3 million. The majority of respondents intend to apply for a loan in the next year.

Table 3B: Finance Needs of Agricultural Businesses

	<u>Yes</u>	<u>No</u>
Have you applied for a loan in the last 24 months?	82%	18%
If yes, was the loan approved?	93%	7%
If yes, were the terms acceptable?	100%	-0-
Do you plan to apply for a loan in the next 12 months?	71%	29%

Agriculture businesses use a variety of credit sources, predominantly commercial banks and Farm Credit. Most companies use more than one source, such as banks plus dealer credit or lease financing. There was a lower level of awareness of government resources, with most

respondents indicating that they thought the paperwork involved would be excessive for the benefit.

Table 3C: Credit Sources for Agricultural Businesses

<u>Which of the following lending sources does your business use?</u>	
Commercial bank	71%
Farm Credit	65%
Dealer credit	24%
Personal sources/Relative/Friend	12%
<u>Are you aware of the following financing sources?</u>	
Farm Service Agency	41%
Local Economic Development/DBED	35%
Federal grant programs	35%
SBA	29%
State grant programs	29%

3.2.2 Non-Financial Needs

The top priorities for survey respondents were the difficulty of dealing with regulations (particularly nutrient management), and the need to continually educate legislators and the public about agriculture's benefits and impact. Also mentioned were the need to maintain Cooperative Extension's capacity, as it provides a small business infrastructure, the need to find new market niches, and the need for Maryland to remain friendly to agriculture. The current state of the ADM grain elevator in Baltimore Harbor was mentioned by a significant minority of respondents.

Table 3D: Top Priority Areas for Agricultural Businesses

Improving regulations/nutrient management legislation	53%
Educate legislators/public about the industry	29%
More friendly to agriculture	18%
Maintain a small business infrastructure	12%
Find new market niches	12%

3.3 Fisheries

Most of the fisheries respondents are highly optimistic as to the number of their customers increasing and their market territory increasing. For the watermen, business volume is largely impacted by harvest regulations. For those in aquaculture it is a matter of perfecting their process and marketing. They are split between increasing and flat business volume, profit, and labor needs.

Table 3E: Fisheries respondents' vision for the next 10 to 15 years

	<u>More</u>	<u>Same</u>	<u>Less</u>
Business Volume	50%	50%	-0-
Profit	50%	50%	-0-
Customers	100%	0%	0%
Territory Serviced	75%	25%	-0-
Labor Needs	50%	50%	-0-

3.3.1 Financial Climate for Fisheries Businesses

The fisheries businesses interviewed are largely self-funded, through past profits or personal sources. Those who applied for loans did receive approval, but the majority do not plan to apply for credit in the next year. Most commented that they would have to let the profits drive that decision.

Table 3F: Finance Needs of Fisheries Businesses

	<u>Yes</u>	<u>No</u>
Have you applied for a loan in the last 24 months?*	40%	40%
If yes, was the loan approved?	100%	-0-
If yes, were the terms acceptable?	100%	-0-
Do you plan to apply for a loan in the next 12 months?*	-0-	80%

*A significant number of respondents would not discuss their finances, so these categories will not sum to 100%.

In addition to commercial banks and personal sources, nearly all respondents mentioned one or more sources of grant funding as well as equity funding. Awareness of non-bank financing sources, such as government agencies, was high. However, as noted above, most of these businesses are not presently seeking financing.

Table 3G: Credit Sources for Fisheries Businesses

<u>Which of the following lending sources does your business use?</u>	
Commercial bank	40%
Personal sources/Relative/Friend	20%
<u>Are you aware of the following financing sources?</u>	
Local Economic Development/DBED	60%
State grant programs	60%
Federal grant programs	40%
SBA	20%
Farm Service Agency	20%

3.3.2 Non-Financial Needs

Priorities here were all across the board. Regulatory issues were very hot, including catch limits and permitting for aquaculture. Further issues raised include the need to continue oyster research. It was also noted that the regulations cutting off one harvest period and starting the next abruptly caused a lot of over and under-supply issues. Having an overlapping season was suggested as a way to smooth supply and demand.

Table 3H: Priority Areas for Fisheries Businesses

Regulatory reform	40%
Oyster research	40%
Streamline permitting process	20%

3.4 Forestry

Forestry respondents had a darker view of the future than the other resource based industries. None forecast more customers, and a significant number of answers were "less" as to business volume, profit, customers, territory and labor needs. In fact, the majority forecast a decline in labor needs in the next ten to fifteen years.

Table 3I: Forestry respondents' vision for the next 10 to 15 years

	More	Same	Less
Business Volume	20%	50%	30%
Profit	40%	20%	40%
Customers	-0-	80%	20%
Territory Serviced	10%	60%	30%
Labor Needs	-0-	20%	80%

3.4.1 Financial Climate for Forestry Businesses

As with agriculture businesses, the majority of forestry businesses had applied for credit in the past 24 months. The rate of approval was nearly as high as for agricultural respondents. A majority of forestry respondents do not plan to apply for credit in the next year.

Table 3J: Finance Needs of Forestry Businesses

	Yes	No
Have you applied for a loan in the last 24 months?	80%	20%
If yes, was the loan approved?	88%	12%
If yes, were the terms acceptable?	100%	-0-
Do you plan to apply for a loan in the next 12 months?	40%	60%

The forestry businesses surveyed use either commercial banks, Farm Credit, or no outside funding. They have limited awareness of government lending programs.

Table 3K: Credit Sources for Forestry Businesses

Which of the following lending sources does your business use?

Commercial bank	70%
Farm Credit	40%
None	30%

Are you aware of the following financing sources?

Local Economic Development/DBED	20%
State grant programs	20%
Farm Service Agency	10%

3.4.2 Non-Financial Needs

The top priorities for forestry businesses are generally the same as those indicated in the Forestry Task Force report: management plans for State and private forests, an improved regulatory climate, a steady supply of wood, and public awareness of their role and impact. Public awareness and appreciation is sought by all of the resource based industries.

In addition, electricity cost and availability was mentioned, along with an interest in renewable energy sources such as the FibroShore project.

Table 3L: Top Priority Areas for Forestry Businesses

Forest management	60%
Regulations	30%
Steady supply of wood	20%
Public awareness	20%

3.5 Mineral Extraction

The majority of mining and minerals businesses forecast increased business volume with the same number of customers. Most cited acquisitions rather than internal growth through marketing. As with forestry, there was a strong feeling that labor needs would be reduced in the next ten to fifteen years. For mining, however, labor reductions are anticipated to come from operational efficiency rather than a reduction of overall business size.

Table 3M: Mining/Extraction respondents' vision for the next 10 to 15 years

	<u>More</u>	<u>Same</u>	<u>Less</u>
Business Volume	75%	25%	-0-
Profit	50%	50%	-0-
Customers	-0-	100%	-0-
Territory Serviced	25%	75%	-0-
Labor Needs	-0-	-0-	100%

3.5.1 Financial Climate for Mining Businesses

Most mining businesses are very large, multi state or multi national organizations. Their financing comes from parent companies or is obtained from the major financial centers. Most respondents indicated no need for financing in the next year, though all said that if there was a need it would be "no problem" to meet it.

Table 3N: Finance Needs of Mining Businesses

	<u>Yes</u>	<u>No</u>
Have you applied for a loan in the last 24 months?	100%	-0-
If yes, was the loan approved?	100%	-0-
If yes, were the terms acceptable?	100%	-0-
Do you plan to apply for a loan in the next 12 months?	25%	75%

There was limited awareness of State grant programs and no awareness of federal programs.

Table 3O: Credit Sources for Mining Businesses

<u>Which of the following lending sources does your business use?</u>	
Commercial bank	100%
Dealer Credit	100%
Parent Company/Other Sources	75%
<u>Are you aware of the following financing sources?</u>	
State grant programs	50%

3.5.2 Non-Financial Needs

Zoning and better public awareness and appreciation of the concrete and minerals business were the highest priorities. Permitting is a perennial high priority as well.

Table 3P: Top Priority Areas for Mining Businesses

Zoning	75%
Public Awareness	75%
Permit Process	50%
Transportation Infrastructure	25%
Protecting Mineral Rights	25%
Attracting Good Workers	25%

3.6 Advantages and Disadvantages of Doing Business in Maryland

There was a very narrow range of responses in this category. In all the industries, there were only three or four main advantages and two or three main disadvantages. The primary advantages of doing business in Maryland are the proximity to a large market, the transportation network, and natural resources such as the Chesapeake Bay, climate, soil, mineral deposits, and tree types. Disadvantages cited included government regulations and population pressures, which also lead to higher tax assessments, zoning issues, and labor costs, and further regulation.

A sampling of comments is presented below:

- Small farms earn income outside of agriculture.
- Smart people and hard working.
- Living conditions are nice.
- Good timber (tulip poplar, loblolly pine).
- Right to farm is pushing people out.
- Agriculture not recognized as #1 industry.
- Unfounded policy and regulations on crab harvest.
- Too many people on the watershed.
- Small tracts expensive because permits are same cost regardless of size.

4 Infrastructure Organizations' Perspectives

4.1 Methods and Sources

Interviews were conducted from August 2001 to December 2001 with representatives from industry groups, regulatory agencies, and support organizations in the resource based industries. Fifty persons were interviewed were conducted to obtain an industry-wide view of the agriculture, fisheries, forestry, and mineral extraction industries in Maryland. Some of the respondents are also business operators (farmers, foresters, etc), though their survey responses were used only in the infrastructure section.

4.2 Profile of the Infrastructure Organizations

Most infrastructure organizations provide support to both individual companies (e.g., business consulting) and groups (e.g., advocacy lobbying). Nearly all organizations surveyed provide support to the agriculture industry as well as to one or more other resource based industries.

Table 4A: Profile of the Infrastructure Organizations Surveyed

<u>They support resource based industries:</u>	
Both to individuals and groups	44%
As a group	41%
To individual firms	9%
Other	6%
<u>They are involved with the following resource based industries:</u>	
Agriculture	71%
Forestry or related products	59%
Fisheries (sport or commercial)	50%
Mining or aggregates	26%

* Most organizations support multiple resource based industries, so percentages will not add to 100%.

4.3 Infrastructure Organizations' View of Financing Needs

Overall, the infrastructure organizations felt that grants for innovation and technology transfer are needed by the resource based industries. Such grants would encourage business owners to use new processes, methods, techniques, or grow new crops to meet a developing market need. Incentive based cost sharing for regulatory compliance and State policy objectives was also identified, as was preparation for financing. The general availability of market rate financing was felt to be adequate, although it was noted more than once that below market rates were certainly welcome.

Table 4B: Financing Needs of Resource based Industries

On a scale of 1 to 5, with 5 being an urgent need and 1 being no identified need:

Grants	3.7
Incentive based cost sharing	2.8
Preparation to apply for financing	2.6
Below market rate loans	2.5
Market rate loans	1.5

Comments focused on:

Innovation or R&D funding	50%
Flexible loan terms	10%
Incentives to aid regulatory compliance	5%

Infrastructure organizations refer financial requests to banks, Farm Credit, and federal programs. These sources have been generally responsive, according to the infrastructure organizations. The referral rate to FSA (21%) is far greater than FSA's share of the market, which is under 6%.

Table 4C: Where do Infrastructure Organizations Refer Resource based Industries for Financial Assistance?

Commercial Banks	68%
Farm Credit	44%
State programs	26%
Federal programs (other than SBA or FSA)	26%
Small Business Administration	24%
Farm Service Agency	21%
Other (vendor credit, leasing, etc)	21%
Small Business Development Center	6%

4.4 Infrastructure Organizations' Views on Non-Financial Needs

As expected, regulatory relief was the top non-financial need cited by the infrastructure organizations. Specific mention was made of the nutrient management plans which are to be filed in December 2001. This is a very hot topic at the moment, as noted by the Baltimore Sun.¹⁵ However, most of the comments on regulation were non-specific, indicating perhaps a habitual dislike of regulation rather than any particular pressing need.

Public education was mentioned by 35% of survey respondents. Specific mention was made of the need to keep non-rural legislators and citizens aware of the economic importance of the resource based industries, so that they will better understand the impact of State policies.

Business training was mentioned as a need by 32% of respondents. Most indicated that it was a continuing challenge to ensure that business operators take advantage of the resources offered.

¹⁵ Baltimore Sun, "Farmers Find Law a Hard Row to Hoe: Accountability: The Maryland Water Quality Management Act of 1998 was well-intended by needs rethinking", Nov 30, 2001.

Getting the attention and time of the business owners was cited as a bigger problem than providing appropriate training resources. The business operators, as a group, did not place a high priority on training.

Technology transfer for innovation was noted here by 24% of respondents, in tandem with the discussion on grants, above. The development of new markets, mentioned by 29% is a key part of the need to prepare industry for economic changes that was cited by most respondents.

Innovation can be expensive for companies without cash to spare. Grants for pilot crops or programs were mentioned here too, as incentive for business owners to diversify their crop or product bases and become less dependent on commodity prices.

Table 4D: Non-Financial Needs of Resource based Industries

Regulatory relief, assistance with permits	56%
Public education on the value of resource based industries	35%
Business training	32%
Assistance entering new markets	29%
Technology transfer for innovation and R&D	24%
Business incubator	12%
Assistance developing value-added strategies	6%
Better collaboration among support organizations/Deal maker to assist firms with complex needs	6%

5 Analysis of Task Force Interim Recommendation #1

5.1 Text of Recommendation #1 of the Task Force's January 2001 report

Continue the task force in order to further examine the feasibility of establishing a new program within the Maryland Food Center Authority (MFCA) and the level of participation of DBED....The task force is considering an expansion of the MFCA's statute to include as part of its mission to promote, develop, and manage an environment where resource based industries can thrive.

The task force anticipates that the new program would be a Statewide clearinghouse for financial and technical assistance to resource based industries. The task force expects that the MFCA would:

- *manage the new program;*
- *provide small grants and loans up to \$250,000;*
- *refer larger deals to DBED; and*
- *develop and maintain a technical assistance network by training appropriate State and local agency personnel and by providing specialized assistance providers in various regions of the State.*

Furthermore, the task force expects DBED to take steps to incorporate resource based industries in its strategic plan and its individual program goals. DBED should also include these industries as eligible industry sectors under the MEDAAF program....

Loans from MEDAAF range from \$250,000 to \$10 million. While some resource based businesses may be eligible for MEDAAF assistance, that the eligibility is not explicit in statute. DBED has five financing capabilities to choose from under MEDAAF. The special purpose loan capability ensures that certain industries and initiatives deemed critical to the State's economy have access to funds. Currently, Brownfields, seafood and aquaculture, day care, and animal waste projects are specifically identified for special purpose loans. This eligibility affords such businesses certain exemptions from local participation requirements and other MEDAAF requisites. Dependant upon DBED's progress over the next year, the task force may consider that "resource based industry projects" be added to the MEDAAF statute so as to include projects in agriculture, forestry, fishing, and mineral extraction.¹⁶

¹⁶ Task Force on Resource Based Industry in Maryland, Report, January 2001, pp 7-8

5.2 Findings Relevant to Interim Recommendation #1

Interim recommendation #1 keys on several points:

The necessity for a specialized loan fund.

We have found insufficient need to justify the creation of a new loan fund. Throughout the survey process, only a handful of financial needs were identified – a total of 6. Of those, most of the loans needed had been obtained, leaving an even smaller potential pool of applicants. This level of loan demand can best be dealt with through an ombudsman or dealmaker, who can assist the business owner in negotiating the various programs offered.

The necessity for a Statewide clearinghouse for financial and technical assistance to resource based industries.

We have found a need for continued information sharing and coordination. Economic development officers interviewed felt that they did not have the expertise to help their local business owners gain assistance from DBED or federal agencies. Other stakeholder organizations noted that the vast amount of information available to them about these resources was both excessive and insufficient to answer their questions in regard to particular situations. In addition, DBED has noted in presentations to the Task Force and other communications, that it lacks specific expertise in analyzing resource based businesses. The need for a clearinghouse can best be met through creation of a position for a Statewide coordinator for the resource based industries.

DBED is expected to take steps to incorporate resource based industries in its strategic plan

We have found that there is no lack of financial resources for these industries. However, their strong aggregate economic impact would seem to justify greater representation in the Statewide financing programs. We advocate an in-depth economic study to determine the impact of these industries in order to provide support for adding them as specifically eligible industry sectors under MEDAAF.

5.3 Non-Financial Assistance Needs

Following are the key non-financial needs identified by the resource based industries: improved regulatory climate, public education, business training, technology transfer, and assistance developing new markets.

Regulatory climate

At this point in the year, with the first Nutrient Management plans due (and various issues regarding the Chesapeake Bay harvest), there is a heightened sense that regulations are created without any view to their impact on the industry. Comments included the difficulty of navigating local, county, and State health regulations as well as the permitting process for aquaculture. In general, there is a felt lack of connection between the business operators and the State agencies. Whether this is due to a lack of outreach or deep-seated feelings about regulation cannot be determined.

Public Education

Business operators feel that there is a continuing need for public education, to increase the understanding in non-rural areas of the vital importance of the resource based industries. As well, to increase the understanding of those industry practices that are necessary but may not be welcomed by non-rural neighbors, such as manure spreading.

Business Training

Business training is provided by many different organizations. It is felt that management and marketing training are continuing needs, to help entrepreneurs adapt to a changing business climate.

Technology Transfer

Innovation or technology transfer, funded by grants, was identified as another way to assist entrepreneurs in developing new processes or products for their long-term growth. Research from industry groups is disseminated to some extent. However, making the leap from present methods to new methods requires capital that cannot always be internally generated.

Assistance Developing New Markets

Development of new markets, like business training and technology transfer, is an area of long-term growth for the resource based industries. This may include technology transfer, as a new way of processing a current crop to reach new markets, or access to trade shows and other venues to promote existing product lines.

6 Business Training Availability

As noted above, 32% of infrastructure organizations felt that business training was a key need for the resource based industries. The infrastructure organizations generally felt that the business owners did not make maximum use of the resources available.

Cooperative Extension, Small Business Development Centers and local economic development agencies are among the key providers of business training for the resource based industries.

6.1 Maryland Cooperative Extension

Maryland Cooperative Extension (MCE) is a Statewide, informal education system within the college of Agriculture and Natural Resources and the University of Maryland Eastern Shore. MCE employs approximately 200 faculty and approximately 200 support staff and contractual employees located at the University of Maryland, College Park, University of Maryland Eastern Shore, 23 counties, Baltimore City, and four research and education centers.

MCE publishes research and offers the services of extension agents to consult with farm operators. The Sea Grant Extension offers similar research and consulting services to fisheries businesses.

6.2 Small Business Development Centers

The SBDC network provides consulting services and training programs to current and prospective small business owners. These services include individual counseling free of charge to develop business plans, locate capital, and assist in the development of strategies for growth and profitability. The network has 18 locations throughout Maryland, and offers training classes for start-up, emerging, and growing businesses.

SBDC offices interviewed were nearly unanimous in saying that the businesses which use their services (including the resource based businesses) have had great success in meeting their financing needs through banks, Farm Credit, or government programs.

6.3 Service Core of Retired Executives

SCORE is a volunteer organization sponsored by the Small Business Administration. It matches business management counselors with clients to help the clients identify problems and design appropriate solutions. Individual and team counseling is offered at no charge to the client. There are six chapters in Maryland: Baltimore, Frederick County, Hagerstown, Salisbury, Southern Maryland, and the Upper Shore. Prince George's and Montgomery Counties are served by the Washington DC chapter.

6.4 Master Logger Program

The Maryland Forests Association sponsors the Master Logger Program. This is a series of comprehensive training courses designed for the logging professional. The initial training covers five areas of significance to the logger. Upon completion of these courses, Master Loggers must attend at least one continuing education course each year. Courses are open to loggers, landowners, foresters, and the general public.

The courses include:

- Best management practices
- Logging aesthetics
- Forest management
- Field practicum
- Logging safety and OSHA
- First aid and CPR¹⁷

6.5 MDA Agribusiness Development Program

This program provides entrepreneurs with direct links to resources for starting or expanding agriculture-related businesses. The ADP assesses the needs of client businesses, counsels them, and identifies specific contacts in government agencies and the private sector that can assist the client with business planning, financing, regulatory compliance, and finding raw materials.

For this study, MDA provided a phone log of preliminary inquiries as well as a tabulation of the needs of clients in the ADP. The phone log showed 37 inquiries for the year 2000. Of these, 9 were for finance (24%), 24 were for production or business information (65%), 3 were for marketing information (8%) and the remainder were for other purposes. These inquiries are detailed in Table 6A.

The report on clients served, from July 1996 to October 2000, shows 22% of the existing businesses enrolled in ADP and 14% of potential businesses intended to or were presently seeking financing. This report from MDA is presented in Table 6B. This is lower than the 67% of agricultural respondents who indicated they planned to seek financing in the next 12 months (See Table 2B). The lower rate of those in ADP seeking financing may indicate that companies seeking assistance from programs such as ADP are looking for management and technical assistance to a greater degree than financing. As noted above, the agricultural companies surveyed had little to no difficulty obtaining financing.

¹⁷ Department of Natural Resources, <http://www.dnr.state.md.us/forests/programs/mlprogram.html>

Table 6A: Agriculture Development Program Inquiries, 2000

<u>Type of Inquiry</u>	<u>Product</u>	<u>Help Requested</u>	<u>County</u>
Finance/Funding	Fruit trees	Funding to construct a windmill	Allegany
Finance/Funding	Farmland	How to find it and pay for it	Baltimore
Finance/Funding	Grapes	Grant funding	Baltimore City
Finance/Funding	Smoked fish	How to fund	Baltimore City
Finance/Funding	Processed seafood	Loan consolidation	Calvert
Finance/Funding	Produce	How to get low interest farm loan	Cecil
Finance/Funding	Hay	Financing to buy farm	Frederick
Finance/Funding	Wine	Money for expansion	Frederick
Finance/Funding	Biotech additives/fish food	Financing, tax incentives	Montgomery
Information	Dwarf trees	Info re: available farms, regs, etc	Anne Arundel
Information	Aquafarm	How to find job training grants	Baltimore City
Information	Grapes	How to start	Cecil
Information	Former dairy	On-farm dairy processing info	Cecil
Information	Landscaping, nursery	Info re: regs and government contracting	Charles
Information	Produce market	How to start a bulk produce market	Charles
Information	Wine	Where to find grapes	Charles
Information	Corn, grain, asparagus	Info re: FarmSense and Shore to Shore	Dorchester
Information	Bison cooperative	Advice on hiring general manager, marketing manager, cooperatives	Dorchester
Information	Dairy cows	Where to find a dairy farm	Frederick
Information	Christmas trees	Regs re: having a petting area with reindeer	Harford
Information	Alpacas	How to start	Howard
Information	Goat cheese	How to start	Howard
Information	Ginseng	Info about growing	Howard
Information	Christmas trees, vegetables, annuals	meteorological, soil type, weed and insect data	Howard
Information	Vineyard	How to start	Montgomery
Information	Chickens	Where to find a small processor	Montgomery
Information	Fruit	How to start an orchard	Montgomery
Information	Vineyard	County government official wants to promote vineyards	Prince George's
Information	Farm	Wants to grow grapes	Prince George's
Information	Mushrooms	How to start and contact person	St. Mary's
Information	N/A	Info re: MDA programs	Talbot
Information	Grapes	Wants to start a vineyard or winery	Washington
Information	Winery & vineyard	How to start winery on his farm	Wicomico
Marketing	Wine	Wants to distribute his Florida wine here	Baltimore
Marketing	Seafood sales	Oyster harvesting and tourism	Dorchester
Marketing	Agricultural buildings	Access to potential customers	Howard
Other	Plants	Letter of support re: greenhouse assessment appeal	Caroline

Source: Maryland Department of Agriculture

Table 6B: ADP Clients Seeking Financing, July 1996-October 2000

<u>County</u>	<u>Existing Businesses</u>		<u>Potential Businesses</u>		<u>Totals</u>	
	<u># Clients</u>	<u>Financing</u>	<u># Clients</u>	<u>Financing</u>	<u># Clients</u>	<u>Financing</u>
Allegany	1	-0-	2	1	3	1
Anne Arundel	12	-0-	16	2	28	2
Baltimore City	19	4	13	2	32	6
Baltimore County	4	-0-	9	-0-	13	-0-
Calvert County	3	1	2	-0-	5	1
Caroline	1	-0-	5	1	6	1
Carroll	2	-0-	6	1	8	1
Cecil	2	-0-	7	2	9	2
Charles	2	1	5	1	7	2
Dorchester	2	1	3	2	5	3
Frederick	6	4	8	-0-	14	4
Garrett	2	-0-	1	1	3	1
Harford	1	-0-	3	-0-	4	-0-
Howard	3	2	10	-0-	13	2
Kent	5	2	2	-0-	7	2
Montgomery	9	2	17	1	26	3
Prince George's	10	2	6	1	16	3
Queen Anne's	3	2	3	-0-	6	2
St. Mary's	3	1	4	1	7	2
Talbot	1	-0-	3	2	4	2
Washington	1	-0-	1	-0-	2	-0-
Wicomico	1	-0-	1	-0-	2	-0-
Worcester	4	2	-0-	-0-	4	2
Pennsylvania	3	-0-	2	1	5	1
Virginia	2	-0-	6	1	8	1
Washington, DC	4	-0-	-0-	-0-	4	-0-
Other States	8	2	10	-0-	18	2
E-mail	5	-0-	13	2	18	2
Totals	119	26	158	22	277	48
Percentages		22%		14%		17%

Source: Maryland Department of Agriculture

7 Technology Transfer for Resource Based Industries

Research on new technologies applicable to the resource based industries is conducted regularly by colleges, universities, industry associations and independent laboratories. Some examples are presented in this section of government or quasi-government entities whose research is available to the public.

The value of this research can be tremendous. For example, agricultural research and development in new processes, growing methods and applications to improve food yields has had an economic return on investment of approximately 45% per year in developed countries, even higher in developing countries.¹⁸

7.1 Organizations that Conduct Research and Development

7.1.1 Forest Products Laboratory (FPL)

FPL, established in 1910, serves as a centralized wood research laboratory. Its role is to improve the use of wood through science and technology. FPL's research programs are accomplished through coordinated partnerships involving industry, university, and government. Innovations developed at FPL are patented and licensed for use in private companies for commercial application. The Forest Service Patent Program coordinates its services with the USDA Office of Technology Transfer.

The Forest Products Conservation and Recycling Technology Marketing Unit helps bring FPL's research to potential users by matching customer needs with existing research or guiding new research. Development of cooperative projects provides enhanced benefits to private sector participants through leveraging of research and development funds and bring greater efficiency to public dollars expended for new research.

Past projects that relate to value-added wood products and commercial applications of FPL technologies include:

- The potential use of low-grade hardwood lumber and processing residuals for structural components, such as trusses and I-joists.
- Alternative processing technologies to reduce the environmental impact of papermaking.
- Increasing the demand for small-diameter and underutilized material.
- Recycling waste preservative-treated wood into high-value composite products.

FPL publishes research findings useful to the general public, industry, regulatory agencies, state and private foresters, educators, and other government agencies and organizations.¹⁹

¹⁸ Paul W. Heisey, USDA, Economic Research Service, "Issues in Food Security: Agricultural Research and Development, Agricultural Productivity, and Food Security".

¹⁹ Forest Products Laboratory, <http://fpl.fs.fed.us>

7.2 Agencies that Fund Research and Development

7.2.1 *Maryland Industrial Partnerships Program (MIPs)*

MIPs provides matching grants for research to help Maryland companies develop products or processes. The research must be conducted by faculty from a University of Maryland campus. Grants can be up to \$100,000. Projects can be in the areas of education and training, engineering, physical sciences, life sciences, or computer science.²⁰

7.2.2 *Sustainable Agriculture Research and Education Program (SARE)*

SARE provides grants to farms, universities, nonprofit organizations, and research/education institutions or agencies to improve the economic, environmental, and social sustainability of farming and ranching. SARE also conducts educational and extension programs in an effort to increase knowledge about—and help farmers and ranchers adopt—practices that are economically viable, environmentally sound and socially responsible.

SARE has funded some 1,600 projects to explore and apply economically profitable, environmentally sound and socially supporting farming systems. The following examples focus on the development of diversification and value-added opportunities, in grants directly to farmers.²¹

- Wine grape production in Harford County
- Sustainable organic production of blueberries in Maryland
- Dairying in Harford County: Transition to intensive grazing
- Effect of wood chip mulch, leguminous and non-leguminous cover crops on productivity and weed suppression on organically managed asparagus beds

7.2.3 *National Agroforestry Center (NAC)*

NAC, a partnership of the Forest Service and Natural Resources Conservation Service, was authorized by Congress in the 1990 Farm Bill to accelerate the development and application of agroforestry technologies to attain more economically, environmentally, and socially sustainable land-use systems. The Center acts as a catalyst to involve cooperators and stakeholders in all aspects of agroforestry technology development through cooperative research and development, technology transfer and applications, and international exchange.

NAC co-funds small producer grants on agroforestry with the USDA Sustainable Agriculture Research and Education program. Some funding is also available for demonstrations and workshops. NAC's target audience is technical assistance providers. Any practitioner may seek

²⁰ University of Maryland Engineering Research Center, <http://www.erc.umd.edu/MIPS/>

²¹ Sustainable Agriculture Research and Education, <http://www.sare.org/>

technical information, educational materials, and training in agroforestry opportunities through NAC, free of charge²²

7.2.4 *Alternative Agricultural Research and Commercialization Corp. (AARC)*

AARC is a USDA program that makes repayable risk investments (such as equity or a percentage of future royalties) in companies that develop non-food, non-feed industrial products from agricultural and forestry materials and animal by-products. Preference is given to projects that benefit rural communities and are environmentally friendly. Applicants are expected to match AARC funding with loans or private equity capital.

AARC investments have included:

- Producing particle board from wheat straw.
- A vegetable oil-based release agent used on wooden form during concrete construction.
- Biodiesel projects using vegetable oils and animal wastes..
- Producing paper from kenaf, an annual fiber.
- Developing a compost that is also a fungicide.
- Starch-based plastics.
- Milkweed floss as a substitute for down.
- Corn sugar as a therapy to treat decreased blood flow from the heart, to speed recovery from heart surgery.

7.3 Agencies that Disseminate Research and Development for Resource Based Industries

7.3.1 *Appropriate Technology Transfer for Rural Areas (ATTRA)*

ATTRA is the national sustainable farming information center located at the University of Arkansas at Fayetteville and in Butte, Montana. ATTRA provides information free-of-charge through telephone requests from those engaged in or serving commercial agriculture, such as farmers, Extension agents, university researchers, farm organizations, and agribusinesses. ATTRA's goal is to help U.S. farmers boost profits and provide healthier food for consumers, while becoming better stewards of the precious natural resources and environment of America's farmlands.²³

ATTRA has a web-published version of USDA's Building Better Rural Places, a comprehensive resource guide for rural development, agriculture, forestry, and related value added and research opportunities.²⁴

²² National Agroforestry Center, <http://www.unl.edu/nac>

²³ Appropriate Technology Transfer for Rural Areas, <http://www.attra.org>

²⁴ ATTRA, Building Better Rural Places, <http://www.attra.org/guide/index.htm>

In addition, ATTRA publishes farming assistance directories in the following areas:

- Fundamentals of Sustainable Agriculture
- Agroforestry
- Fruits
- Other Horticultural Topics
- Greenhouse
- Poultry
- Grass Farming
- Other Livestock Topics
- Agronomy
- Alternative Farming Systems
- Current Topics
- Sustainable Agriculture Network (SAN) Publications
- Marketing & Business
- Herbs
- Vegetables
- Pest Management
- Value-Added & Processing
- Beef & Dairy
- Hogs, Sheep & Goats
- Soil & Fertility
- Organic Matters Series
- Farm Energy
- Resources
-

7.3.2 *Agricultural Research Service (ARS)*

ARS is the primary agency within USDA engaged in technology transfer. Through its Office of Technology Transfer (OTT), ARS has delegated authority to administer a patent and licensing program for USDA. This program carries out the policy and objectives of federal technology transfer legislation that enables and mandates the use of the patent system to promote the utilization of inventions arising from federally-supported research and development. The primary goal of the OTT program is to ensure that ARS inventions are brought to practical application so that their benefits are available to the public.

OTT identifies target industries and providing these industries with essential technical and business information on various technology opportunities. Marketing activities are conducted through the development and continued maintenance of a web site to provide industrial customers with essential information on technology transfer programs and commercial opportunities. OTT also exhibits its services at various business and technology conferences, offering individual assistance on technology transfer programs and research areas. Marketing activities also include developing formal partnerships on technology transfer with individual state economic development and agriculture entities.²⁵

²⁵ Agricultural Research Service Office of Technology Transfer, <http://ott.arsusda.gov>

8 Financing Vehicles in Maryland

Financing sources available to the resource based industries include banks, USDA loan programs, Farm Credit, leasing agencies, county-specific revolving loan funds, and other sources of credit. The Farm Service Agency administers commodity payments programs and serves as a lender of last resort.

Looking at the farm balance sheets again, specifically the outstanding debt in 1990 to 2000, Farm Credit remained the single largest lending resource for real estate and non-real estate needs, with approximately half of the market. Real estate and other lending from the Farm Service Agency diminished from 6% of the market to 3% in that period, while outstanding debt owed to commercial banks increased from 15% of the market to 19%. Debt owed to individuals and others, typically intra-family loans as well as dealer credit and other sources, remained a very significant source of funding, at from 25% to 29% of outstanding debt.²⁶

Table 8A: Farm Debt (000s), 1990-2000

	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>% Total Farm Debt</u>		
Farm Debt (Real Estate and Other)	930,413	963,576	1,134,068	100%	100%	100%
Farm Credit System	496,743	485,810	533,444	53%	50%	47%
Commercial Banks	141,843	145,813	220,263	15%	15%	19%
Farm Service Agency	55,664	35,742	29,362	6%	4%	3%
Life Insurance Companies	10,497	18,939	24,435	1%	2%	2%
Individuals and Others	225,662	277,271	326,563	25%	29%	29%

Source: USDA Economic Research Service

8.1 County Programs

Many counties in Maryland have revolving loan funds for local economic development. Typically, these are smaller loans for borrowers who are unable to obtain loans from commercial banks. Most of the loan funds do not target specific industries, but are intended to assist with job creation or retention. Some have explicit job creation requirements tied to the loan amount and are not necessarily appropriate for the capital-intensive resource based industries. Following are summaries of the programs in Maryland's rural counties.

8.1.1 Eastern Shore

The University of Maryland Eastern Shore's Rural Development Center administers revolving loan funds for Dorchester, Somerset, Wicomico, and Worcester Counties. Funding for the

²⁶ USDA, Economic Research Service, Farm Business Balance Sheet, <http://www.ers.usda.gov/data/farmbalancesheet/fbsdmu.htm>

programs were provided by HUD's Economic Development Administration, the US Department of Commerce, and DBED. Lending priority is given to manufacturing businesses that create permanent jobs. Loan sizes range from \$25,000 to \$500,000, at a below market rate. Loans from this fund can be no more than 50% of the total project cost.²⁷

8.1.2 Central and Southern Maryland

Anne Arundel County operates an economic development loan fund to provide loans to expanding or relocating businesses. There is no explicit jobs requirement. Both SBA guaranteed loans and direct loans are provided. Loan proceeds may be used for equipment, working capital, land acquisition, leasehold improvements, or construction. Loan sizes range from \$25,000 to \$300,000. Loan rates range from Prime + 2.25% to Prime + 5.5%.²⁸

Baltimore County operates an economic development revolving loan fund to provide loans and loan guarantees to industrial and commercial businesses. Loan proceeds may be used for real estate, equipment, and working capital. The maximum loan amount is \$250,000. There is no explicit jobs requirement; however, the actual loan amount is based on the economic impact of the project.²⁹

Baltimore County also operates a small business loan fund which can provide up to \$500,000 in financing. The fund participates in business expansion projects by financing up to 50% of the costs of the project. A minimum of one job must be created for each \$35,000 loaned.³⁰

Calvert County operates the Calvert Economic Development Loan Fund (CEDLF) that is intended to help fund new capital expansion projects, increase the commercial tax base, and increase business and employment opportunities in the county. Loan sizes range from \$2,500 to \$25,000, and may not be used for debt refinancing. There is no explicit jobs requirement.³¹

Harford County operates a revolving loan fund that is intended to assist creditworthy businesses unable to obtain financing through traditional sources due to limited equity, collateral or marginal cash flow. Applicants must be for-profit businesses including manufacturers, wholesalers, retailers, service companies and agricultural operations. Loan sizes range from \$10,000 to \$100,000, with no explicit jobs requirement.³²

8.1.3 Western Maryland

The Tri County Council for Western Maryland operates a loan program which provides below market financing for business development or expansion. Projects must create or retain at least one permanent job for each \$10,000 loaned. Loan sizes range from \$10,000 to \$100,000.³³

²⁷ University of Maryland Eastern Shore Rural Development Center, http://www.skipjack.net/le_shore/rural/loans.html

²⁸ Anne Arundel County, <http://www.aaedc.org>

²⁹ Baltimore County, <http://www.co.ba.md.us/p.cfm/agencies/bassist/edloan.cfm>

³⁰ Baltimore County, <http://www.co.ba.md.us/p.cfm/agencies/bassist/sbloan.cfm>

³¹ Calvert County, <http://www.co.cal.md.us/cced/basics/incentives.htm>

³² Harford County, [http://www.co.ha.md.us/economic_development/financing.html#Financial Support](http://www.co.ha.md.us/economic_development/financing.html#Financial_Support)

³³ Tri-County Council for Western Maryland, <http://tccwmd.org/rif.htm>

Garrett County Development Corporation operates several loan programs. The Revolving Loan Funds are intended to support the development of small businesses to maintain and expand employment in the county. Loan proceeds must focus on the creation or retention of jobs, though there is no explicit dollar per job requirement. Proceeds may be used for land, buildings, plant and equipment as well as working capital. Interest rates are capped at the Prime rate when the loan is made. Loan sizes range from \$10,000 to \$150,000.

Garrett County also operates the Micro Enterprise Loan fund, which assists entrepreneurs in starting or expanding their small business. Loan sizes for this program range from \$500 to \$15,000. The interest rate is capped at Prime plus 2% at the time the loan is made.

8.2 DBED Loan Programs

Thirty seven companies involved in the resource based industries were assisted by DBED from 1997 to 2001. Types of assistance included direct financing, as well as regulatory, workforce development, tax credit, and general assistance to help the companies understand DBED programs and options.

Table 8B: DBED Assistance to Resource Based Industries, 1997 to 2001

<u>Company</u>	<u>NAIC/industry</u>	<u>Action</u>	<u>Date</u>	<u>County</u>
Lawyers Winterbrook Farm	11233 Turkey Production	Community Assistance	10/24/2001	Frederick
Worcester County Natural Gas Study	11 Agriculture, Forestry, Fishing and Hunting	Financing Assistance	05/16/2000	Worcester
Angelica Nurseries, Inc	111421 Nursery and Tree Production	General Assistance	12/19/2000	Kent
Aquamar Industries	112519 Other Animal Aquaculture	General Assistance	11/11/1998	Worcester
Bell Nursery	111422 Floriculture	General Assistance	03/12/2001	Montgomery
Central Sod Farms of Maryland, Inc.	111998 All Other Miscellaneous	General Assistance	04/03/2000	Queen Anne's
Chapman Lumber	11331 Logging	General Assistance	04/23/1999	Garrett
Chesapeake Friendly Chicken, Inc.	11232 Broilers and Other Meat Type Chicken Production	General Assistance	11/20/2001	Worcester
Coast to Coast Poultry, Inc.	11232 Broilers and Other Meat Type Chicken Production	General Assistance	05/04/2000	Worcester
DynCorp Technical Services	11 Agriculture, Forestry, Fishing and Hunting	General Assistance	03/16/2001	Prince George's

Table 8B: DBED Assistance to Resource Based Industries, 1997 to 2001 (cont'd)

<u>Company</u>	<u>NAIC/industry</u>	<u>Action</u>	<u>Date</u>	<u>County</u>
Ecowatt Chesapeake	115 Support Activities for Agriculture and Forestry	General Assistance	05/30/2001	Baltimore City
Global Aquatics, Ltd	112519 Other Animal Aquaculture	General Assistance	02/04/1999	Harford
Maple Grove Equine Service, Inc	11292 Horse and Other Equine Production	General Assistance	08/03/2001	Carroll
Mountaire Farms	11299 All Other Animal Production	General Assistance	02/02/2001	Somerset
Royal Queen Company	11299 All Other Animal Production	General Assistance	09/18/1998	Somerset
Behnke Nurseries Company	111422 Floriculture Production	Grant	04/30/2001	Prince George's
Bluemount Nurseries, Inc	111422 Floriculture Production	Grant	11/16/2001	Baltimore
Clearwater Farms	12519 Animal Aquaculture	Grant	09/29/1998	Allegany
Deal Aquaculture Farms, Inc	112519 Other Animal Aquaculture	Grant	01/23/1997	Anne Arundel
Delta Industries, Inc	Coal mining, exporting, Wholesale mining equipment	Grant	03/11/1999	Garrett
Fibrowatt LLC	11 Agriculture, Forestry, Fishing and Hunting	Grant	03/09/2001	Dorchester
Hickory Hill Farms	Dairy Farming	Grant	02/28/2000	Harford
Cary and Joanne Huber	112519 Other Animal Aquaculture	Grant	12/10/1996	Harford
JWM Partner/Widell Farms/McCardell	Fish Farming	Grant	11/03/1997	Montgomery
RAG American Coal Holdings	Mining	Grant	06/06/2000	Anne Arundel
University of Maryland Eastern Shore	11 Agriculture, Forestry, Fishing and Hunting	Grant	06/29/2001	Somerset
Windridge Farm, LLC	1111 Oilseed and Grain Farming	Grant	03/07/2001	Frederick
Wincopia Farms, Inc	111422 Floriculture Production	Loan	11/19/1999	Howard
Beckman's Lumber Co	11331 Logging	Regulatory	12/22/1998	Garrett
Carolyn Farms	111219 Other Vegetable (except Potato) and Melon Farming	Regulatory	03/24/1998	Carroll
Cedar Creek	111998 All Miscellaneous Crop Farming	Regulatory	03/24/1998	Carroll

Table 8B: DBED Assistance to Resource Based Industries, 1997 to 2001 (cont'd)

<u>Company</u>	<u>NAIC/industry</u>	<u>Action</u>	<u>Date</u>	<u>County</u>
Glotfelty Lumber Co. Inc	11331 Logging	Regulatory	12/22/1998	Garrett
Sowers Dairy	11212 Dairy Cattle and Milk Production	Regulatory	12/18/1998	Frederick
Horizon Organic Dairy, Inc	11212 Dairy Cattle and Milk Production	Retention	09/20/2001	Kent
Bid4Assets, Inc.	11 Agriculture, Forestry, Fishing and Hunting	Tax Credit – JCTC	08/31/2001	Montgomery
NVR Building Products	11 Agriculture, Forestry, Fishing and Hunting	Workforce Development	11/06/2001	Frederick
Sycamore Lane Nursery	111421 Nursery and Tree Production	Workforce Development	06/07/2001	Cecil

Source: DBED

In addition to consultative assistance, DBED has been actively providing loans through the MEDAAF for animal waste technologies.³⁴ This was formerly a separate loan fund.

Table 8C: MEDAAF Loans for Animal Waste Technologies, Fiscal 2001

<u>Company</u>	<u>Amount</u>	<u>Approval Date</u>
N-Viro International Corp.	34,045	03/03/1999
Eastern Shore Forest Products, Inc.	632,593	03/16/1999
Perdue Farms, Inc.	80,000	07/13/1999
New Earth Services, Inc.	259,400	11/04/1999
New Earth Services, Inc.	40,600	11/04/1999
Hickory Hill Farm, Inc.	50,000	11/04/1999
Eastern Shore Forest Products, Inc.	367,407	03/15/2000
Total	1,464,045	

Source: Department of Legislative Services

³⁴ Maryland Department of Legislative Services, Analysis of the Maryland Executive Budget for the Fiscal Year Ending June 30, 2002, Volume V: Higher Education Overview – YA.00, March 2001, pp 595-596

8.2.1 Maryland Economic Development Assistance Agency and Fund

The MEDAAF programs were created to assist the State's economic development by providing financing for:

- Significant strategic economic development opportunities.
- Local economic development opportunity.
- Direct assistance to local jurisdictions or the Maryland Economic Development Corporation (MEDCO).
- Regional or local revolving loan funds; and special purpose loans.

Many programs have been combined into MEDAAF, including the Seafood and Aquaculture Program and the Animal Waste Technologies program.

As noted in DBED's presentations to the Task Force, the MEDAAF programs are designed to foster capital investment and job creation. As such, most resource based industries would encounter difficulty in taking advantage of some of the Department's financing programs.³⁵

8.2.2 Maryland Competitive Advantage Financing Fund

MCAFF program provides financial assistance to small businesses that are unable to obtain financing on reasonable terms from traditional sources. The uses of funds can include the acquisition of real estate or building, construction, machinery and equipment, furnishings and fixtures, leasehold improvements, site improvements and working capital. To qualify for assistance, a business must have net revenues of less than \$1,000,000 and fewer than 100 full-time employees. Additionally, the project must be located in a priority funding area. Loan sizes range from a \$10,000 to \$100,000.

8.2.3 Other DBED Programs

Maryland with Pride

This program is a local brand to create awareness among businesses and consumers of Maryland products and services, and encouraging the use of the distinctive "Maryland with Pride" logo.

"One Maryland" Tax Credits

DBED administers the One Maryland tax credit program which serves as an incentive for economic development projects in targeted areas. Projects must be approved by the Secretary of DBED before the project begins. Targeted areas are defined by statute; however, for resource based industries the requirement to locate in a targeted area is waived. For a start-up business, a

³⁵ Maryland Department of Business and Economic Development, "Discussion of Issues Related to Establishing a Resource Based Industry Financing Authority", white paper presented to the Task Force November 1, 2001, p 3

maximum tax credit of \$500,000 is available. It requires the creation of at least 50 new full-time jobs.³⁶

8.3 MDE Linked Deposit Program

The MDE Linked Deposit mechanism was designed to provide a source of low interest financing to encourage private landowners and water system owners to implement capital improvements to reduce the delivery of nutrients to the Chesapeake Bay and its tributaries and provide safe drinking water. The term "linked" refers to the relationship between the below-market rate of interest investment agreement provided to a participating lender by MDE's Water Quality Financing Administration, and the below-market rate loan that is passed on to the borrower to fund the project.³⁷

This program can provide low interest rate funding for:

- Capital improvements such as treatment facility upgrades, installing or upgrading storage facilities, and distribution line replacements.
- Investments in structures or farm equipment for eligible non-point source nutrient best management practices, enabling farmers to reduce soil erosion and protect water quality
- Eligible capital best management practices funded under agricultural cost-share programs
- Homeowner associations to address needs such as failing and sometimes dangerous storm water management facilities
- Repair or replacement of failing on-site septic systems, and for other beneficial non-point source capital improvements on private lands.

Participating lenders include:

- 1st Mariner Bank
- Annapolis National Bank
- Bank of America
- The Centreville National Bank
- Chevy Chase Bank
- The Columbia Bank
- Enterprise Federal Savings Bank
- Farmers & Mechanics National Bank
- Farmers Bank
- First National Bank of St. Mary's
- Industrial Bank
- Maryland Permanent Bank & Trust Co.
- Peninsula Bank
- Potomac Valley Bank
- Annapolis Banking & Trust Company
- Atlantic Bank
- Bank of Eastern Shore
- The Chestertown Bank of Maryland
- The Citizens National Bank
- County Banking & Trust Company
- FCNB Corp.
- Farmers & Merchants Bank and Trust
- The Fidelity Bank
- First Union National Bank
- Keystone Financial Bank
- Mercantile Safe Deposit & Trust Co.
- Peoples Bank of Maryland
- St. Michaels Bank

³⁶ One Maryland program materials

³⁷ Maryland Department of the Environment, <http://www.mde.state.md.us/wqfa/linked%20deposit3.html>

8.4 Federal Programs

8.4.1 Farm Service Agency (FSA)

The Farm Service Agency, a lender of last resort, operates many programs for farmers and ranchers, including farm loans, disaster assistance, commodity loans, conservation programs, and youth or beginning farmer loans.³⁸ As noted above in the farm balance sheets, FSA has provided from 3% to 6% of total loans to farmers in the past few years. A report prepared by FSA for this study details the agency's lending in fiscal 2000 and 2001, which ended September 30.

Table 8D: Farm Service Agency Summary of Loans, FY 2000-FY 2001

<u>Programs</u>	<u>Fiscal 2000</u>		<u>Fiscal 2001</u>	
	<u>Loans or Grants</u>	<u>Amount (000)</u>	<u>Loans or Grants</u>	<u>Amount (000)</u>
Operating loan – 1 year	9	246	8	157
Operating loan – 7 year	23	1,850	14	509
Farm ownership	1	200	4	698
Emergency loans	5	179	-0-	-0-
Total loans	38	2,475	26	1,364
Operating loan guarantee – 1 year	17	1,483	10	1,192
Operating loan guarantee – 7 year	24	2,448	30	2,687
Farm ownership guarantee	23	6,085	40	8,120
Total guarantees	64	10,016	80	11,999
Agriculture loan mediation grants	1	79	1	51
Grand total	103	12,570	107	13,414

Source: Farm Service Agency

8.4.2 USDA Rural Development Programs

Direct Loans

The Business and Industry (B&I) direct loan program is intended to create and maintain employment and improve the economic and environmental climate in rural communities. Loans are administered by the Rural Business-Cooperative Service of USDA Rural Development. Priority is given to applications from businesses in communities of 25,000 or less. In addition, the area must be suffering fundamental physical or economic stress and meet the agency's targeted objectives. Loan proceeds may be used for land, building, machinery and equipment, working capital, marketing facilities, pollution control, and refinancing under certain conditions. The maximum loan size is \$10 million. In Fiscal 2000, \$20 million in B&I direct loans were made in Maryland.

³⁸ Farm Service Agency, http://www.fsa.usda.gov/pas/_accomp/2000/Maryland.htm

Guaranteed Loans

The B&I guaranteed loan program is also intended to stimulate employment. Loan guarantee limits are 80% guarantees for loans of up to \$5 million, and 70% guarantees for loans of \$5 million to \$10 million. A 60% guarantee may be provided for loans of \$10 million to \$25 million, though projects of that size must be approved by the Rural Business-Cooperative Service director. In Fiscal 2000, nearly \$800,000 in B&I guarantees were issued in Maryland.

Other Financing Vehicles

- Intermediary Relending Program
Eligible intermediaries include public bodies, nonprofit corporations, Indian tribes, and cooperatives. These organizations in turn finance business and community development projects in rural areas.
- Rural Venture Capital Demonstration Program
This program designates up to 10 community development venture capital organizations to demonstrate the usefulness of guarantees to attract increased business investment to rural areas. The designated organizations establish equity pools for investment in rural businesses.
- Rural Business Enterprise Grants
Grants can be made to public bodies, nonprofit corporations, and Indian tribes that finance and facilitate the development of small and emerging businesses in rural areas.
- Rural Business Opportunity Grants
Grants can be made to public bodies and nonprofit corporations for technical assistance, training, and planning activities that improve economic conditions in rural areas.
- Rural Economic Development Loans and Grants
Loans and grants in this program are made to rural utilities service electric or telecommunications companies to assist in developing rural areas, creating or retaining jobs. Loans are made to finance business start up and expansion. Grants are made to capitalize revolving loan funds operated by the utility.

8.4.3 Small Business Administration

Financing Programs

The Small Business Administration provides financial assistance through two important programs: the 7(a) loan guarantee program and the 504 direct loan program. The guarantee program provides a loan guarantee of up to 90% of the principal amount to an SBA-approved participating lender for small business loans that are within SBA's underwriting guidelines and risk tolerance. The direct loan program allows SBA to participate directly in larger loans, with a bank or other lender providing 50% of the required funding, the business owner providing 10% as an equity contribution and SBA lending the remaining 40% at open-market rates.

For both of these programs, the SBA requires the bank lender to provide a complete application package and its own approval of the loan. Banks generally use the loan guarantee program for loans in which there is sufficient cash flow but too much risk. The direct loan program is used when the bank does not have the appetite or ability to finance the entire project.

In both programs, cash flow coverage is the most critical element of the deal. Resource based industries, which are generally land-rich and cash-poor, are not in the typical profile of an SBA guarantee or an SBA loan. This is borne out by SBA's statistics, which show that from 1998 to 2000 there were only five 7(a) guarantees to the agriculture and mining industries in Maryland.³⁹

Table 8E: SBA Guaranteed Loans in Maryland, 1998-2000

<u>Industries</u>	<u>SIC</u>	<u>1998</u>		<u>1999</u>		<u>2000</u>	
		<u>Loans</u>	<u>Value</u>	<u>Loans</u>	<u>Value</u>	<u>Loans</u>	<u>Value</u>
Agriculture	0111-0971	1	375,000	2	509,000	1	50,000
Mining	1011-1499	0	0	1	184,000	0	0
Construction	1521-1799	6	2,161,000	9	2,068,000	7	2,356,000
Manufacturing	2011-3999	9	2,159,550	8	2,816,941	11	3,965,000
Transportation & utilities	4011-4971	2	50,000	0	0	0	0
Wholesale	5012-5199	10	3,225,000	3	1,075,000	9	4,184,000
Retail	5211-5999	33	4,594,400	33	4,725,468	32	6,351,532
Finance, insurance & real estate	6021-6799	2	263,000	1	114,400	3	1,045,000
Services	7011-8999	33	4,803,571	43	9,157,750	32	7,975,200
Non-classifiable	9999	3	336,500	0	0	2	800,000
TOTALS		99	17,968,021	100	20,650,559	97	26,726,732
Agriculture and mining as % of Total		1.0%	2.09%	3.0%	3.36%	1.0%	0.19%
Retail and services as % of Total		67%	52%	76%	67%	66%	54%

Source: Small Business Administration

³⁹ Small Business Administration, <http://www.sba.gov>

Of those five loans, three were made to landscaping companies.

Table 8F: SBA Guaranteed Loans to Agriculture and Mining in Maryland, 1998-2000

<u>Industries</u>	<u>SIC</u>	<u>1998</u>		<u>1999</u>		<u>2000</u>	
		<u>Loans</u>	<u>Value</u>	<u>Loans</u>	<u>Value</u>	<u>Loans</u>	<u>Value</u>
Animal specialties	279	0	0	1	184,000	0	0
Landscape counseling and planning	781	1	375,000	1	325,000	0	0
Lawn and garden services	782	0	0	0	0	1	50,000
Drilling oil and gas wells	1381	0	0	1	184,000	0	0
TOTALS		1	375,000	3	693,000	1	50,000

Source: Small Business Administration

Advocacy Programs

In late 1998, the SBA's Office of Advocacy completed research on the availability of equity capital to small businesses in rural areas⁴⁰. Their research showed that gazelles – firms that have doubled in size in four years – do exist in rural areas, but have significantly more problems accessing equity capital than do gazelles in urban areas. Such firms are called gazelles because their growth is so much greater than average businesses. Firms in this class are highly courted by economic development offices because of their job creation potential.

To fill this need, SBA created the ACE-Net, which is a network intended to connect equity-seeking companies with angel and venture capital investors. Any small business is eligible to participate in this program. As the program is only a few years old, its performance cannot yet be measured.

8.5 Farm Credit

The Farm Credit System is a government sponsored enterprise that provides business and residential mortgage financing on commercial terms. Loan types include farm improvement loans, equipment loans, operating loans, mortgages, timber loans, aquatic loans, farm-related business loans, irrigation loans, financing for basic marketing and processing, automobile and personal loans. In addition, Farm Credit has appraisal services, sells crop insurance, offers lease financing, and sells personal insurance.

⁴⁰ Small Business Administration, "Small Business Finance in Rural and Urban Regions", a presentation to the Federal Reserve Bank of Kansas City, October 1998.

Farm Credit is a source of agriculture-related lending for farmers and part-time farmers with acceptable credit histories and collateral.⁴¹ Mid-Atlantic Farm Credit is the only FSA-certified lender in Maryland, which means it can approve loans with FSA guarantees without having the applicant go through the FSA process. (Similar certification is available to SBA lenders). As noted in the discussion of farm balance sheets, Farm Credit is a major source of financing for agricultural businesses in Maryland.

8.6 Rural Lending Corporation

The Rural Lending Corporation is an affiliate of Mid-Atlantic Business Finance, a certified SBA 504 lender in Maryland. RLC was formed in 1997 to serve the rural small business community. It provides below market financing at fixed rates, for up to 50% of project costs. Loan proceeds can be used for the purchase of land, building construction or improvements, machinery and equipment, or working capital. The maximum loan amount is \$150,000.

⁴¹ Presentation by J. Robert Frazee to the Task Force, August 22, 2001.

9 Financing Vehicles in Other States

Following are summaries of two innovative programs which aim to increase the long-term viability and profitability of farm operations. One requires a ten year business plan, and the other requires participation in an agricultural preservation program. The following sections contain brief descriptions of financing vehicles in other states.

Connecticut's Farm Enhancement Program provides a reimbursement of approved costs for expansion. It appears that bridge loans or some other kind of temporary financing would have to be available to participants, as the state funding comes only after the project is completed.

Massachusetts' Farm Viability Enhancement Program requires the land owner to enter the state's land preservation programs, but provides in return individualized consulting services to increase the farm's profitability.

Minnesota's Agriculture Utilization Research Institute provides support for technology transfer and utilization. Staff scientists and business consultants work with the individual companies.

9.1 Connecticut Farm Enhancement Program

The Connecticut Farm Enhancement Program (FEP) provides matching grants to farmers for expansion or improvements to working farms as part of the farm's ten year business plan. The focus of the program is to provide seed money to enhance existing agricultural operations and to provide a stimulus to the local and state economies.⁴²

FEP was funded in the year 2000 by a \$500,000 bond authorization. The maximum grant per farm was set at \$40,000, to be matched by the farmer's cash equity or a bank loan. The FEP portion is not a lump sum payment, but a reimbursement to the expense of materials and wages only, not the cost of purchasing property or borrowing funds. Further, FEP funded items must have a useful life of at least ten years. As such, it is a participation in the project, not to be used as an interest-rate subsidy.

Because FEP grants are paid after the project is completed and approved by the Commissioner of Agriculture, the farmer would need to have sufficient funds (either equity or loan) to complete the project. The FEP payment then reduces the loan principal or (if completely self-funded) repays the equity outlay. This requirement limits the State's risk by funding only completed, appropriate projects, but will also limit the applicant pool by ensuring that only well-off farmers would be able to participate.

Applicants may be owners or tenants who complete a one-day seminar and submit a ten-year business plan, as well as the necessary permits. All projects must be audited by a CPA upon completion. In January 2001, it was announced that the full two-year allotment of \$1 million had been allocated to 33 approved projects.

⁴² Connecticut Department of Agriculture, "Farm Enhancement Program Overview", p 1.

9.2 Massachusetts Farm Viability Enhancement Program

The purpose of the Farm Viability Enhancement Program (FVEP) is to improve the economic bottom lines and environmental integrity of participating farms through the development and implementation of business plans. These comprehensive, yet focused plans, which are developed by teams comprised of farmers and other agricultural, economic and environmental consultants, are aimed at suggesting ways for farmers to increase their on-farm income through such methods as improved management practices, diversification, direct marketing, value-added initiatives and agri-tourism. In addition, the plans make recommendations concerning environmental and resource conservation concerns on participating farms. To be eligible for participation in the Program, an applicant must own, or be a co-applicant with the owner of, at least 5 acres of land in agricultural use.

Applicants are evaluated based on the following priority criteria:

- The number of acres placed in the program.
- The suitability and productivity of the land for agricultural use based on its soil classification, physical features, and location.
- The degree of threat to the continuation of agriculture on the land due to factors such as financial stability, urban encroachment, or management changes which may negatively impact continuing agricultural activity.
- The degree to which the project would accomplish environmental objectives, such as the protection of water resources or flood plains and preservation of historical, open space, and aesthetic amenities.
- The number of years and types of agricultural experience of applicant and/or co-applicant.

The FVEP has protected thousands of acres from development and helped farmers to increase the profitability of their businesses⁴³. Following is a summary of the program's results:

Table 9A: Massachusetts Farm Viability Program Results, FY 1997-1999

<u>Year</u>	<u># Farms</u>	<u>Additional Investments</u>	<u>Average Profit Increase</u>	<u>FV Acres</u>	<u>Leased Acres</u>	<u>APR Acres</u>
1997	27	\$443,997	\$22,813	3,356	1,100	1,004
1998	20	457,050	21,676	2,596	1,102	130
1999	19	557,759	12,092	1,238	1,232	501

FV is owned acreage.

APR is agricultural preservation restriction acreage.

Source: Massachusetts Department of Food and Agriculture

⁴³ Massachusetts Department of Food and Agriculture, <http://www.massfda.org/funding/farmviability/growth.htm>

9.3 Minnesota's Agricultural Utilization Research Institute (AURI)

The Agricultural Utilization Research Institute (AURI) is a nonprofit corporation created to strengthen rural Minnesota's economy and help businesses respond to market opportunities. AURI builds working partnerships with business innovators, agricultural groups and researchers to develop new and value-added uses for agricultural goods. The Institute provides technical expertise to clients and financial assistance for new product research and development.⁴⁴

AURI staff work one on one with entrepreneurs and agricultural groups. They also link innovators with other agencies and organizations to provide a network of available resources. There are five AURI offices and more than 30 staff members throughout the state, including several scientists and technicians on staff with a wide range of expertise including food product development, waste utilization, and microbiology. Field office and technical staff work individually with clients to address their needs and advance products to reach emerging markets. Clients include for-profit businesses, commodity groups and cooperatives.

AURI offers the following programs:

Pesticide Reduction Options

The PRO program funds research and demonstration projects intended to reduce the use of petroleum-based chemicals in farm production.

Applied Research Services

AURI's applied research services complement the technical and financial assistance given to clients in the field.

Initial Project Assessment Program

IPA is designed to assist for profit businesses that need to address the technical, market or economic feasibility of a value-added ag. product or process. This program is designed for projects that are driven by an individual client. The program's goal is to enable the particular business to be closer to commercializing a product and increase profits.

Market Assessment Program

MAP is designed for nonprofit and for profit businesses. This program will identify and develop markets and test the economic or technical feasibility of an idea. These projects have the potential to impact a number of producers if results are positive. This program's efforts are driven by producers in cooperation with farm organizations, commodity groups, growers associations, agri-business groups, public entities, nonprofit organizations, and/or group(s) of producers.

Technology Transfer Program

TTP assists in the transfer of technology developed at private and public entities to businesses within the state of Minnesota. TTP is designed to assist in the transfer of technology to create

⁴⁴ Agricultural Utilization Research Institute, <http://www.auri.org/programs/programs.htm>

value added agricultural opportunities for private businesses and/or producers utilizing Minnesota agricultural commodities.

9.4 Direct Lending Programs

Arkansas. Operates a beginning farmers finance program, a capital access program, a bond guaranty program, an export finance program, and an agricultural cooperative loan program for farm cooperatives.

Florida. Operates an agricultural emergency loan program that was established in 2000 for farmers unable to obtain traditional financing through commercial lenders.

Maine. Operates an agricultural marketing loan fund, a potato marketing fund, and a nutrient management loan program targeted to assist dairy farmers.

Mississippi. Operates an agribusiness loan program and an emerging crops loan program.

North Dakota. Operates an established farmer real estate loan program, an irrigation loan program, and a lower interest rate financing program for on-farm businesses that supplement traditional farm income.

Vermont. Operates a direct loan program targeted to beginning farmers who cannot obtain loans from conventional agricultural credit sources.

West Virginia. Operates a rural rehabilitation fund which provides lower interest loans to producers, agri-businesses and cottage industries.

9.5 Examples of Partnerships with Private Sector Lenders

Colorado. Operates an agricultural loan program that offers a secondary market for Farm Service Agency loan guarantees, and a loan participation program to encourage banks to participate in agricultural loans.

Iowa. Operates a loan participation program geared to help low-income and beginning farmers by supplementing the borrower's down-payment with participating lenders.

Louisiana. Operates a linked deposit program that provides lower interest loans to agricultural processors and producers.

North Dakota. Offers a beginning farmers real estate loan program and a family farm loan program, both administered by the Bank of North Dakota.

Oklahoma. Operates an agriculture linked deposit program, whereby state funds are invested in participating banks that do agricultural lending, and in return the banks provide lower cost loans to agricultural borrowers.

10 Other Issues Raised in the Surveys

There were many issues raised during the survey process which did not develop the critical mass of statistical validity. The comments below are indicative of the range of problems that business operators and stakeholders are grappling with. They have been left in the form in which they were made. Some are sentence fragments, but we feel they provide a useful illustration of the thoughts and frustrations of the resource based industry advocates and business operators.

1. Tax incentives for energy research.
2. Educate consumers about the products and the farmer.
3. Maintain sufficient extension programs to serve industry.
4. Broader base of support with non-traditional farmers.
5. State should support counties.

6. Harbor under-utilized for grain.
7. Need to address the environmental issues while working with agriculture.
8. Get hard data -- science -- before imposing regulations.
9. Let free enterprise seek its own level.
10. High risk lending to encourage borderline ideas that will eventually be part of the industry.

11. Business plans -- entering this business is not for everyone.
12. Help with keeping the lower wage jobs on board. Most of these are minority jobs.
13. Some players will have to drop out but that will help support the prices received at the remaining mills.
14. Concern that easements could restrict harvest.
15. Legislative recognition that minerals are valuable to the State.

16. Public communication is political.
17. Health insurance cost out of control.
18. [Maryland is] highly regulated but offers good services.
19. Government support tends to flood the market.
20. Needs a critical mass of producers and suppliers or the entire milk industry will diminish.

21. Can't compete with Midwestern labor/land.
22. Let capitalism create markets, not government.
23. Conservation review programs take revenue away from local counties -- need to be mindful of impacts.
24. MCE should stop measuring meetings that are worthless and start looking at daily activity and help in the field.
25. Health code regulations hard to understand/implement.

26. Focus back on agriculture.
27. Forced out by population.
28. Wife won't move.
29. Economic development keeps trying efforts to bring in "better" jobs but "better" is subjective. There is concern that eventually the workforce won't be there.
30. If any loan program is offered, low interest is favored over credit enhancement because he feels if banks are guaranteed they'll lend foolishly.
31. Would like to see some more money (grants) to help develop more education for teachers and teaching tools to help with smaller kids educational needs.
32. Can't use lead paint so have to mark the trees more often.
33. The farmers get all sorts of government assistance and are perceived differently at the public level.
34. People don't understand that you need to have stone etc nearby, too heavy to ship. Not like food and fiber.
35. Industry consolidation has helped and hurt the political arena. It's helped because the big boys know how to work the system. But it also removed State connections.
36. State shouldn't commingle the budget for road with mass transit issues. Roads need constant repair and need a defined budget or the State will be short funded.
37. Maybe grants or assistance for clean air efforts.
38. Financing availability has not been an issue, but R&D funding is not available.
39. Revolving loan fund, job retention for rural areas. Revolving loan funds could do 75% of a deal with grants for 25%.
40. Concern that something is needed to encourage the industries to become more creative and to allow some margin for error when trying new business ventures.
41. Private forest is a public value. Modernization is a concern.
42. Maybe grants or assistance for clean air efforts.
43. Micro loans for new but small ventures.
44. What is needed is infrastructure funding. Individual needs can be addressed with current structures.
45. New operators need to develop their business plans before asking for money.
46. People don't want loans, they want grants for innovation.
47. Incentive programs w/training and working with local bank for graduation.
48. Help develop overseas markets.
49. Private efforts are good enough.
50. Conservation easements preserve too much land that should be managed.

Appendix 3

Draft Legislation

DRAFT

C8

2lr1723

CF 2lr1724

Drafted By: Margaret McHale
Typed By: _____
Stored On: 1/22/02
Proofread By: _____
Checked By: _____

By: Senator Middleton

A BILL ENTITLED

AN ACT concerning

Task Force on Resource Industry Business Development

FOR the purpose of establishing the Task Force on Resource Industry Business Development; providing for a certain membership of the Task Force; requiring the Task Force to establish a certain workgroup, perform certain functions, and report to certain persons by a certain date; authorizing the Task Force to appoint certain committees; providing a certain staff for the Task Force; prohibiting certain persons from the receipt of certain compensation, and authorizing the reimbursement of certain expenses; providing for the termination of this Act; and generally relating to the Task Force on Resource Industry Business Development.

Preamble

WHEREAS, Chapter 433 of the Acts of 2000 enacted the Task Force on Resource Based Industry in Maryland in order to examine the need for, and feasibility of, establishing a finance development authority to assist the State's farming, fishing, forestry, and mining extraction industries with loans, financing, training, and technical and business planning assistance services; and

WHEREAS, In its preliminary findings and recommendations issued in January 2001, the Task Force recommended that a comprehensive interagency needs assessment be conducted in order to enhance understanding of the loans and grants that would be necessary to address the initial needs of resource based industries; and

WHEREAS, Chapter 196 of the Acts of 2001 extended the Task Force for an additional year in order to continue its work in the study and development of these rural-based business operations; and

WHEREAS, An interagency workgroup of Task Force members met on a regular basis in order to focus the work of the group and to coordinate the completion of the needs assessment; and

WHEREAS, In light of the completed needs assessment, it is the understanding of the Task Force that in today's rural economy there is no great demand for additional lending mechanisms in order to support start-up needs of resource based industries, and thus the establishment of a finance development authority is not

recommended at this time; and

WHEREAS, Although the original charge of the Task Force on Resource Based Industry in Maryland has been accomplished and that task force sunsets as of January 31, 2002, there is still a great need for government attention to several areas that are integral to the continued operation and success of rural industries; and

WHEREAS, In order to maintain resource based industries as the backbone of the rural economy, State effort should now turn to other development concerns such as public education on the Statewide benefits of rural-based industry, better communication between business operators and State agencies, innovation in production techniques and technology transfer, and entrepreneurial training in management and marketing skills; and

WHEREAS, Given the education and perspective that task force members have acquired over the term of the Task Force on Resource Based Industry in Maryland, it is their unanimous recommendation that a new task force be fashioned in order to carry forward the State's support and enhancement of economic growth opportunities for rural industry; and

WHEREAS, It is therefore necessary and appropriate to reconfigure the first task force appointed in this area, to expand the areas of expertise represented in the membership, to change the name of the task force and to redefine its charge, and to create the Task Force on Resource Industry Business Development; now, therefore,

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That:

(a) There is a Task Force on Resource Industry Business Development.

(b) The Task Force consists of the following 28 members:

(1) two members of the Senate of Maryland, appointed by the President of the Senate;

(2) two members of the Maryland House of Delegates, appointed by the Speaker of the

House;

(3) (i) the Secretary of Business and Economic Development, or the Secretary's designee; and

(ii) three economic development officials from rural counties, selected by the Secretary of Business and Economic Development as follows:

1. one from the Eastern Shore of Maryland;

2. one from the Western Shore of Maryland; and

3. one from Southern Maryland;

(4) the Secretary of Agriculture, or the Secretary's designee;

(5) two representatives of the Department of Natural Resources, appointed by the Secretary of Natural Resources:

(i) one from the Forest Service; and

(ii) one from the Fisheries Service;

(6) the Executive Director of the Maryland Food Center Authority, or the Executive Director's designee;

(7) the Director of the Maryland Cooperative Extension, or the Director's designee;

(8) (i) the Executive Director of the Forvm for Rural Maryland, or the Executive Director's designee; and

(ii) an economic development representative who specializes in agricultural economic development, appointed by the Executive Director of the Forvm for Rural Maryland;

(9) the Chair of the Maryland Forestry Task Force, or the Chair's designee;

(10) a representative of the Western Maryland "One Maryland" Task Force, selected by the members of the Western Maryland Task Force;

(11) a representative of the Eastern Shore "One Maryland" Task Force, selected by the members of the Eastern Shore Task Force;

(12) a representative of the Maryland Farm Bureau;

(13) a representative of the Maryland Forests Association;

(14) a representative of the Maryland Saltwater Sportsfishermen's Association;

(15) a representative of the Maryland Aggregates Association;

(16) a representative of the Maryland Watermen's Association;

(17) a representative of the Maryland Nursery and Landscape Association; and

(18) one representative from each of the following regional councils, appointed by the respective council's executive director:

(i) Tri-County Council for Southern Maryland;

(ii) Tri-County Council for Western Maryland;

(iii) Tri-County Council for the Lower Eastern Shore; and

(iv) Mid-Shore Regional Council.

(c) The President of the Senate and the Speaker of the House shall jointly designate two of the members as co-chairs of the Task Force.

(d) The Task Force shall:

(1) establish an interagency workgroup and its specific charge within the operation of the Task Force;

(2) study the current and anticipated needs for grants and loans for specific elements of rural business development, such as niche market development, technology transfer, research and development, and micro-enterprise development for resource based industries;

(3) consider the factors involved in, and investigate the feasibility of, the:

(i) creation of a staff position to act as an information clearinghouse for resource based industries;

(ii) creation or enhancement of a pool of grant funds for resource based innovation and research; and

(iii) sponsorship of education and networking seminars to enhance the quality and quantity of economic development opportunities available to rural businesses;

(4) develop specific recommendations for improving economic development of resource based industries and related innovation, information sharing, technology transfer, coordination, and business education and training;

(5) monitor:

(i) the performance and progress of State agencies in their service of resource based industries; and

(ii) relevant studies of rural-based business, including those conducted by the University of Maryland and Salisbury University; and

(6) report its findings and recommendations to the Governor and, in accordance with § 2-1246 of the State Government Article, to the General Assembly on or before September 30, 2003.

(e) As necessary and appropriate, the Task Force may appoint ad hoc committees to assist the Task Force in any aspect of the development of resource industry business opportunities and markets.

(f) The Department of Legislative Services, with the assistance of the Forum for Rural Maryland, shall provide staff for the Task Force.

(g) A member of the Task Force or of an ad hoc committee of the Task Force may not receive compensation for serving on the Task Force or committee, but is entitled to reimbursement for expenses under the Standard State Travel Regulations, as provided in the State budget.

SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect June 1, 2002. It shall remain effective for a period of one year and five months and, at the end of October 31, 2003, with no further action required by the General Assembly, this Act shall be abrogated and of no further force and effect.

Appendix 4

Other Issues Raised by Task Force Members

Appendix 4

Other Issues Raised by Task Force Members

Task force members were asked to identify other issues that may inhibit the development of resource based industries but that fall outside the specific jurisdiction of the task force. Only members representing the forest products industry provided specific comments. These comments are noted below.

The Forest Products Industry

Voluntary Easements and Timber Rights

Members of the task force representing the forest products industry identified a significant concern relating to the purchase of voluntary easements by land trusts from forestland owners under the State's Rural Legacy and GreenPrint programs. According to members of the task force representing the forest products industry, landowners may retain the right to harvest timber under both of these programs; however, when land trusts approach landowners for voluntary easements, they sometimes offer landowners a higher price for their development rights if they give up those rights. Of the 2.4 million acres of forested land in the State, approximately 90% is owned by private landowners. Accordingly, if forest landowners enter into agreements that permanently forfeit all future timber harvesting rights, the volume of available fiber products in this State becomes diminished. Members representing the forest products industry note that under other State programs such as the Maryland Agricultural Land Preservation Program, participating landowners have the right to exit the program after 25 years, albeit with significant financial penalties. Under Maryland's Rural Legacy and GreenPrint programs, no such option exists.

According to one member of the task force representing the forest products industry, the extent to which landowners are extinguishing their rights to harvest timber when signing voluntary agreements is unknown. That member recommends that land trusts using State funds to purchase easements be required to submit an annual report to the Maryland Department of Agriculture and the Department of Natural Resources. The report should document: (1) expenditures for easements; (2) the number of easements purchased with the attendant acreage volume; and (3) the extent by which timber harvesting rights are extinguished as part of the final agreement.

Regulatory Issues

Regulatory issues are also of concern to the forest products industry. One issue raised by a member of the task force representing the forest products industry relates to the regulations under the State's Forest Conservation Act. Currently, landowners who sell their timber must sign a Declaration of Intent letter stating that they will not develop their land for the next five years as a consequence of selling their timber. One member representing the forest products industry noted that as a result of this requirement, some landowners choose not to sell their timber out of fear that they will be prevented from implementing future land use decisions. That member recommends that this requirement be repealed.