

Maryland Agricultural and Resource-Based Industry Development Corporation

Presentation for the
MD Shellfish Aquaculture Conference
11/15/2011

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“Mar_BID_Co”

○ “A New Kind of Rural Development Agency Serving All of Maryland”

○ Focus on

- Farming
 - Forestry
 - Seafood
- Business & Industry



MARBIDCO's programming fall into three broad categories

- **Core Rural (and urban-edge) Business Development** – several loan and grant financing programs that are funded as a result of the *Agricultural Stewardship Act of 2006*
- **Rural Land Preservation Facilitation** – programs that are funded from "special funds", or that are offered with others (conduit finance)
- **Higher Risk or Micro-Credit Lending** – loan programs that are funded by partnering organizations for targeted purposes (e.g., energy efficiency and shellfish aquaculture)

Maryland Shellfish Aquaculture Financing Fund (w/ DNR)

- The Maryland Department of Natural Resources (DNR) has formed a partnership with MARBIDCO to provide affordable financing to watermen and other parties who want to start or expand commercial shellfish aquaculture operations.
- The University of Maryland Extension (UME)
- are also contributing to this effort by providing training and business planning assistance to current and prospective shellfish growers.

MSAFF – Loan Program Overview

- Maryland's shellfish aquaculture loan program is basically a subsidized program with below-market-rate loans being offered.
- Loans of \$5,000 to \$100,000 will be available on a competitive basis (meaning the Committee will select the projects that have the best chance of being successful).
- Applicants will need to submit both production and business plans, including pro forma financials, with their applications.

MSAFF – Shellfish Aquaculture Financing Committee

- An interagency Shellfish Aquaculture Financing Committee including representatives from DNR, UME, a Maryland farm credit association, and MARBIDCO is being established to evaluate applications and proposed business plans (and financials).
- Adequate “cash flow coverage” needed.

MSAFF – Unsecured Loans with Funds Revolving

- The loans are being offered on an unsecured basis, no collateral security is required -- only the loss of the shellfish aquaculture lease is directly at risk (although all loans will be personally guaranteed so we will try to collect payments that are due and the credit bureaus will be contacted if there is a continuing problem).
- Additionally, all principal payments will be returned to a revolving fund to support additional rounds of future aquaculture funding.

Maryland Shellfish Aquaculture Financing Fund in 2011

- 2011 was the first year of the Program
- 26 loans totaling \$1.68 million were approved by the Financing Committee
 - 17 of these have settled already, while another 9 were waiting for lease approval (down to 2 now)
 - 22 were TFL-holders, while 4 others were not
- Seven of these borrows also subsequently received habitat restoration (EQIP) grants from NRCS – these funds will revolve in the Shellfish Aquaculture Fund

MSAFF – Money Available in 2012

- About \$650,000 will be available in early 2012 with all of this funding reserved for commercial watermen (with TFLs). These funds can only be used for:
 - Larvae/seed
 - Habitat Substrate/shell
- We're hoping to interest a foundation to help us fund more oyster aquaculture projects (but no luck as yet)
 - so no money available for equipment or non-TFL
- It is also possible that additional grant funding may be available again from the NRCS in 2012 for oyster habitat restoration (but again this is not a certainty).

MSAFF – Lease Application Deadline

- The demand for funding is expected to exceed available financial resources. Therefore, MARBIDCO and DNR intend to give priority to applicants who will begin or expand shellfish production operations in 2012.
- Those who plan shellfish production operations next year must hold a DNR shellfish aquaculture lease, or must have applied to DNR for a shellfish aquaculture lease by no later than Monday, January 23, 2012.

MSAFF – Financing Application Deadline and Interest Rates

- Applications for the financial assistance are being accepted by MARBIDCO, and the deadline for applications to be submitted is Friday, January 27, 2012.
- These loans are priced well below market: just 3% APR during the interest-only period and 5% during the amortization period when both P and I is being paid (though the principal is cut by 40% thus lowering the cost significantly).

MSAFF – Eligible and Ineligible Items

- Eligible expenses in the proposed plan include only:
 - substrate/shell
 - seed/larvae
- *Invoices and receipts required!*
- (& direct payment of vendors is possible)
- Eligible borrowers must also be commercial watermen (TFL-holders)

MSAFF – Loan Terms and Conditions

- The loans will be structured with an interest-only feature to allow a three-year growing period between oyster seeding and growth of the crop to market size.
- The loan program also offers a partial loan forgiveness element for borrowers in good standing (40% of the principal balance will be forgiven - basically a grant - at the beginning of the loan amortization period).

What Does a Borrower Need?

- ▶ A shellfish aquaculture plan
- ▶ A business plan (including the production plan, markets, labor needs, etc.)
- ▶ Realistic pro forma cash flow projections (income & expenses looking out five years) w/ positive cash flow

MFAFF – What else is needed?

- ✓ At least 10% borrower equity (contribution) is required. Existing purchases including commercial workboats can help satisfy this requirement.
- ✓ Principal borrower should have a credit score of at least 620 and no recent history of bankruptcy.
- ✓ Borrowers must provide a copy of the last year's income tax return, and must personally guarantee the loan as well.

MSAFF – Example

- A \$10,000 loan is needed for a \$11,500 shellfish aquaculture project. (Borrower is providing \$1,500 of his/her own money.)
- \$5,000 is going to be used to buy shell and \$5,000 larvae.
- Loan term is for five years, with the first three years as interest-only. (12 quarterly payments of \$75 would be due then.)
- At the beginning of the 4th year, principal would factor in (\$10,000), but 40% would be forgiven (\$4,000) leaving only \$6,000 to be repaid during the amortization period.

Remote Setting

- Remote Setting is a process for growers to produce cost-effective seed oysters for aquaculture (A nursery operation).
- The grower purchases larvae from a hatchery and places it in a tank containing cultch for the larvae to set on.
- Larvae are circulated through the tank to keep them in suspension while they cement themselves to the cultch and begin growing as spat.

Remote Setting Loans Coming

- MARBIDCO is working with DNR and the industry to develop a variant of the Shellfish Aquaculture Financing Program to assist oystermen in starting remote setting operations.
- Shellfish aquaculture leases would not be needed as these operations are typically located on land (only a nursery permit would be needed.)
- \$200,000 will be available in 2012.

Maryland Shellfish Aquaculture Financing Fund – Getting Help

- People are available to help answer questions and assist with production and business planning:
 - DNR Aquaculture Director:** Karl Roscher
 - DNR Leasing:** Becky Thur, Steve Schneider and Katie Busch
 - Extension:** Don Webster, Mutt Merritt, Shannon Dill and Matt Parker (and others)
 - MARBIDCO:** Steve McHenry, Kristen Robinson and Linda Arnold
- Useful Websites:
 - www.dnr.maryland.gov/fisheries/oysters/industry
 - www.marbidco.org

Thank You For Listening....Questions?



www.marbidco.org