

Poultry Action Team Report

to Governor Robert L. Ehrlich, Jr.

November 1, 2003

History

For much of past century, the men and women of the poultry industry have played a defining role in the life of Maryland. The Delmarva Peninsula was the birthplace of modern poultry production, a system of agriculture which has succeeded handsomely in producing quality food for millions of American families.

Now, quite simply, poultry production is the economic engine driving the state's agricultural industry, making up 37 percent, or \$600 million, of the state's \$1.6 billion in farm cash receipts. According to the Delmarva Poultry Industry Inc., (DPI), Maryland ranks seventh in the nation in broiler production. There are 1,824 poultry farms on the Delmarva Peninsula, earning \$136 million for producers. On the Eastern Shore, according to DPI, Wicomico County is the nation's 10th leading county for poultry production. Worcester is 19th, Somerset is 41st, Caroline is 55th and Dorchester is 99th. There are four major poultry companies with growers or processing facilities in Maryland: Tyson Foods Inc. (headquartered in Springdale, Ark.); Perdue Farms Inc. (headquartered in Salisbury, Md.); Mountaire Farms Inc. (headquartered in Selbyville, Del.) and Allen Family Foods Inc. (headquartered in Seaford, Del.) Last year, 15,000 people were employed on the Delmarva Peninsula processing chickens, where they earned \$343 million. In fact, each job in poultry processing, according to a 1998 Price Waterhouse study, creates 7.2 additional indirect jobs in a part of the state in need of employment opportunities.

Poultry production is also vital in maintaining the working, rural landscape that characterizes Maryland. Corn and soybean production by Maryland farmers is inexorably linked to the poultry industry. The farms that produce corn and soybeans make up 60 percent of the state's farmland. Virtually all of the corn and soybeans grown on the Delmarva Peninsula is used in poultry feed.

Of concern now, is the condition of this economic engine, poignantly highlighted by the decision of Tyson Foods earlier this year to close its processing facility in Berlin, Md., affecting 650 employees and 155 local poultry growers. That event is part of a trend. Delmarva's portion of national poultry production has fallen from about 28 percent of the total in 1950 to below 10 percent in 2002. It is a reflection of the State's concern for this valuable industry that Gov. Robert L. Ehrlich Jr. created the Poultry Issues Action Team and assigned it the task of rapidly and thoroughly assessing the condition of the poultry industry.

To meet that assignment, the Team -- comprised of farmers, state legislators, the Secretary of Agriculture, a banker, a representative of local government and others actively involved in the industry -- has met with state officials, poultry company executives, economists, representatives of environmental agencies and analysts of the U.S. poultry industry.

Vulnerabilities of the Poultry Industry

The Governor's Poultry Issues Action Team, in response to the Governor's charge, has identified several areas of vulnerability for the industry. We list here six major categories.

Business concerns

- With the current generation of Maryland farmers aging, there is a need to attract investment from the next generation of poultry farmers.
- There is a need for new, and retrofitted poultry houses.

The industry estimates it's losing 80 poultry houses per year.

The cost of improvements to current housing is a disincentive to many producers interested in staying in poultry farming.

Land use concerns

- The poultry industry is dependent upon maintaining a strong, local base of farmland devoted to corn and soybean production in Maryland. Conversion of farmland to non-agricultural uses is a threat to viability of the industry.

Poultry health Issues

- Avian diseases are a constant threat to the poultry industry and require a robust and effective surveillance and diagnostic capability from the State.

Environmental Issues

- Water quality concerns require the development of alternative uses for poultry manure.
- The process of implementing Concentrated Animal Feeding Operation (CAFO) regulations does not currently include industry representatives, creating a concern that unknown consequences for poultry production may be forthcoming.
- Negative attention to the poultry industry from media and environmentalists has created a sense of doubt and uncertainty that is discouraging investment in the industry.

Issues of transportation

- The cost of transporting raw materials for feed - corn and soybeans primarily - decreases the relative profitability of poultry production in Maryland

Issues of markets and trade

- The poultry industry is a mature industry with limited potential to duplicate past growth rates. Its focus is shifting to maintaining market share and adding value to its products.
- International trade disputes are inhibiting overseas markets.

Recommendations

The Governor's Poultry Issues Action Team believes that for the State to support the poultry industry, several actions should be taken. Those actions need to address factors limiting the potential for the poultry industry in specific, and agriculture in general.

We will describe our recommendations in two categories. Our primary recommendations are those which we trust will be proactive and have an almost immediate positive impact upon the poultry industry and the economy of the Eastern Shore and the State. Our supplementary recommendations are important, but will not necessarily deal immediately with the perceived vulnerabilities.

Primary

1. The State should commit to requiring that land conservation programs be supportive of production agriculture and productive farmland. *State programs should not in any way compete with production agriculture for farmland.*
2. The State should support farmers in the construction of new poultry houses and the renovation of older structures through a system of tax credit incentives. For new structures, we recommend the state provide a tax credit worth 10 percent of the cost associated with adding new poultry housing, with a maximum of \$15,000 per house that could be carried over three years. We recommend a tax credit of 10 percent of the cost associated with retrofitting existing structures, up to a maximum of \$5,000 per house that could be carried over three years.
3. The State should assist beginning^[1] farmers and/or "socially disadvantaged"^[2] farmers by making existing state programs "farmer-friendly" and establishing new funding mechanisms, such as a multi-purpose agricultural financing authority designed to meet the unique needs of farmers and agribusinesses.
 - a. We suggest the State provide 10 percent (of cost or appraised value, whichever is less) down payment funds for beginning or 'socially disadvantaged' poultry farmers from a revolving loan fund established with approximately \$1.4 million. Monies are then repaid with a 5-year balloon payment on a 15-year amortization. Those monies then become available for additional lending.^[3]
 - b. We suggest the State create a "linked deposit" program for the capital cost of poultry house renovations. The State would deposit money with participating lenders. The lenders would then loan the funds at below market rates. The State would realize a sufficient return to cover the cost of administering the program.^[4]
 - c. We suggest the creation of a fund from which tax-free loans to agricultural lenders can be made. Such a program, currently used to support municipalities and fire departments, would allow for low interest loans to beginning farmers and "socially disadvantaged" poultry farmers.^[5]
 - d. We suggest the modification of current programs at the Department of Business and Economic Development to allow and encourage participation from the poultry industry.^[6] The criteria for DBED

programs are designed for high employment and high wage positions. The programs are generally not accessible to the production agriculture sector and are not focused on industry retention.

- i. Sunny Day Fund
 - ii. One Maryland Fund
 - iii. Maryland Small Business Development Financing Authority (MSBDFA)
 - iv. Maryland Economic Adjustment Fund (MEAF)
4. The State should support and encourage the development of alternative uses for poultry manure by the private sector. As part of this effort, the State should explore using pelletized poultry litter as fuel source in upgrading the heating system at the Eastern Shore Correctional Institute.[\[7\]](#)
 5. The State should involve the poultry industry in development of the state's general permit for CAFOs (Concentrated Animal Feeding Operations). Those regulations should mirror Delaware and Virginia regulations so as not to put Maryland at a disadvantage to surrounding states.
 6. The State should commit to funding to the Maryland Department of Agriculture's Manure Transport Program at a minimum level of \$500,000 annually.[\[8\]](#)
 7. The State should conduct an extensive analysis of the Maryland Department of Agriculture Animal Health Program to ensure that it can effectively and quickly detect, prevent, and contain potentially devastating poultry disease outbreaks whether they are naturally caused or intentionally introduced.[\[9\]](#)
 8. The State should support and provide leadership in efforts to address labor concerns of the poultry industry.
 - a. The State should increase funding and support of community college programs training truck drivers in preparation for the obtaining their Commercial Driving Licenses (CDLs).
 - b. The State should commit to educational and promotional programs targeting "hard-to-find" employees: agricultural laborers, supervisors, truck drivers, veterinarians and veterinarian assistants.[\[10\]](#)
 9. The State should pursue improving the rail system in Maryland. These improvements should include infrastructure to allow the use of 100-unit trains for shipping grain to the Eastern Shore.[\[11\]](#)
 10. The State should devote staff to work with poultry company flock managers to promote and provide technical assistance to producers in the use of tree buffers around poultry farms to reduce ammonia emissions, odors and particulates.[\[12\]](#)

Supplementary

1. The State should support the development of curriculum for an educational program with the aim of promoting the positive values of the poultry industry. Environmental organizations, as part of this, should be invited to meet with farmers and farm groups to gain an understanding of their concerns and objectives.
2. The Governor should direct those state agencies that are involved in the procurement of food to develop strategies to increase the purchasing of Maryland poultry and agricultural products.[\[13\]](#)
3. The International Marketing program at MDA's Office of International Trade and Market Development and DBED's Office of International Trade should continue and step up efforts to identify markets for Maryland poultry products and byproducts.
4. The University of Maryland System should restore funding on an equitable level to the Maryland Cooperative Extension and the University of Maryland Agricultural Experiment Station. Budget cuts to the University of Maryland System have disproportionately affected Maryland Cooperative Extension. Extension is instrumental in supporting the Water Quality Improvement Act of 1998 through writing nutrient management plans which include soil, water and manure testing.[\[14\]](#)
5. The State should commit \$300,000 to a marketing campaign managed by the Maryland Department of Agriculture to promote the poultry industry and the benefits of the industry to the State.
6. The State should provide \$175,000 annually to provide cost-sharing to assist producers in building on-farm grain storage facilities.[\[15\]](#)

[\[1\]](#) Beginning farmers, as defined by the Poultry Issues Action Team, are, "an individual or an entity who has not been the owner of a farm more than 10 years."

[\[2\]](#) 'Socially disadvantaged' farmers, as defined by the U.S. Department of Agriculture, are "one of a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as members of group without regard to their individual qualities." Specifically, the USDA, and the Poultry Issues Action Team, define "socially disadvantaged" group as women, African Americans, American Indians, Hispanics, Alaskan Natives, Asian Americans and Pacific Islanders." See in attachments USDA Fact Sheet, Loans for Socially Disadvantaged Persons, August 2002.

[\[3\]](#) Financing poultry operations is unique when compared to financing most other agricultural operations. Loan approvals for start-up farms, be they transfer of an existing farm or purchase of land and construction of new facilities, are affected more by equity and down payments than interest rates because poultry houses have a positive cash flow and will more than pay for themselves. Conversely, producers financing existing poultry farms with facilities that need renovation to new industry standards, often have enough equity to borrow the needed funds, but may face a cash flow problem since they have become accustomed to having the net cash flow available for other purposes, including living expenses. In this recommendation, the State would provide 10 percent down payment funds. Monies are repaid on a 15-year amortization with a 5-year balloon at low interest. The State would hold a second lien position junior to the prior lien of the primary lender. As monies are repaid in the revolving loan fund, they are available for additional lending. The State would take an assignment of poultry proceeds, junior to

the primary lender, allowing payments to be sent directly from the poultry integrator to the State. At the balloon period, the borrower would be required to seek refinancing of the outstanding balance on the State loan. If unable to obtain refinancing, the State agrees to continue the amortization, but with another "call" period, perhaps in 5 years. The Primary lender advances 90 percent of the cost or appraised value, whichever is less, and amortizes its loan at conventional rates and terms. The Borrower pays closing costs. The \$1.4 million figure is based upon financing 80 poultry houses valued at \$175,000 each at 10 percent.

In one scenario, a farmer would approach a lender to finance three poultry houses (50 feet by 500 feet) at \$175,000 each for a total value of \$525,000. The State of Maryland's agriculture financing authority would provide 10 percent, or \$52,500. The farmer would have payments of \$53,764 per year. Gross income from those chicken houses would be \$118,000. Expenses would be about \$20,000, giving the farmer a net income of \$98,000. Subtract payments on the houses of \$53,764 and the farmer has a net cash flow of \$44,236. The farmer's initial expense is limited to costs.

[4] Currently, a similar program is available in Maryland for farms adopting environmental initiatives through the Maryland Department of the Environment.

[5] (Example: Banks would have access to capital amassed through bonds or appropriation free of tax. In turn, if the current interest rate is 6 percent, lenders could offer a 4.3 percent interest loan to poultry farmers).

[6] Reference the DBED materials and July 28th minutes.

[7] Note letter sent from Poultry Industry Action Team, Aug. 19, to Gov. Ehrlich to support State Sen. Richard Colburn's ECI initiative.

[8] The state manure transport program funding was decreased in FY2003 from \$750,000 to \$250,000. The program administrator has identified \$139,000 of federal funding for FY2003.

[9] MDA's Salisbury Animal Health Diagnostic Laboratory (SAHL) provides a series of diagnostic and regulatory testing for the poultry industry. It is responsible for providing state regulatory surveillance testing of chickens for diseases such as *Mycoplasma gallisepticum*, *Mycoplasma synoviae*, Pullorum-Typhoid, Avian Influenza, Newcastle Disease. This greatly impacts the state's ability to engage in international trade. Reference Appendix 2; "Needs assessment for the Salisbury Animal Health Diagnostic Laboratory".

[10] The Governor's Workforce Investment Board and the Jacob France Institute of the University of Baltimore are currently finishing a project examining the labor needs of agricultural businesses among others. A Sept. 10 presentation to the Maryland Agricultural Commission indicated that 48 percent of the agricultural employers interviewed reported having problems with job vacancies, with key workforce issues being basic skills and training (56 percent) and retention of skilled workers (46 percent).

[11] Increasing the size of rail sidings to accommodate 100-car trains would give poultry companies a price break on shipping infeedstocks company executives report. See *Progressive Farmer* article about small railroads and their benefit to the agricultural community in the attachments.

[12] Based upon the Conservation Corridor project, or the Maryland Working Lands Initiative, currently submitted to the USDA.

[13] Reference Appendix 2; New Jersey's and New York's programs for purchasing of local products.

[14] From 1995 to 2002, while the University of Maryland College Park saw increases in funding to its state unrestricted account (general appropriation) from \$212 million to \$360 million (an increase of 69.8 percent), Maryland Cooperative Extension's increase over the same period was \$13.8 million to \$17.4 million, or 26.1 percent, while the Maryland Agricultural Experiment Station went from \$11.1 million to \$14.4 million, or an increase of 29.7 percent. This equates to an average annual percentage increase of 8.7 percent for the University of Maryland College Park, while Maryland Cooperative Extension and the Agricultural Experiment Station received increases of 3.25 percent and 3.71 percent respectively. Under the current cuts at the University, it was estimated by former dean Dr. Thomas Fretz that Cooperative Extension is taking budget reductions 10 percent higher than the rest of the system.

Additional comments on this topic by Nutrient Management Advisor Julie Pinto and another from Doug Jones, Worcester County Soil Conservation District manager, are included in Appendix 2.

[15] Based upon the Maryland Working Lands Initiative proposal which would cost-share grain storage bins at 87.5 percent.