MARBIDCO

Maryland Agricultural and Resource-Based Industry Development Corporation

*Minutes of the **Open Meeting** of the Board of Directors*
Tuesday, October 29, 2024
Virtual Zoom

Members Present:
Ms. Mary Shank Creek, Chair, Owner, Palmyra Farm Ayrshires & Holsteins
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)
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
Mr. Steve Connelly, Deputy Secretary, Maryland Department of Agriculture
Mr. Wayne Richard, Regional Vice President of Ag Lending, Horizon Farm Credit
Ms. Phyllis Kilby, Owner, Kilby Creamery

Members Absent:
Mr. Mark C. Krebs, Secretary/Treasurer, Executive Vice President & Chief Financial Officer, Farmers and Merchants Bank
Mr. Berran Rogers, Project Director/Small Farm Coordinator, University of Maryland Eastern Shore
Dr. Donald Darnall, Executive Director, Maryland Food Center Authority
Mr. Paul Goeringer, Esq., Principal Faculty Specialist and Extension Legal Specialist, University of Maryland Department of Agricultural and Resource Economics
Ms. Victoria Brown, Owner, Shop Cove Aquaculture, LLC
Dr. Douglas Lipton, Senior Research Economist, National Marine Fisheries Service National Oceanic and Atmospheric Administration (NOAA)

MARBIDCO Staff:
Mr. Stephen McHenry, Executive Director
Ms. Stacy Kubofcik, Assistant Director
Ms. Tina Wilkins, Senior Accounting Coordinator
Ms. Allison Roe, Financial Programs Officer and Program Coordinator
Ms. Jill Zarend, Communications Specialist
Ms. Sierra Criste, Financial Programs Specialist
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 10:14 a.m. and welcomed 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 May Board meeting minutes.

Action 1: ***Mr. Connelly made a motion to approve the May 21, 2024, meeting minutes as presented. Ms. O'Herron seconded the motion. All members voted in favor and the motion passed.***

Staffing and Financial Updates
Mr. McHenry introduced Ms. Kilby as the newest member of the Board. He updated the Board on the current staffing situation, noting that MARBIDCO is fully staffed. He reminded the Board that when MARBIDCO was down at least two staff members, it had to suspend the MRBIFF program for about three months, which will be reflected in the programmatic numbers presented.

FY 2024 Operating Budget and Programmatic Activities Update
Mr. McHenry reported that MARBIDCO did not have a particularly robust year in the preceding year, but fortunately more operating income than originally expected came in (about $185,000)

- Operating expenses came in under budget at $1.5 million, while Programmatic Expenditures were down due to a combination of the MRBIFF program being offline for three months, and lending was down in general. High interest rates are thought to be a factor here.
- Next Gen Program expenditures were also down from what was projected. MARBIDCO spent less than half of what was projected in this programmatic area. Real estate activity in the agricultural sector has been down.
- As a point of comparison, FY 2023 was a record year for Core Loans at $9 million and a normal year for the Next Generation programs.
- However, business seems to be picking up again this year.

Review of FY 2024 Annual Financial Audit Report (by Lindsey + Associates, LLC) and Appointment of the Audit Committee (for a routine teleconference)
Mr. McHenry stated that the FY 2024 financial audit was "clean" once again and provided an overview of the report. He added that it was the first year that a legislative audit was also done, and the Office of Legislative Audits has reported no findings. Special thanks to all the staff that worked so hard to facilitate both audits.

Mr. McHenry stated that members of the Audit Committee need to be appointed. Ms. Creek, Mr. Krebs and Mr. Jastrzembski agreed to serve again. Mr. Rider also volunteered to be a part of the committee.

Action 2: ***Ms. Kilby made a motion to approve the audit committee as Ms. Creek, Mr. Krebs, Mr. Jastrzembski and Mr. Rider. Mr. Richard seconded the motion. All members voted in favor and the motion passed.***

FY 2016-2024 Programmatic Activity Review
Mr. McHenry provided a report on program activities over the past nine years.

- The average dollar amount of loans over the nine years is approximately $6 million per year, averaging out to $243,000 per loan. (Three years gave seen $9 million in loans made.)
- Core loans were down by half in FY 2024.
- Specialty loans were also down in FY 2024, only funding 12 projects.
- Incentive grants were up and include Livestock Processing and WPIEI grants which are funded from appropriations.
- The Next Generation programs were down in FY 2024 relative to prior years. However, FY 2025 seems to be back on track.

- FY 2024 was a typical year for loan servicing activities.

<u>Overview of Specialty Loan and Grant Program Utilization</u>

Mr. McHenry provided a new report on the utilization of specialty loans and grants, as the number of these programs has increased in recent years.

<u>Loans</u>

- Watermen's Microloan Program: $1.5 million was appropriated and almost half of this has been loaned out.
- The Shellfish Aquaculture Loan Program: $5.7 million of loans has been made and just under $1 million is left to lend as money revolves back in.
- Oyster Shucking House Loan Program: $1million appropriated and made one loan for $200,000 made in FY 2024
- Livestock Processing Loan Program (mostly USDA funded): Two applications are pending.
- Rural Energy Efficiency Improvement Loan Program (MEA funded): has funded just over $100,000 worth of loans and has a balance of $86,000 remaining.
- Southern Maryland Agricultural Revolving Loan Program: a total of seven loans made, with two loans in FY 2024.

<u>Grant Incentives</u>

- Livestock Equipment Grant Program: $1.4 million appropriated and several grants ranging from $20,000 to $50,000 have been awarded (including for blue catfish projects).
- Certified Local Farm and Fish Food Aggregation Grant Program: had $2.175 million appropriated and has a $698,000 fund balance. MARBIDCO has $700,000 pending in funding for FY 2025 and in FY 2024. (MARBIDCO worked with MDA as the required grant portion for applicants for MDA's USDA food resiliency program and has $245,000 pending for those grants. This is the last scheduled year of funding for the aggregation program.)
- Wood Products Industry Equity Incentive Program (WPIEI): was appropriated $1.6 million and included DNR funding of $100,000. (The fund balance is $57,528 after the 13 that are pending approval.)
- Finally, two equity incentive grants have been funded this year from programs funded by the Upper Shore Regional Council and SMADC/TCCSDM.

<u>FY 2025 YTD Budget Overview</u>

Mr. McHenry provided an overview of the FY 2025 operating budget year-to-date.

- MARBIDCO is a quarter of the way through FY 2025 and has received $15,000,000 of the $21,000,000 projected.
- Operational expenditures are on track.
- Programmatic expenditures: the MRBIFF program is running at a $12 million pace this fiscal year, which is exceptional.
- Specialty loans and grants are running a little behind, but the grant incentives will increase once WPIEI grants are included in the report.
- The Next Gen programs are just a little behind, but two new projects have recently been approved.

<u>Updates on the Loan Loss Reserve and the Average Loan Interest Rate; Update on Early Loan Repayment</u>

Mr. McHenry provided a summary of MARBIDCO's loan loss reserve and average loan interest rate.

- Reserving today for losses at 2.58% (for both collateralized Core loans and Specialty loans that are not collateralized). The actual loan losses over time have been about 1.3%.

- The average loan interest rate across the entire loan portfolio is 4.11%, which exceeds the Board target of 4.00%.
- Early loan repayments continue to happen (but are unpredictable), with 253 loans entirely paid off now.

<u>Review of MARBIDCO's Capacity for Future Self-Sustainability After FY 2025</u>

Mr. McHenry stated that the Board had directed the staff to comprehensively look at its loan projection modeling and share those findings with the Programs Committee. A meeting was held with the Programs Committee a week prior to review those findings. He provided the Board with a summary of what was shared. The model was completely updated, and several iterations were shared at different amounts of core loans booked to illustrate how self-sustaining MARBIDCO would be in future years and, at what points in time, the Corporation may need to borrow money.

- At $6 million in core loans booked annually, MARBIDCO is projected to be self-sustaining until 2036 but would not be making grants beginning in 2033.
- A model was also run with a 1.5% loan loss and $6 million in core loans booked which reduces significantly the projected shortfall in 2036.
- At $12 million in core loans in FY 2025 and $6 million per year after, the model shows that MARBIDCO is also self-sustaining but may have to stop grant-making for a number of years.
- A worst-case model was prepared showing three years of $9 million in core loans booked, which would be more challenging beginning in 2027, and money may need to be borrowed from CoBank in that year (but otherwise could be manageable).

<u>Looking Ahead to the 2025 Legislative Session</u>

Mr. McHenry reported that the State is projected to have a $1 billion structural deficit in FY 2026, and by 2028 a deficit of $3 billion if spending continues the same.

- MARBIDCO will no longer be receiving $2.3 million of core funding or $435,000 for the Aggregation Grant program next year.
- The Next Gen Programs is adequately funded for the next three years.
- DBM has MARBIDCO's baseline budget at $1.4 million for FY 2026.
- The Food System Resiliency Council asked that MARIBDCO's budget include $1 million to fund larger aggregation projects that would have a bigger impact to provide local farm foods to schools, food banks and wholesale distributors. MARBIDCO has submitted a request for that funding.
- MARBIDCO's budget request will also include $500,000 for the final year of Watermen's Microloan program; $500,000 for WPIEI; and $400,000 for Livestock processing grants

<u>Report from the Programs Committee</u>

Mr. McHenry provided a report from the meeting of the Programs Committee with recommendations for the Board to consider. The Programs Committee meeting included Ms. Davis, Mr. Jastrzembski, Ms. Kilby, Ms. O'Herron, Mr. Richard, Mr. Goeringer and Mr. Krebs. The Committee proposes the following to the Board:

<u>MRBIFF Loan Program</u>

The committee recommended that the Board permit MRBIFF loan participation loans to range from 30% to 49% and allow a lower participation rate if the amount requested is at least $300,000.

<u>Action 3:</u> Ms. O'Herron made a motion to approve the change of loan participation loans between 30-49% and lower than 30% requirement if the amount requested is at least $300,000. Mr. Jastrzembski seconded the motion. All members voted in favor and the motion passed.

The committee recommends that the Board raise the maximum MRBIFF participation loan amount for farmland purchases to $700,000 and leave the maximum amount to lend at $600,000 for the MRBIFF direct loan program and also increase the maximum MRBIFF participation loan amount for equipment/construction to $350,000.

<u>Action 4:</u> Ms. Kilby made a motion to approve an increase from $600,000 to $700,000, the maximum loan amount for real estate purchases and an increase to $350,000, the maximum loan amount for equipment and construction projects, when using the MRBIFF loan participation program. Ms. O'Herron seconded the motion. All members voted in favor and the motion passed.

The committee recommended to the Board to increase a MARBIDCO client's outstanding balance exposure limit from $900,000 to $1 million. The change would serve to standardize the policy.

<u>Action 5:</u> Ms. O'Herron made a motion to approve an increase from $900,000 to $1 million in a MARBIDCO client's outstanding balance exposure. Ms. Davis seconded the motion. All members voted in favor and the motion passed.

A proposal made to the Board regarding the Shellfish Aquaculture Financing Program was struck because of new concerns expressed by DNR fisheries staff. So, that is being withdrawn at this time.

<u>Maryland Large Animal Veterinarian Assistance Loan Program</u>

Mr. McHenry presented two options to improve the utilization of the Large Animal Veterinarian Assistance Loan Program:

- Option A does away with the student debt requirement and opens the program up to all Maryland large animal vets and reduces the interest rate to 4.00%.
- Option B also does away with the student debt requirement and opens the program up to Maryland large animal vets licensed since 2004 (20 years) and lowers the interest rate to 4.00%

Additionally, he suggested adding the Hometown Heroes Interest Rate reduction of 25 basis points as an incentive in option A and B.

After a brief discussion between Board members, they agreed to vote on using option B and moving to option A beginning February 1, 2025, if under Option B the program is used minimally. Additionally, the Hometown Heroes Interest Rate Reduction should be included in both options.

<u>Action 6:</u> Ms. O'Herron made a motion to approve moving forward with Option B until February 1, 2025, and if the program does not have substantial interest, move to option A with both options to include a 0.25% interest rate reduction through the Hometown Heroes program. Ms. Kilby seconded the motion. All members voted in favor and the motion passed.

<u>Changes to Loan Administration Policies</u>

The committee is recommending the following changes to the loan administration policy including:

1. Under "Loan Modifications" in the existing policy, allow the Executive Director to have the authority to extend a borrower's initial interest-only period for up to an additional 12 months, instead of 6 months. This comports with the authority that the Executive Director already has to permit a borrower to modify the payment schedule and re-amortize the loan for a period not to exceed 12 months.
2. Under MARBIDCO's balloon loan policy, make an alteration that: *If the borrower contacts MARBIDCO 45 days in advance indicating that there is a <u>good faith effort</u> and problem with getting a commercial lender refinance, MARBIDCO could consider a restructure of the existing*

loan. Documentation of denial by the commercial lender or Farm Credit, updated financials, etc. would be required to be submitted and Loan Review Committee approval will be required. The minimum interest rate that may be charged under such a circumstance is 5.75% and the maximum interest rate is 8.00%. The Loan Review Committee may alter the interest rate where special circumstances warrant.

3. Additional clarifying changes were made to the Loan Administration Policy in a document that was distributed.

<u>Action 7:</u> Ms. Kilby made a motion to approve the various changes to the Loan Administration Policy, as presented. Ms. O'Herron seconded the motion. All members voted in favor and the motion passed.

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

Ms. Roe provided a report on the two Next Gen Programs. MARBIDCO has received four Next Generation applications, and one SANG project application so far in FY 2025. Since 2018, Next Gen program has permanently preserved a little over 4,300 acres and SANG since 2023, has preserved 100 acres.

Mr. McHenry announced that former MARBIDCO Board member Faith Elliott Rossing has agreed to volunteer to serve on the Next Generation Review Committee.

<u>Action 8:</u> Ms. O'Herron made a motion to approve the appointment of Faith Elliott Rossing as a member of the Next Generation Review Committee. Mr. Rider seconded the motion. All members voted in favor and the motion passed.

<u>Project Acceptance Report</u>

Mr. McHenry reviewed the project acceptance report with 65 approved projects for the Board's approval.

<u>Action 9:</u> Ms. O'Herron made a motion to approve the Project Acceptance Report. Ms. Kilby seconded the motion. All members voted in favor and the motion passed.

<u>Appointment of a Nominating Committee</u>

Mr. McHenry reminded the Board about the need to appoint a Nominating Committee before its Annual Meeting in February 2025. Mr. Alrey and Ms. Davis agreed to volunteer and participate again this year on the committee.

<u>Action 10:</u> A motion to appoint Mr. Alrey and Ms. Davis (as Chair) as members of the Nominating Committee was made by Ms. Creek and seconded by Ms. O'Herron. All members voted in favor and the motion passed.

<u>Miscellaneous Updates</u>

Mr. McHenry reported that the Food System Resiliency Council has reorganized, and the new structure is likely less time intensive for the MARBIDCO staff. The FSRC will not be taking official positions on bills anymore. He also thanked MDA for its participation in the work of the council. Ms. Creek stated that she will be participating in a panel discussion of farm producers at the November meeting of the FSRC

Mr. McHenry informed the Board that the MARBIDCO staff is very busy with outreach this fall and winter, including the upcoming UMES Small Farms Conference and the Maryland Farm Bureau conference.

<u>Next Meeting</u>

Mr. McHenry suggested that a Doodle Poll be sent out in early January for a meeting to likely be held during the first week of February.

Ms. Creek stated the Board needed a 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)

Ms. O'Herron offered a Motion to close the meeting under provisions of State Law as follows:

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.

Mr. Connelly seconded the motion. All members voted in favor and the motion passed.

The meeting adjourned at 11:59 a.m.

Respectfully submitted by,
Jill Zarend, Communications Specialist