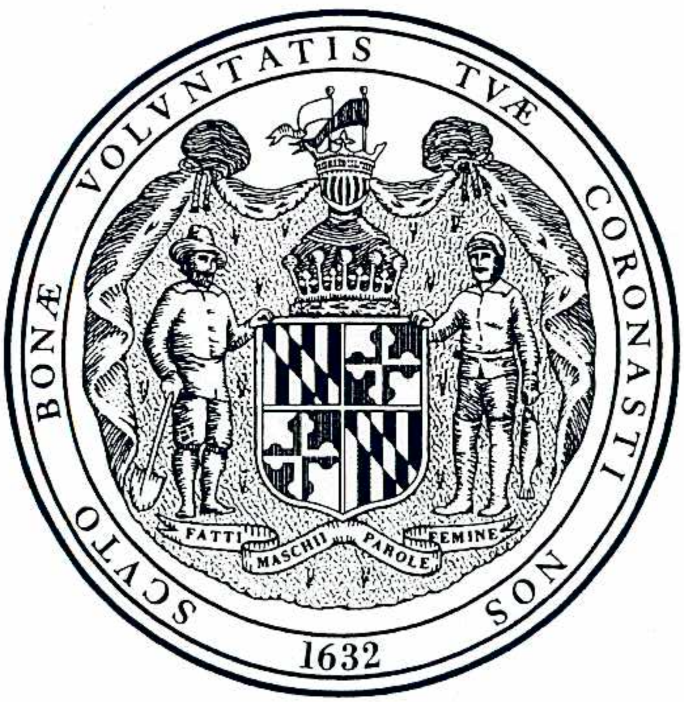
Task Force on Resource Based Industry in Maryland

Report



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Maryland General Assembly
Task Force on Resource Based Industry in Maryland

2000 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
Gerald P. Duckett	Western Maryland "One Maryland" Task Force
J. Philip Gottwals	Forvm for Rural Maryland
Jim Mallow	Department of Natural Resources
Andrew McLean	Rural Commercial Finance and Lending Industry
William Miles	Maryland Forestry Task Force
Rich Novotny	Fisheries Industry
Brad Powers	Department of Agriculture
Edwin Richards	Eastern shore "One Maryland" Task Force
Kevin Simpson	Forestry Industry
Vernon Thompson	Department of Business and Economic Development
James C. Wade	Maryland Cooperative Extension
Steve Weber	Agricultural Industries

Staff

Lesley Frymier

Jody Minnich

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THE MARYLAND GENERAL ASSEMBLY

ANNAPOLIS, MARYLAND 21401-1991

January 15, 2001

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 preliminary recommendations.

The 17-member task force was established in the fall of 2000 pursuant to Chapter 433 of the Laws of Maryland (2000). It is 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 is 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.

The legislation that established the task force required it to report its recommendations to the Governor and the General Assembly on or before December 1, 2000. However, in the course of conducting its work this interim, the task force determined that it needed more time to adequately address its charges. 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 15, 2001.

This report describes the preliminary recommendations of the task force. At its last meeting, the task force concluded that while significant progress has been made this interim, the task force should continue to meet in order to more fully develop its recommendations. The task force recognizes the importance of establishing a new program to address the needs of resource based industries in the State. At this time, the task force contends that the Maryland Food Center Authority (MFCA) is the most appropriate vehicle for housing such a program. However, the task force believes that before it proposes legislation that implements a new program, additional research on the specific needs of those industries must be conducted. Accordingly, the task force recommends that the task force be continued through January 31, 2002, that a comprehensive survey of resource based industries be performed, and that a report of its final recommendations, including proposed legislation to implement those recommendations, be submitted to the Governor and the General Assembly by December 31, 2001. Draft legislation implementing the task force's preliminary recommendations is included in the report as **Appendix 3**.

The task force also concludes that it expects the Department of Business and Economic Development (DBED) to incorporate resource based industries in its strategic plans and its individual program goals. The task force recommends that DBED include resource based industries as eligible industry sectors under the Maryland Economic Development Assistance and Authority Fund (MEDAAF) program. The task force will continue to assess DBED's progress in addressing the needs of resource based industries, and, if necessary, will consider changes to the MEDAAF statute to explicitly include resource based industries. The task force also recommends that DBED and the Maryland Economic Development Commission consider a statewide plan for all resource based industries and that DBED encourage local governments to include resource based industries in their economic development plans.

The task force looks forward to the work that lies ahead and completion of its final recommendations.

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
Mr. Karl Aro
Mr. Warren Deschenaux
Mr. Don Darnall

Report of the Task Force on Resource Based Industry in Maryland

Background

Agriculture, fishing, forestry, and mineral extraction form a significant part of Maryland's rural economy. These industries, which help maintain the environmental quality of the State's natural resources, have been recognized as key to the continued vitality of the State's economy; however, they are not generally targeted as a priority for, nor do they usually meet the criteria of, current State economic development financing programs.

In order to address concerns of resource based industries, the Agriculture and Natural Resources Working Committee (the Committee) of the Forvm for Rural Maryland held meetings to discuss the possibility of developing a financing authority to assist resource based industries with loans, grants, training, and technical assistance. The Committee recommended that a task force be established to further examine this proposal.

Chapter 433 of 2000 established 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 mineral 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.

This report is submitted pursuant to Chapter 433 of 2000 and completes the statutory requirements of the task force.

Minutes of each task force meeting are presented in **Appendix 1.**

Overview of Resource Based Industries

Agriculture

In recent years, farm prices and the value of farm exports have declined as a result of increasing world supplies and weak demand. U.S. agricultural exports are expected to increase only slightly this year. Because agricultural exports absorb nearly half of domestic production, the slow growth in exports is expected to have a significant impact on U.S. farmers. In 1999, the decline in world demand in conjunction with a large domestic harvest forced agricultural prices down approximately 17 percent. Although low inflation, low interest rates, and low feed costs have helped keep farm expenses from increasing significantly in recent years, production costs have increased slightly due to increasing fuel prices. Increases in agricultural interest rates, which are expected, coupled with low commodity prices and higher fuel prices will continue to depress farm income.

According to the American Bankers Association (ABA), low commodity prices is the most significant factor threatening agricultural lending in the future. According to the U.S. Department of Agriculture (USDA), the demand for farm credit is expected to decline slightly due to the reluctance of farmers to finance new investments through additional debt. Government assistance is expected to continue to play a vital role in the sustainability of farm producers.

According to the Maryland Department of Agriculture (MDA), the agricultural industry is the State's largest commercial industry, contributing more than $11 billion in revenue annually. The industry consists of over 12,000 farms covering 40 percent of the land area in the State, or 2.1 million acres. The food and fiber sector of the State's economy employs 350,000 people, of which about 20 percent are producers.

According to the 1997 Census of Maryland Agriculture (the Census), the cash receipts for all Maryland farms was approximately $1.7 billion, while the average net farm income was only about $14,000. The Census estimated the average total value of products sold at $108,600 annually and average production expenses at $93,000 annually.

According to the Census, the average size of farms in the State is 178 acres. Unlike many other states, where the agriculture industry appears to be consolidating into fewer, large farms, the number of part-time farmers in Maryland continues to increase.

Many of these farms tend to be small units of less than 50 acres and produce non-traditional products such as grapes, herbs, cut flowers, fish, snails, and organic products. According to MDA, approximately 80 percent of the farms in Maryland are small farms with less than 200 acres, while large farms of more than 500 acres account for only 8 percent of farms in the State.

Fishing

Due to the popularity of the Chesapeake Bay and its tributaries, fishing is one of Maryland's most visible endeavors, both recreationally and commercially. Recent occurrences such as the pfiesteria outbreak and the decline in the blue crab population have drawn attention to the fragility of the fishing harvest.

It is estimated that there are 715,000 recreational anglers in the State who contribute $475 million to the economy each year and lead to the employment of 11,360 people. Additionally, there are approximately 7,000 individuals licensed to fish commercially in the State. These licensees are responsible for an estimated one million pounds of harvest annually. This harvest represents $86 million in annual economic impact and 3,168 jobs. By far, the most important product of Maryland waters is the blue crab, which represents 70 percent of total harvest. Other segments of the industry include finfish (17 percent of market), oysters (10 percent) and clams (3 percent).

Forestry

Forestry is a statewide industry, however, its greatest impact is felt on the eastern shore and in western Maryland. Western Maryland leads the State in timber management and harvesting, which includes reforestation services and harvesting and transporting logs. By contrast, the eastern shore is heavily involved in processing logs into lumber, plywood, and other products. The remainder of the State concentrates on the secondary economy of the forestry industry; the manufacture of timber products into finished products, such as furniture. It is estimated that there are approximately 5,000 individuals directly employed by the forestry industry statewide. An additional 9,000 are employed in the secondary forestry market.

The economic impact of the forestry industry is significant, especially in rural areas of the State. According to a study funded by the USDA entitled *The Economic Importance of the Maryland Forest Products Industry*, the forestry industry contributes $2.2 billion to the State economy. This figure includes end market products such as furniture and containers. The direct market (lumber, plywood, etc.) totals approximately $950 million.

Maryland has 2.7 million acres of forest, of which, the vast majority (90 percent) is owned privately. There is increasing pressure on landowners to sell property to developers. Conversely, there is pressure on the State to provide adequate environmental protection of forests. A viable forestry industry could balance these competing factors by allowing landowners an economic benefit from their land and by retaining forest space. The State works with the industry to encourage both economic development within the forestry industry and sustainable forest management.

Governor Glendening created the Maryland Forestry Task Force on February 24, 1998, by executive order. Its responsibilities include undertaking a comprehensive survey of the States forest resources, examining ways to advance the conservation and replenishment of privately-owned forested lands in the State, and examining the use of economic incentives tp help forest landowners and businesses maintain their land for productive forest usage.

Mineral Extraction

The mineral extraction industry in Maryland encompasses the extraction of fuel minerals such as coal as well as nonfuel minerals including crushed stone, and construction sand and gravel. The industry includes approximately 88 nonfuel mines and 18 coal mines and employs approximately 1,300 people. Out of 25 current active coal mining states, Maryland ranks 20th in total annual production at about 4 million tons per year. About 46.5 million tons of nonfuel minerals are produced annually in the State. Maryland's nonfuel production accounts for approximately 1 percent of the total nonfuel mineral production in the United States.

The total annual value of mineral production in Maryland is approximately $451 million. The average annual wage for a coal miner in Maryland is approximately $42,000 annually. According to the Western Economic Analysis Center, the mineral extraction industry in Maryland provides approximately $33 million in state and local government revenues. Taxes and surcharges based on annual coal production support the reclamation of abandoned mine lands and the abatement of acid mine drainage problems in streams. According to the Maryland Bureau of Mines, from 1988 to 1998, the Maryland coal industry paid nearly $17 million in reclamation taxes and surcharges to local, state, and federal governments.

The market for Maryland coal has changed drastically over the years. Competition from other countries has resulted in decreases in the worldwide demand for low volatile bituminous coal, the type of coal found in Maryland. Today, Maryland coal producers are generally limited to serving domestic electric power generation plants that are designed to burn Maryland coal or have the capability of blending certain amounts of Maryland coal. Due to competition with coal producers in other states, it is estimated that Maryland's total coal production will drop by 75 percent within the next ten years.

Problems Facing Resource Based Industries in Maryland

As described above, the agriculture, fishing, forestry, and mineral extraction industries all have unique characteristics and needs. However, these industries have at least one thing in common. In general, resource based industries have difficulty obtaining financing from commercial banks because they are high-risk, long-term investments with high capital costs. Failures are common. Accordingly, commercial banks are wary of lending to these industries. According to the ABA, equity capital is generally less available in rural America compared to metropolitan areas. The ABA cites that the primary rural development issue that banks face is financing for business start-ups and expansions. The second most important issue is infrastructure. Given today's low commodity prices, resource based industries, which are primarily small businesses located in rural areas, are in need of financial assistance and technical assistance in order to retain, expand, and diversify their businesses.

Resource based industries in Maryland are under increasing pressure from developers, and, if they are not able to obtain the financial and technical assistance needed to maintain, expand, and diversify their businesses, many of them will have little choice but to shut down their operations, leaving those areas prone to development. Retaining resource based industries in Maryland is, therefore, a necessary component in meeting the goals of the State's Smart Growth initiative in order to protect our State's resources from the threat of development and urban sprawl.

Where Existing Resources Fall Short

The task force contends that the health of the agriculture, fishery, forestry, and mineral extraction industries should be addressed in the State's overall economic development strategies and programs, administered primarily by the Department of Business and Economic Development (DBED). However, there are several factors that prevent these industries from fully benefitting from the State's current arsenal of economic development tools:

- DBED's mission and mandated performance measures stress job creation, capital investment, and high wages and benefits, characteristics not typical of resource based businesses;

- DBED has little expertise in the areas of agriculture, fishing, forestry, or mineral extraction and does not have the resources to acquire it and conversely MDA and the Department of Natural Resources do not have the expertise for business and marketing development; and

- resource based businesses are often seen as more risky investments than the traditional recipients of assistance.

Through the Division of Financial Assistance, DBED operates a variety of grant, loan, loan guarantee, and investment programs designed to foster business growth. The programs can be characterized as four types: incentive programs, guaranty programs, investment banking, and specialty programs. DBED's expertise is in management, biotechnology, information technology, finance, insurance, and real estate.

The goal of economic development incentives is to stimulate job growth and private investment. As such, the focus is generally on larger businesses. Accordingly, business focused financial incentives fail to serve the industries' technical needs or environmental concerns.

Programs aimed specifically at assisting resource based industries in Maryland do exist. For example, in 1996, MDA established the Agribusiness Development Program to assist existing and potential businesses with issues relating to starting a business, permitting, zoning, marketing, and financing. According to MDA, to date, the program has served 277 clients. While MDA's program does not have a financing arm, it refers individuals to various sources of funding.

At the federal level, the USDA offers several programs to assist rural businesses with both financing and technical assistance. USDA's Farm Service Agency (FSA) offers direct loans and loan guarantees to family-size farmers and ranchers who are temporarily unable to obtain credit from a commercial lender. USDA's Rural Development Programs provide financial assistance and technical assistance in an effort to support rural economic development. The Rural Business-Cooperative Service invests financial resources and provides technical assistance to businesses and cooperatives in rural communities, and establishes alliances and partnerships to leverage public, private, and cooperative resources to create jobs and stimulate rural economic activity. The program offers direct loans, loan guarantees, relending assistance, and grants.

While assistance to resource based industries is available in several forms, current programs fail to provide the business services that will ensure the viability of the industries in today's economy, such as business planning and access to venture capital. Existing programs also do not meet all of the financial demands of resource based industries in Maryland. In part, this is due to the lack of a single clearinghouse in the State. The task force argues that the development of a new program to serve as a clearinghouse and fill existing gaps is greatly needed.

While some states address assistance to resource based industries within existing economic development mechanisms, others have developed separate authorities specifically to assist the industries. According to the National Conference of State Legislatures, state rural development programs tend to be targeted versions of broader state economic development strategies aimed specifically at meeting the needs of rural areas. Further information on efforts in other states is detailed in **Appendix 2.**

Recommendations

Task force members identified the following specific areas not adequately addressed by existing programs:

- inclusion of resource based industries in economic development plans;
- financial assistance for start-ups and expansions;
- financial assistance for the purchase of equipment and the upgrade of equipment and technologies;
- technical and financial assistance related to new market development/diversification;
- technical and financial assistance to expand value-added opportunities and on-farm processing; and
- the dissemination of information on the availability of assistance.

Recommendation # 1

***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 MFCA is a non-budgeted State agency. Its 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 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 plans and its individual program goals. DBED should also include these industries as eligible industry sectors under the MEDAAF program. If DBED does not demonstrate to the task force its willingness and ability to take such steps, the task force may consider legislation that will explicitly include resource based industries 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 as eligible 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.

Recommendation # 2

***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 those industries be performed in order to better understand the volume of loans and grants needed to adequately address the needs of resource based industries. Parties involved in this endeavor should represent a broad range of interests and expertise and should include the task force members, the MFCA, the University System of Maryland, local economic development officials, representatives from the commercial fishing industry, and others as deemed appropriate by the task force. To better facilitate the efficient work of the task force, it is also recommended that a representative from the MFCA be included as a member of the task force.

The needs assessment should, at a minimum, consider the expected level of demand, types of technical assistance, typical returns on investments, and reasonable eligibility criteria and benchmarks. The task force will consider the findings of the assessment in the formulation of draft legislation. It is further 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 and recommendations of the needs assessment be provided to the General Assembly by December 31, 2001.

Draft legislation to implement this recommendation is included as **Appendix 3.**

Recommendation #3

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 mineral extraction 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 percent 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.

Appendices

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 McClenehan 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 Simns, 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 Forvm 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.

Resource Based Industry Programs in Other States

Colorado

The Colorado Agricultural Development Authority (CADA) was created in 1981. Its original loan to lenders program in 1983 provided $8 million for 105 agricultural borrowers. It currently has three programs to assist borrowers. The Beginning Farmer Program issues tax-exempt bonds to assist first time farmers purchase farmland and equipment. This program has issued some $11.4 million for 72 farmers and ranchers. CADA also has a Quality Agricultural Loan (QAL) Program which provides a secondary market for FmHA guarantees. So far 19 loans for $2,879,779 have been purchased. The newest CADA program is called Colorado Capital Reserve - Ag (CCR-Ag). This program provides funds to banks to assist them in making loans of up to $100,000 which they would not ordinarily be able to approve. This program was begun in 1994 and to date has completed six loans.

Georgia

Legislation authorizing the use of industrial development bonds for agricultural loans was approved in Georgia in 1980. However, a program did not get underway until 1985. Operational in 1985 and 1986, under the Georgia Development Authority, the Tax-Free Loan Program had three distinctive divisions. In the First-Time Farmer Program, loans were limited to $250,000 and requirements were defined by federal tax law. Thirty-seven of these loans, for a total amount of $2,881,600 were closed. In the Agribusiness Program, the loan limit was $1 million, not more than $150,000 of which could be used for land purchase. A total of 12 loans, $1,616,000 in all, were closed. The Family Farmer category, for purchase of machinery, etc., by farmers who cannot meet "new farmers" guidelines but can meet other qualifications, resulted in 120 loans closed for $16,180,000. Grant total was 169 loans closed, totaling $20,677,600. The program became inactive due to restrictions of the 1986 tax bill.

The Authority also has an active insured loan program for agricultural real estate purchase. These loans which are made for a term of up to 20 years are at a variable rate, prime plus 3/4% adjusted annually. Currently, 500 loans are in place with an outstanding loan balance in excess of $72,000,000.

Finally, in 1994 the State Legislature appropriated a small amount of money for an emerging crop loan program. These loans are to pay the interest on production agricultural projects from start-up until the beginning of the production phase.

Illinois

The Illinois Farm Development Authority issued its first bonds in December of 1982. In the Beginning Farmer Program portion of Agricultural Development Revenue Bond Program, eligibility requirements are defined by federal tax law. Loans (limited to $250,000 per family per lifetime) may be used to purchase farmland for farmland and personal property, such as used equipment.

Under the Beginning Farmers Program, 2,558 applications for $188,000,000 have been approved since inception with 1,955 bonds issued for $134,709,735.

The Authority also started an IDB-based Agribusiness Loan Program in 1982. It became an Agricultural Manufacturing Facilities Loan Program in 1988. Loan limits are $1 million per agribusiness, and projects are eligible if they meet the Internal Revenue Service definition of an agricultural manufacturing facility. In this program (both its past and present forms), 78 loans for a total of $20,336,203.12 have been closed.

The Authority also has a Young Farmer Guarantee Program started in April of 1993. This program is designed to enable farm operators to finance capital purchases at a reduced interest rate. Loans are made by local lenders who receive an 85% guarantee of principal and interest. The maximum loan if $300,000 and is available to individuals with a new worth between $10,000 and $250,000. Fifty loans have been approved for a total of $6,000,000.

In March of 1986, the Authority started a State Guarantee Program for Restructuring Agricultural Debt. Loans are made by local lenders who receive an 85% guarantee of principal and interest. Again, the maximum loan if $300,000 with a maximum term of 10 years. Since inception 911 loans have been approved for $183,000,000.

Iowa

The Iowa Agricultural Development Authority issued its first bond to fund a Beginning Farmer Loan in November 1981.

The Authority utilized Private Activity Bonds as the funding mechanism for the Beginning Farmer Loan Program. Eligibility requirements are defined by federal tax law and state statutes. Loans may be used to purchase agricultural land, depreciable agricultural property, and agricultural improvements or a combination of these projects. The loan limit is $250,000 per lifetime for each beginning farmer and his or her spouse and minor children (if any).

As of August 10, 1994, 1,639 loans had been closed totaling $148,572,408. A large percentage of the bonds are sold to commercial banks for which the interest income is federally tax-exempt. However, a contract sale program was initiated in 1987 and has become very popular since that time.

The interest received by the contract seller is exempt from federal and state income taxes. Since the program was begun in 1981, 2,105 loan applications have been approved for $202,667,031.

The Authority also offers an Operating Loan Guarantee Program for qualified beginning farmers. Under this program, the maximum loan is $25,000 and 75% of this amount can be guaranteed. The guarantee is for one year only, with a possible extension of one year if the situation warrants an extension. As of August 1994, a total of 25 loan guarantees had been issued.

The Authority also has a Soil conservation Loan Program in which federally tax-exempt bonds are used for funding purposes. A total of 28 loans for $403,840 were made for conservation equipment and permanent soil conservation practices before the program became inactive due to restrictions in the 1986 Federal Tax Bill.

Several other smaller programs are offered by the Authority which are available to either beginning farmers of high school youths.

Kansas

The Beginning Farmer Loan Program is administered through the Kansas Development Finance Authority (KDFA) located in Topeka, Kansas. The program began in May of 1990 and KDFA has received 262 applications and closed 201 loans totaling $14,709,793 through June 30, 1994. The program is available to individuals who have never had substantial ownership or ownership interest in farm land.

Items that can be financed are agricultural land, agricultural improvements, depreciable agricultural property such as new and used equipment and breed stock. Loans can be made up to a maximum of $250,000. There is no minimum amount. There are no net worth requirements. Loans can be made for this program with lenders, contract-for-deed sellers or individuals acting as the bond purchasers.

Louisiana

The Louisiana State Department of Agriculture is an Agribusiness loan and loan guaranty program which assists individuals or firms engaged in the marketing, processing and/or further processing of Louisiana farm products Loans shall not exceed 75% of the value of the property with a lower than market rate of interest. In no case, however, shall the rate be less than the base federal reserve discount rate at the time the loan is approved.

In addition to this program, the State offers Linked Deposit Loan Programs for both agricultural products processing and for agricultural production.

Michigan

The Michigan Family Farm Development Authority was created in 1982, and its beginning farmer-oriented IDB-based agricultural loan program (with federal tax guidelines) got underway in 1983. In all, 67 loans totaling $5,543,752 were closed through the program, whose activity was sharply cut back after 1986. The Program has been inactive since 1991.

Minnesota

The Minnesota Rural Finance Authority (RFA) is the lending arm of the Minnesota Department of Agriculture. Established in 1986 to administer a Loan Restructure Program developed because of the extreme drop in land values, the RFA now has eight loan programs in its repertoire.

Most of the RFA loan programs are based on Minnesota state law and require real estate as collateral. All but the Aggie Bond Program are loan participation programs. That means the programs are administered in cooperation with local lenders. The potential borrower works with the local lender to develop a loan proposal who then submits it to the RFA for participation. If accepted, the RFA purchases a portion of the loan and provides a below market interest rate on that portion of the loan.

The most utilized program is the Basic Farm Loan Program, whose primary purpose is to offer affordable financing to lower equity farmers to purchase farm real estate. Eligible applicants must have a total net worth of less than $218,850 (indexed for inflation), intend to have farming as their principal occupation, agree to enroll in an approved farm business management program, and be an individual who is a resident of Minnesota. The RFA may participate on a loan up to 45% of the loan principal to a maximum of $100,000. Four hundred and seven loan participants for $13,658,627 have closed from 1988 through July 1, 1994.

A variation of the Basic Farm Loan Program is the Seller-Sponsored Loan Program. In this program the seller carries part of the financing in a secondary position to the RFA participation loan.

Patterned after a program developed in Iowa, the Agricultural Development Bond Program ("Aggie Bond Program") was established in 1991. Eligibility requirements are defined by federal tax law. Loans may be used to purchase agricultural land and/or depreciable property. Thirty-seven loans for $4,138,831 were closed before the sunset of June 30, 1992. Another 44 loans for $4,798,747 have closed since the sunset was removed through July 1, 1994.

Two other real estate based programs are the Ag Improvement and the Restructure II loan programs. The Ag Improvement program loans for improvements to a farm, including the purchase and construction or installation of improvements to land, buildings and other permanent structures. Rural Finance Authority participation if 45% up to $50,000. The Restructure II is a revision of the original program to help farmers reorganize their present farm debt. Participation is 45% up to $100,000.

During the 1993 legislative session, the Ethanol Production Facility Loan Program was passed to provide capital for ethanol production facilities. A maximum of $500,000 in financial assistance may be provided to any one project. One million dollars was appropriated into a revolving account. Two applications for $500,000 each were approved in September 1993. An additional $1,475,000 was appropriated by the 1994 Legislature.

Two additional loan programs were established by the 1994 Legislature. The Value-Added Agricultural Product Loan Program (Stock Loan Program) is to help farmers finance the purchase of stock in a cooperative proposing to build or purchase and operate an agricultural product processing facility. Rural Finance Authority participation in this program is 45% up to $24,000 with security being the stock purchased and a personal note from the borrower. The Livestock Expansion Loan Program is intended to provide financing for expansions that include some of the most up-to-date, efficient systems available. Participation is up to 45% of the loan principal to a maximum of $100,000.

Funding for the loan participation in the Basic Farm, Seller-Sponsored, Agricultural Improvement, Livestock expansion and Restructure II loan programs comes from the sale of state general obligation funds.

North Dakota

The North Agri-Bond Program, part of the State's Agricultural Development Act, got underway in 1984. That year, about 150 IDB-based loans were made, totaling $15,900,000. In 1985, approximately $1.5 million in loans were reported made, but specific information on the exact number of loans is not available. The program was not targeted specifically toward beginning farmers. The program became inactive after 1985.

A Beginning Farmer Real Estate Loan Program, unlike the IDB-based program, is administered through the bank of North Dakota. The borrower usually must be a first-time land buyer with a net worth less than $150,000. The maximum loan is $100,000 with the bank lending up to 75% of the appraised value with a maximum repayment term of 25 years.

A Family Farm Loan Program is also administered through the Bank of North Dakota. This program allows the Bank to participate in loans up to 90% of the loan amount for again applicants with a net worth of less than $150,000. Proceeds of the loan can be used to purchase or refinance real estate, farm equipment or livestock as well as restructuring operating debt carryover. At present, 372 loans have been made totaling $15,015,000.

The AG PACE Program was developed to provide low-interest rate financing to on-farm businesses. The program funds are used to buy-down the interest rate on loans. It is available to any business except traditional production agriculture, which is integrated into the farm operation and will be used to supplement farm income. the borrower will receive an interest rate, after buy-down, of 2½% below national prime, but no less than 1%. The maximum spending on any one project is $20,000. To date, 99 loans have been approved totaling $2,126,000.

Texas

The Texas Agricultural Finance Authority administers programs that benefit young farmers/ranchers through either guarantees or actual loans from the Authority.

The Young Farmer Loan Guarantee Program provides financial assistance to applicants between 18 and 40 years of age with a minimum of four years of practical farm or ranch experience. The use of funds may be for operating capital or purchase of equipment or facilities or leases. A guarantee is provided in an amount not to exceed the less of $50,000 or 90% of the total loan amount.

The Farm and Ranch Finance Program assists borrowers with a net worth of less than $250,000 in purchasing farm or ranch land. The maximum loan is $150,000 with a minimum down payment requirement of 5%.

The Authority also administers a Loan Guaranty Program for Agricultural businesses that are engaged or propose to be engaged in innovative, diversified or value-added production, processing, marketing or exporting of an agricultural product. The use of funds may be for the purchase of real estate, improvements, equipment and working capital with loan guarantees of $30,000 to $2,000,000 available from the Authority. Owner(s) must provide at least 10% equity for existing businesses and 20% equity for start-up businesses.

Wisconsin

The Wisconsin Housing and Economic Development Authority (WHEDA) administers the Beginning Farmer Bond Program which was just started in September of 1994. As in all other states, eligibility requirements are defined by federal tax law with the additional state requirement that the individual borrower have a net worth of less than $250,000.

WHEDA also conducts a Credit Relief Outreach Program (CROP) which is a loan guarantee and interest rate subsidy for agricultural production loans. This is available for borrowers unable to get conventional financing at the lenders standard interest rate and have a debt to asset ratio of 40% or greater. Through 1993 CROP has guaranteed more than 1,400 loans for over $187,000,000.

The Authority administers two grant programs. The Agriculture Development and Diversification program provides grants for developing new value-added products, new markets and diversifying on-farm production. The Sustainable Agriculture Program provides grants for projects that examine agricultural methods and systems that are energy efficient, profitable and have environmental benefits.

C8 1lr1386

Bill No.: ______________________

Requested: ______________________

Committee: ______________________

Drafted by: Margaret McHale
Typed by: rs
Stored – 01/15/01
Proofread by ______________________
Checked by ______________________

By: **Senator Middleton (Chairman, Task Force on Resource Based Industry in Maryland) and Senator Stoltzfus**

A BILL ENTITLED

AN ACT concerning

Task Force on Resource Based Industry in Maryland – Membership, Staffing, and Reporting Requirements

FOR the purpose of modifying the nature of a certain required report of the Task Force on Resource Based Industry in Maryland; requiring the Task Force to submit a certain report, based on a certain assessment, on or before a certain date; adding to the membership of the Task Force; requiring the State Department of Agriculture, the Department of Business and Economic Development, the Department of Natural Resources, and the Maryland Food Center Authority to provide certain assistance to the Task Force at certain times; providing for the termination of the Act that created the Task Force; and generally relating to the Task Force on Resource Based Industry in Maryland.

BY repealing and reenacting, with amendments,

Chapter 433 of the Acts of the General Assembly of 2000

Section 1 and 2

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That the Laws of Maryland read as follows:

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.
[Brackets] indicate matter deleted from existing law.

Chapter 433 of the Acts of 2000

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

(a) There is a Task Force on Resource Based Industry in Maryland.

(b) The Task Force shall consist of the following 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) the Secretary of Business and Economic Development, or the Secretary's designee;

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

(5) the Secretary of Natural Resources, or the Secretary's designee;

(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;

[(7)**]** (8) the Chair of the Forvm for Rural Maryland, or the Chair's designee;

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

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

[(10)**]** (11) a representative of the Eastern Shore "One Maryland" Task

Force, selected by the members of the Eastern Shore Task Force; and

[(11)] (12) five members appointed jointly by the President of the Senate and the Speaker of the House to represent each of the following rural industry sectors:

(i) agriculture;

(ii) forestry;

(iii) fisheries;

(iv) mineral extraction; and

(v) rural commercial finance or lending.

(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) examine the need for, and the feasibility of, establishing a financing development authority to assist Maryland's farming, fishing, forestry, and mining extraction industries with loans, financing, training, and technical and business planning assistance services;

(2) consider the types of loans, financing, training, technical and business planning assistance services, and other programs that a financing development authority should implement;

(3) consider the amount in which a financing development authority should be funded;

(4) consider whether the financing development authority should be an independent State government entity or be incorporated into an existing State government agency;

(5) develop recommendations regarding the establishment of the

financing development authority; [and]

(6) report its PRELIMINARY recommendations to the Governor and, in accordance with § 2–1246 of the State Government Article, to the General Assembly on or before December 1, 2000; AND

(7) BASED ON A COMPREHENSIVE INTERAGENCY ASSESSMENT OF THE NEEDS OF AFFECTED INDUSTRIES, INCLUDING ELIGIBILITY CRITERIA, EXPECTED LEVEL OF DEMAND, TYPES OF TECHNICAL ASSISTANCE, EXPECTED INVESTMENT RETURNS, AND PERFORMANCE EVALUATION MEASURES, REPORT ITS FINAL RECOMMENDATIONS TO THE GOVERNOR AND, IN ACCORDANCE WITH § 2–1246 OF THE STATE GOVERNMENT ARTICLE, TO THE GENERAL ASSEMBLY ON OR BEFORE DECEMBER 31, 2001.

(e) The Department of Legislative Services, [in consultation with] WITH THE ASSISTANCE OF THE STATE DEPARTMENT OF AGRICULTURE, the Department of Business and Economic Development, THE DEPARTMENT OF NATURAL RESOURCES, AND THE MARYLAND FOOD CENTER AUTHORITY, shall, AS NECESSARY, provide RESEARCH ASSISTANCE AND staff support for the Task Force.

(f) A member of the Task Force:

(1) may not receive compensation; but

(2) 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 July 1, 2000. IT SHALL REMAIN EFFECTIVE FOR A PERIOD OF 1 YEAR AND 7 MONTHS AND, AT THE END OF JANUARY 31, 2002, WITH NO FURTHER ACTION REQUIRED BY THE GENERAL ASSEMBLY, THIS ACT SHALL BE ABROGATED AND OF NO FURTHER FORCE AND EFFECT.

SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July 1, 2001.