MARBIDCO

Maryland Agricultural and Resource-Based Industry Development Corporation

*Minutes of the **Open Meeting** of the Board of Directors*
Tuesday, May 21, 2024
Virtual Zoom

Members Present:
Ms. Mary Shank Creek, Chair, Owner, Palmyra Farm Ayrshires & Holsteins
Mr. Mark C. Krebs, Secretary/Treasurer, Executive Vice President & Chief Financial Officer, Farmers and Merchants Bank
Dr. Donald Darnall, Executive Director, Maryland Food Center Authority
Mr. Paul Goeringer, Esq., Senior Faculty Specialist, Department of Agricultural and Resource Economics, University of Maryland
Ms. Sarah O'Herron¸ Owner, Black Ankle Vineyards
Mr. John Jastrzembski, Vice-Chair, Regional Business Developer – Northern Virginia, Davey Business Development Team, The Davy Tree Expert
Dr. Jinhee Kim, Associate Dean & Associate Director, University of Maryland Extension (UME)
Ms. Victoria Brown, Owner, Shop Cove Aquaculture, LLC
Mr. A.C. Alrey, Director of Business Development, City of Crisfield
Ms. Charlotte Davis, Executive Director, Rural Maryland Council
Mr. Dan Rider, Forest Stewardship & Utilization Program Manager, Maryland Department of Natural Resources Forest Service
Dr. Doug Lipton, Senior Research Economist, National Marine Fisheries Service, National Oceanic and Atmospheric Administration (NOAA) Office of Science & Technology
Mr. Steve Connelly, Deputy Secretary, Maryland Department of Agriculture
Mr. Wayne Richard, Regional Vice President of Ag Lending, Horizon Farm Credit

Members Absent:
Mr. Berran Rogers, Project Director/Small Farm Coordinator, University of Maryland Eastern Shore

MARBIDCO Staff:
Mr. Stephen McHenry, Executive Director
Ms. Stacy Kubofcik, Senior Programs Manager
Ms. Tina Wilkins, Senior Accounting Coordinator
Ms. Jill Kubatko, Communications Associate
Ms. Sierra Criste, Financial Programs Associate
Ms. Brittany Rawlings, Financial Programs Specialist
Mr. Brian Cadden, Financial Programs Specialist

<u>Call to Order</u>
Chair Creek called the meeting to order at 10:03 a.m. on May 21, 2024, and welcomed all the attendees. A roll call of Board members indicated that a quorum was present.

Approval of Previous Board Meeting Minutes
Chair Creek asked for consideration and approval of the January Board meeting minutes.

***Action 1:** Mr. Krebs made a motion to approve the January 29, 2024, meeting minutes as presented. Mr. Connelly seconded the motion. All members voted in favor and the motion passed.*

FY 2024 YTD Budget and Programmatic Activities Overview
Mr. McHenry provided an overview of the year-to-date FY 2024 budget. MARBIDCO is on target for **operating income**, having received 110% of the projected total income for FY 2024. Core program appropriations were $8.3 million for the year. Income from interest on loans is coming in as expected. MARBIDCO received $435,000 for the Local Farm Enterprise Food Aggregation Grant Program; $4 million for the Next Generation Farmland Acquisition Program; and $376,000 in Next Generation Program repayments in FY 2024. MARBIDCO also received $500,000 each for the Watermen's Microloan Program, and the Wood Products Industry Equity Incentive Grant program; $400,000 for the Maryland Livestock Processing Equipment Grant program; $1 million for the Maryland Oyster Shucking House Loan Program, as well as some additional funding for the SMADC and USRC loan equity incentive grants.

Operating expenses were budgeted at $1.6 million, and MARBIDCO has expended about $1.2 million as of 4/30/24. In terms of operating expenses things are running mostly as projected. The travel and training budget is a bit over budget this year because (as of August 2023) MARBIDCO was fully staffed and had more staff members going to outreach events, conferences, and training (including Farm Credit University's commercial lending training program).

Programmatic expenditures were budgeted at $11 million for Core loans based on the previous year's activity of about $1 million in new approvals each month (on average). Core loan expenditures are at just $2.9 million as of 4/30/24. This is partly due to the MRBIFF direct loan program being temporarily discontinued last summer while MARBIDCO prepared to launch the new loan participation program. This resulted in the loss of about one quarter of our MRBIFF lending activity. The direct loan program reopened last September. Mr. McHenry stated that Core program lending is projected to reach close to $6 million by the end of the fiscal year.

Specialty loan programs have not had as much activity as expected. Activity included a couple of Southern Maryland Revolving Loans and a smaller number of Watermen Microloans than in the previous year, as well as one Oyster Shucking House loan that was approved.

Grant-making. The Wood Products Industry Equity Investment grant program (WPIEI) went very well this year. Mr. McHenry thanked Mr. Rider and the team at DNR for their help. Grants of $630,734 were approved, but subsequently one grantee has withdrawn so another $50,000 is now available. This is in addition to the $500,000 appropriated in FY 2025. There were also $189,998 in approvals for Maryland Livestock Processing Equipment grants so far this year,.

FY 2024 YTD Programmatic Activities Overview Review
Mr. McHenry shared with the Board the following:

- A handful of Core loans have been approved including a $120,000 agribusiness equipment loan. Overall, $2.9 million in lending volume has been approved.
- A total of 32 specialty ag/rural business grants have been approved.
- A total of 54 core ag/rural business grants have been approved.

- A total of 3 next generation farmland acquisition projects have been funded.

MARBIDCO staff have been getting a lot of calls asking for the Producer Cold Storage Grant Program to open up again. As such, Mr. McHenry recommended that another year of program funding be allocated (at about $45,000). This will be seen in the proposed operating budget for next year.

<u>Updates on the Loan Loss Reserve and the Average Loan Interest Rate</u>
Mr. McHenry shared with the Board the following:

- The Loan Loss Reserve is at 2.61% today, with the actual losses running at just under 2%. So MARBIDCO is doing very well.
- The Average Loan Portfolio Interest Rate metric is 3.9025% today for all loans booked. It has been steadily going up since the end of the Pandemic. The Board's established goal is targeted to average portfolio interest rate of 4.00%.
- MARBIDCO had previously seen a Portfolio Interest Rate metric just prior to the Pandemic starting of 4.25% -- the Board subsequently wrote down the interest rates for about 130 MRBIFF borrowers during the Pandemic to provide economic relief during that difficult period. As a result, the average Portfolio Interest Rate had fallen to under 3.50% during the Pandemic period, but since that time it has gradually but steadily increased to just over 3.90%.

<u>Update on Early Loan Repayments</u>

- Mr. McHenry said that five MRBIFF loans of over $1.2 million have paid off early in FY 2024 so far, and that money revolves back into making more Core loans.
- A total of 247 loans have paid off in full and 119 of them were MRBIFF program loans.
- 34 pandemic loans have been paid off. The final three loans are set to be paid off in December of this year which will wrap up that program.

<u>Update on FY 2025 State Budget</u>
Mr. McHenry stated that Maryland will have a projected general fund budget shortfall of $3 billion by FY 2028. The General Assembly passed a balanced budget for FY 2025 which included about $26 billion in the general fund expenditures. Next year will be more challenging for State fiscal policymakers, he said, as Maryland State agencies will need to be much more cautious in their spending. The good news is MARBIDCO was fully funded at $4,135,000 in FY 2025, which includes the final year of Core programs funding ($2.3 million).

<u>MARBIDCO's Core and Specialty Programs in the FY 2025 State Budget</u>

- Core Programs – $2,300,000 (for collateralized loans mostly, but also funds some small grants – This is the final year of mandated funding and MARBIDCO will be self-sustaining going forward).
- Certified Local Farm Food Aggregation Grant Program (level-funded as mandated – $435,000 for projects that support wholesale and institutional market development for locally grown food products.
- Maryland Watermen's Microloan Program (level-funded, as mandated, with one year of funding remaining) to purchase needed equipment.
- Maryland Wood Products Industry Equity Incentive Program (level-funded) – $500,000 for grants for the sustainable forestry sector of Maryland's economy and the State's land resource base of about 2.5 million acres (part of an effort to support the Maryland Forestry Economic Adjustment Strategy implementation.)
- Livestock Processing Equipment Grant Program – $400,000 for meat processing capacity

enhancement at the smaller USDA-inspected facilities in Maryland, including blue catfish processing.

Mr. McHenry added that the Rural Maryland Council is receiving $9.1 million and that SMADC will receive $900,0000. The Mel Noland Woodland Incentives Fund (DNR) was cut in half (to $500,000) in the FY 2025 Budget.

Update on Legislation involving MARBIDCO during the 2024 Session

Mr. McHenry gave the following legislative update:

- SB 32/HB 120 passed and makes changes to the Watermen's Microloan program and the Oyster Shucking House loan program. Regarding the Watermen's Microloan program, the bill allows commercial fisherman licensed by the Potomac River Fisheries Commission to apply for the microloan and it allows MARBIDCO to increase the loan amounts available, to be determined by the MARBIDCO Board now. Regarding the Oyster Shucking House Loan program, the bill allows seasonal full-time jobs to count for loan amounts of $10,000 per projected job created or retained.
- SB 589/812 passed which increases annual mandatory funding for SMADC/TCCSMD to $1,000,000.
- SB 869/HB 640: did not passed which dealt with real property assessments on agricultural real property. The Board had previously suggested that MARBIDCO weigh in on this issue which deals with the problem of assessment increases for agricultural property, including especially for value-added and equine facilities. About four years ago, the Maryland Department of Assessments and Taxation (SDAT) began increasing the assessments on agriculture properties where structures had been built or existing buildings renovated, where SDAT viewed this as being commercial activities which resulted in dramatic increases in assessments. Legislative leaders determined that it was best to wait another year – in part since there will be a change in leadership at SDAT.

Update on Core Loan Programs

Update on the new MRBIFF Loan Participation Program:

- Mr. McHenry reported MARBIDCO has made a tremendous amount of progress on the new MRBIFF loan participation program. Almost a year ago, because of the staffing shortage situation, MARBIDCO determined to move in a different direction with its partnering lenders and move to a loan participation model (loosely modeled on three other states). Under a participation loan, MARBIDCO will not be closing or servicing the loan that it is helping to fund. The process took much longer than originally expected to implement (due to FCS legal and other issues), but MARBIDCO is about to conclude its first loan participation arrangement with Horizon Farm Credit soon.
- Mr. McHenry thanked Mr. Richard, who was instrumental in moving the Loan Participation concept forward at Horizon Farm Credit. This will become the model that will work for the other two Farm Credit Associations in Maryland too. Mr. Richard noted that Horizon Farm Credit is moving forward with a "pilot loan" very soon.
- The current MRBIFF direct loan interest rate is 4.75% for the first three years, 5.25% for the next three years, and then 5.75% for the remaining term of the loan with a balloon payment due usually at 10 years. Under the participation loan program, the interest rate will be 4.25% fixed for MARBIDCO, the maturity will be 15 years if the amortization is longer (with the bank paying the balloon payment). The partnering lender has the option to charge up to three quarters of

one percent (75 basis points) as an administrative fee. The maximum combined interest rate would be 5.00% for the life of the MRBIFF participation loan.

<u>Proposed New Large Animal Veterinarian Loan Program</u>
Mr. McHenry reported that establishing a Maryland Large Animal Veterinary Loan Program could help with the large animal veterinarian shortage facing rural communities in Maryland (and around the country). It can be quite costly to become a veterinarian, he said, referring to the need to take on student loan debt of up to $300,000 or more. To help address this, MARBIDCO could establish a specialized loan program where a large animal vet could borrow up to $100,000 ($25,000 minimum) with the intent to provide financial assistance to a vet with significant outstanding student debt who agrees to service large animals predominantly in Maryland and reside in Maryland for the period of the loan. As proposed, the vet must have a current student loan debt obligation of at least $50,000. Loan funds could be used to purchase a truck with a cab, veterinary equipment, X-ray machine, etc. The interest rate would be 4.50% and MARBIDCO would take a lien on the truck or major equipment.

Ms. Creek said that she thought it would help established large vet practices to be able to recruit new veterinarians. Mr. Connelly noted that that there is a shortage of vets today and anything that can reasonably be done to encourage more food animal vets, we should seriously consider. Ms. O'Herron noted that this is one of the reasons that MARBIDCO exists: to identify needs in the agricultural industry and try to help address them.

<u>Action 2:</u> Ms. O'Herron made a motion to have MARBIDCO move forward with launching the new Maryland Large Animal Veterinarian Loan Program as described by Mr. McHenry. Mr. Connelly seconded the motion. All members voted in favor and the motion carried.

<u>Update on Core and Specialty Grant Programs</u>
Mr. McHenry noted that last year MARBIDCO offered a Producer Cold Storage Equipment matching grant of 50% up to $2,000 for farm producers and watermen. The program was popular and MARBIDCO has received several inquiries about it recently. Mr. McHenry recommends offering it again. It is included in the proposed MARBIDCO FY 2025 budget.

Mr. McHenry expressed appreciation to Board member, Mr. Rider, and his Maryland Forest Service colleagues for being instrumental in reviewing the applications received for the Wood Products Industry Equity Incentive Grant Program (WPIEI). He added that MARBIDCO staff is working on a survey to be sent out to those receiving past WPIEI grants and get information on their needs with the aim of tweaking the program in the upcoming cycle in early fall. There is $500,000 appropriated for this program again in FY 2025. Mr. Rider said the grant program is a good fit for the wood industry.

MARBIDCO will also be offering the Livestock Processing Equipment Grant Program again in FY 2025 and it is also contained in the proposed operating budget. $400,000 was appropriated in the State Budget for this purpose.

Mr. McHenry noted there has been rather significant activity in the Local Government Ag/RBI Cost Share Grant program this year. Ms. Kubofcik also noted that MARBIDCO had recently approved nine small Future Harvest Beginner Farmer Training Program Graduate grants for a total of $6,750.

Ms. Kubofcik gave an update on the Local Farm Food Aggregation Grant Program. She reminded the Board that MARBIDCO had partnered with MDA to offer a grant as a non-federal match of MDA's new

USDA Resilient Food System Infrastructure (RFSI) grant. MARBIDCO approved six applicants for $645,192 which is contingent on the approval by both MDA and USDA.

Ms. Kubofcik reported that MARBIDCO is planning to open the next round of local food aggregation grants in the fall and has provided the Aggregation Grant Review Committee (which includes Board members Sarah O'Herron, Paul Goeringer, Don Darnall and AC Alrey as well as MDA staff member, Karen Fedor), with a copy of the draft application to review and approve. The small-scale farmer aggregation grant is proposed again to be between $25,000 to $100,000 and requires a 20% match and must include four Certified Local Farm or Chesapeake Bay invasive species providers. An alteration made to the application included changing the definition of an eligible applicant to an agricultural product aggregation and distribution entity which would be defined as an entity including a farming operation aggregator working with at least four farms and that has the capacity to expand to meet wholesale and institutional demand. An eligible applicant could also be a legally organized farm cooperative.

The large-scale public institution grant funding would be between $150,000 and $300,000 this coming year. Applicants can include a public entity like a county government, municipality, community college, university, county school system, or rural regional council, and they would be required to serve as the aggregation center. They would have to buy from at least four identified Certified Local Farms and/or Certified Chesapeake Bay Invasive Species providers.

<u>Action 3:</u> Mr. Krebs made a motion to approve changes to the Certified Local Farm Aggregation Program as described. Mr. Jastrzembski seconded the motion. All members voted in favor and the motion carried.

<u>Update on the Specialty Loan Programs</u>

Mr. McHenry reported that there were changes made by the Maryland General Assembly recently to the Watermen's Microloan and Oyster Shucking House Loan Programs. New language was put into the Oyster Shucking House Loan Program statute that added the definition of a "Seasonal Full-Time Job", the change goes into effect July 1, 20024. The legislation also included a new three-year reporting requirement for program borrowers.

The Maryland Watermen's Microloan Program was revised in this legislation to open the program to commercial watermen licensed by the Potomac River Fisheries Commission that also met the definition of a "Generational Watermen". Additionally, said Mr. McHenry, the changes now give MARBIDCO's Board complete authority to determine the minimum and maximum loan amounts going forward.

Mr. McHenry reported that MARBIDCO has made 43 microloans so far but more than a dozen were ineligible or were withdrawn by the applicant (before or after approval). A majority of the loan requests have been for $15,000, and many have needed significant additional funds for their equipment purchases.

Given the new authority granted by the General Assembly, Mr. McHenry proposed that MARBIDCO allow microloans to be made in this program between $7,000 and $20,000 for equipment purchases, and loans of up to $30,000 for the purchase of a workboat, and an additional $10,000 for the purchase of equipment to go with the boat purchase. The total maximum loan amount in this circumstance would be $40,000. He also proposed that there should be an aggregate lifetime limit on the amount a waterman can borrow of $40,000.

Additional discussion included:

- Currently the microloan terms are 6 months interest-only, amortizing over 4 years and the last year is forgiven.
- Mr. McHenry suggested that for loans over $20,000 in size, the loan terms would extend by one year (to five years) and the last year then would be forgiven for good repayment performance.

Mr. McHenry then summarized the proposed changes to the program: a maximum loan of $20,000 for equipment purchases, up to $30,000 for the purchase of workboats, with an additional $10,000 for equipment purchases. If the loan is over $20,000, the term would be 6 months interest only, amortized over five years with the last year to be forgiven for good repayment performance. If the loan is for $20,0000 or less, the amortization period would remain four years.

<u>Action 4:</u> Mr. Alrey made a motion to approve the changes to the Watermen's Microloan Program in the amount of $7,000 to $20,000 for equipment purchases (not to include workboats), loans up to $30,000 for the purchase of a workboat, plus another $10,000 for equipment purchases with a maximum loan not to exceed $40,000. In addition, the cumulative amount an individual borrower may borrow under this program is $40,000. Finally, the Executive Director shall have authority to approve these microloans. Dr. Lipton seconded the motion. All members voted in favor and the motion passed.

Mr. McHenry reported that MARBIDCO has approved one Oyster Shucking House Program loan and there has been only been a small amount activity in the shellfish aquaculture loan programs recently. He added, MARBIDCO approved two Southern Maryland Revolving Loans recently and that there is continued use the loan equity incentive grants in Southern Maryland. Frederick and Howard Counties are looking into establishing their own similar loan equity incentive program.

<u>The Next Generation / Rural Land Preservation Facilitation Programs</u>

Mr. McHenry provided a summary of the Next Generation programs. There have been 56 applications since 2018, with six processed this year.

- MARBIDCO has approved/closed 43 Next Generation Farmland Acquisition projects in 16 counties and in the process has preserved 4,212 acres of farmland.
- Four Small Acreage Next Generation projects have been approved/closed preserving 100 acres of farmland.

<u>Project Acceptance Report</u>

<u>Action 5:</u> Mr. Jastrzembski made a motion to accept the Projects Acceptance Report. Mr. Alrey seconded the motion. All members voted in favor and the motion carried.

<u>Review of the Loan Projections Modeling (FY 2025 – FY 2030)</u>

Mr. McHenry noted that MARBIDCO is in the last year of a modified 18-year legislative plan to capitalize the Core program offerings. For some time now, MARBIDCO has projected that it would need to fund an average of $6 million in new Core loans annually. Some years would be less and others more (e.g., as seen in the last two record-setting years). With the final Core program appropriation, projected revolving funds, and cash on hand, MARBIDCO will be in good shape through at least 2030.

Mr. McHenry explained that the staff is going to extend the projections model to the Year 2036 and will be taking a hard look at the underlying assumptions too, just to make sure that they are realistic considering our more recent experience. Mr. McHenry plans to brief the Programs Committee and the Board about this in the fall. For example, the Core incentive grant funding is set at $230,000 currently. However, in future years, that level of funding may not be sustainable depending on what the new modeling shows.

Mr. Krebs asked if the numbers were on the conservative side. Mr. McHenry responded that he thinks that they have been, but we want to look at the modeling assumptions again very closely. Mr. McHenry added that the average loan amount we expect to approve each year indicates that MARBIDCO is on track. Mr. Krebs suggested that going forward, MARBIDCO should consider having two or three modeling scenarios, in order to conduct a sensitivity analysis. Mr. McHenry agreed that this would be useful.

<u>Review of the Proposed FY 2025 Operating Budget</u>

Mr. McHenry provided information on the proposed FY 2025 Operating Budget. The budget includes carrying over $11.2 million in various dedicated and Core funds, plus $435,000 appropriated to the Local Farm Enterprise Food Aggregation Grant program, $2.3 million to a Core programs, 1.4 million in other appropriations including for livestock equipment grants, watermen's microloans and the WPIEI program. Loan principal repayments are projected to be $2.5 million, with an additional $1.6 million in interest income expected to be earned. A total of $1.8 million is projected in "operating income" for FY 2025.

Almost $1.7 million has been budgeted for operating expenditures for FY 2025, and $19.2 million allocated for 24 program expenditures in the following categories:

- Core program loans - $9.5 million
- Specialty program loans - $2.7 million
- Specialty program grants - $2.8 million
- Core program grants - $235,000
- Next Generation programs - $3.9 million

<u>Action 6:</u> Mr. Krebs made a motion to approve the proposed FY 2025 operating budget. Mr. Jastrzembski seconded the motion. All members voted in favor and the motion carried.

<u>Miscellaneous Updates on Boards, Task Forces, and Special Discussion</u>

- Mr. McHenry reported that MARBIDCO no longer provides any formal support for the Maryland Money Market program. as the last grant agreement with Montgomery County was concluded in February. The program was initially turned over to Farms and Food Access for a Resilient Maryland Foundation (FFARMD), a nonprofit organization that MARBIDCO helped to form a year and a half ago. However, MDA now handles the fiscal agent role of the MMM program, with SMADC/TCCSMD continuing to run the day-to-day operation, and everything seems to be going well. Mr. McHenry is no longer a member of the FFARMD Board of Directors, but he continues serving in an advisory capacity.
- Mr. McHenry reported that he continues to serve as a member of the Maryland Food System Resiliency Council (FSRC), that that this effort has been very time-consuming. As the result of legislation that was passed last year, the FSRC is now housed under the Maryland Department of Emergency Management (MDEM). MDEM recently hired a new staff coordinator for the FSRC.

<u>Other Items/Announcements</u>

Mr. Alrey thanked Mr. McHenry for visiting the City of Crisfield recently and presenting to a group of local officials and stakeholders about MARBIDCO's seafood industry financing programs. Unfortunately, he said, the local watermen were working late that day were unable to attend. Mr. McHenry said that he and Ms. Rawlings would be happy to meet with the local watermen in the fall. Mr. McHenry added that MARBIDCO has been busy on the outreach front and will have a lot more outreach to do with the new programs coming online in FY 2025.

Action 7: Motion to Move into a Closed Session (pursuant to the applicable provisions of General Provisions Article Section 3-305(b) of the Annotated Code of Maryland)

Mr. Alrey, made a motion to consider matters that concern:
A) proposals for a business or industrial organization to locate, expand or remain in the State;
B) to consider the investment of public funds; and
C) to consult with staff, consultants, or other individuals about pending or potential litigation.
And to adjourn the meeting thereafter.

Sarah O'Herron seconded the motion, and it passed unanimously.

The open meeting was adjourned at 11:48 a.m.

Respectfully submitted by:
Jill Zarend, Communications Associate