

Department of Legislative Services  
 Maryland General Assembly  
 2020 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1176 (Delegate Stein)  
 Environment and Transportation

Agriculture - Maryland Healthy Soils Grant Program

This bill establishes the Maryland Healthy Soils Grant Program. The bill establishes provisions (1) governing the administration of the program; (2) authorizing an annual appropriation for the program and repealing a sales and use tax exemption to offset the annual appropriation; and (3) requiring annual reporting by the Maryland Department of Agriculture (MDA) on grants issued under the program. **The bill takes effect June 1, 2020.**

Fiscal Summary

**State Effect:** General fund expenditures increase by \$300,000 annually beginning in FY 2021. A portion of those expenditures is expected to be offset by an increase in general fund revenues, beginning in FY 2021, resulting from the repeal of the sales and use tax exemption for specified machinery or equipment, as discussed below. There is no effect in FY 2020, despite the bill’s June 1, 2020 effective date.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	-	-	-	-	-
GF Expenditure	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Net Effect	(-)	(-)	(-)	(-)	(-)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

## Analysis

### Bill Summary:

#### *Administration of the Program*

The bill establishes a Maryland Healthy Soils Grant Program, implemented and administered by MDA. The purpose of the program is to provide funds to eligible grantees (State residents and Maryland corporations) to establish and administer healthy soils projects that:

- improve the health, yield, and profitability of the soils of the State;
- increase biological activity and carbon sequestration in the soils of the State by promoting practices based on emerging soil science, including planting mixed cover crops, adopting no-till or low-till farming practices, and rotation grazing; and
- promote widespread use of healthy soils practices among farmers in the State.

To be eligible for a grant from the program, a project may not be otherwise funded by a federal or State program.

MDA must adopt regulations to implement the program, including regulations to:

- develop requirements for grant applications;
- develop a process for reviewing grant applications and awarding grants to eligible grantees;
- determine a cap for the maximum amount of a grant that an eligible grantee may receive each year;
- prioritize the awarding of grants to projects that sequester carbon in the most cost-efficient manner; and
- make the amount of a grant proportional to the amount of greenhouse gases that the project will reduce per acre.

To calculate an eligible grantee's greenhouse gas reduction per acre, MDA must use the COMET-Planner developed by the U.S. Department of Agriculture and the Natural Resources Conservation Service.

#### *Annual Appropriation and Repeal of Sales and Use Tax Exemption*

Beginning in fiscal 2022, and each fiscal year thereafter, the bill authorizes the Governor to include in the annual budget bill an appropriation of \$300,000 for the grant program.

The bill also (1) repeals an exemption from the sales and use tax applicable to sales of machinery or equipment used to produce bituminous concrete, with the repeal of the exemption applicable to sales after July 1, 2020, and (2) requires the Governor to offset the authorized annual appropriation to the grant program with the funds collected as a result of the repeal of the sales and use tax exemption.

### *Reporting*

Beginning January 1, 2022, and each January 1 thereafter, MDA must submit a report to the House Environment and Transportation Committee and the Senate Education, Health, and Environmental Affairs Committee on all grants issued under the grant program during the immediately preceding calendar year.

### **Current Law/Background:**

#### *Maryland Healthy Soils Program*

Chapter 373 of 2017 established the Maryland Healthy Soils Program to (1) improve the health, yield, and profitability of the soils of the State; (2) increase biological activity and carbon sequestration in the soils of the State by promoting practices based on emerging soil science, including planting mixed cover crops, adopting no-till or low-till farming practices, and rotation grazing; and (3) promote widespread use of healthy soils practices among farmers in the State. To carry out the purposes of the program, Chapter 373 requires MDA to (1) provide incentives, including research, education, technical assistance, and, subject to available funding, financial assistance, to farmers to implement farm management practices that contribute to healthy soils and (2) determine whether the program may be implemented in a manner to enhance other State and federal programs that provide financial assistance to farmers.

MDA indicates there are currently no State funds allocated to the program.

#### *Sales and Use Tax Exemption*

The sales and use tax does not apply to a sale of (1) machinery or equipment used to produce bituminous concrete or (2) electricity, fuel, and other utilities used to operate that machinery or equipment. (The bill's exemption applies only to the sale of the machinery or equipment.)

The sales and use tax rate in Maryland is 6.0%. The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$5.0 billion in fiscal 2020 and 2021, according to the December 2019 revenue forecast.

**State Revenues:** General fund revenues increase by *less than* \$300,000 annually beginning in fiscal 2021 due to the repeal of the sales and use tax exemption being applicable to sales after July 1, 2020.

The fiscal 2020 [\*Tax Expenditures Report\*](#) prepared by the Department of Budget and Management – which is a statement of the estimated amount by which exemptions from taxation reduce State revenues and revenues collected by local governments – estimates that the sales and use tax exemption for sales of machinery *and utilities* used to produce bituminous concrete reduces sales and use tax revenue by \$300,000 annually (p. 60). The bill, however, eliminates the exemption for machinery or equipment used to produce bituminous concrete but does *not* affect the exemption for electricity, fuel, and other utilities used to operate that machinery or equipment. The portion of the reduction in sales and use tax revenue attributable only to the exemption for machinery or equipment is unknown, so a precise estimate of the increase in general fund revenues resulting from the repeal of this provision cannot be made.

**State Expenditures:** General fund expenditures increase by \$300,000 annually, beginning in fiscal 2021, which accounts for a 30-day start-up delay. This estimate reflects the cost of (1) hiring one administrator and (2) providing grants to establish and administer healthy soils projects. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- While the bill first authorizes the Governor to include an annual appropriation to the program of \$300,000 in fiscal 2022, this estimate assumes the program begins operating soon after the bill takes effect (including work to adopt the required regulations) and expenditures under the program begin in fiscal 2021, at the same level authorized for fiscal 2022 and future fiscal years.
- The bill does not explicitly indicate that a portion of the \$300,000 can be used for administrative expenses of the program; however, it is assumed, for the purposes of this fiscal and policy note, that the bill’s authorization of an annual appropriation of \$300,000 “for the grant program” contemplates that amount covering administrative expenses of the program.

Position	1
Salary and Fringe Benefits	\$74,174
Grants	219,951
Operating Expenses	<u>5,875</u>
<b>Total FY 2021 State Expenditures</b>	<b>\$300,000</b>

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

It is assumed that any funds remaining after administrative costs are awarded as grants. Accordingly, as administrative costs increase over time, the amount available for grant awards decreases correspondingly.

**Small Business Effect:** Small business farmers may meaningfully benefit from grants provided under the program, the purpose of which, among other things, is to provide funds to eligible grantees to establish and administer healthy soils projects that improve the health, yield, and profitability of the soils of the State.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Maryland Department of Agriculture; Comptroller's Office; Department of Budget and Management; Department of Legislative Services

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