Resources for Small and Beginning Farmers: A Guide to Financial and Technical Assistance

Janet Davis, a Food Roots NW IDA Graduate
Source: Don's Waterfall Farms
## How Does Farming in Greater Philadelphia Compare?

### Percent of principal operators that are “full-time” farmers

<table>
<thead>
<tr>
<th></th>
<th>Greater Philadelphia</th>
<th>Nationwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>47.8%</td>
<td>45.1%</td>
</tr>
</tbody>
</table>

### Average Size of Farm

<table>
<thead>
<tr>
<th></th>
<th>Greater Philadelphia</th>
<th>Nationwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>80 Acres</td>
<td>418 Acres</td>
</tr>
</tbody>
</table>

### Average Sales per Farm

<table>
<thead>
<tr>
<th></th>
<th>Greater Philadelphia</th>
<th>Nationwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$107,000</td>
<td>$138,000</td>
</tr>
</tbody>
</table>

### Average Expenses per Farm

<table>
<thead>
<tr>
<th></th>
<th>Greater Philadelphia</th>
<th>Nationwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td>$102,000</td>
<td>$109,000</td>
</tr>
</tbody>
</table>

(Source: USDA 2007 Census of Agriculture)
Who is a Beginning Farmer?

USDA defines beginning farmers and ranchers as those who have operated a farm or ranch as the *principal operator* for 10 years or fewer.

- **22** - % of all US farms operated by *beginning farmers*
- **49** - Ave. Age of a farmer that started farming between 1998 and 2007 (survey period)
- **174** - Ave. number of acres owned by *beginning farmers*
- **461** - Ave. number of acres owned by *established farmers*
- **34** - % of *beginning farmers* list farming as primary occupation
- **45** - % of *all farmers* list farming as primary occupation
- **$1.9** Million – Ave. value of agricultural assets for a farm that Grosses $50,000 in sales (ave. sales needed to see a profit)

(Source: USDA 2009 Beginning Farmers and Ranchers Survey)
Why Should We Care About the Next Generation of Farmers?

- Aging Farmers
- Decrease in mid-sized farms (more small farms, more large farms, losing “ag in the middle”)
- Food production is land intensive; land is expensive; land is a major farm asset
- Who’s going to farm all of this preserved land?

Source: Flickr User Marci Green
Why Should We Care About the Next Generation of Farmers?

- More and more farmers coming from non-farm backgrounds
- No land to inherit or buy from relatives; no existing business to inherit
- No mentor

Methods of Land Acquisition

Source: USDA, ERS, Agricultural Management Survey, 2010
What Are the Challenges to Financing New/Beginning Farmers?

• Farmers need more financial management knowledge and experience
  • Business plans and cash flow projections are particularly important

• Difficult for financial institutions to service small loans
  • Hard to finance operating expenses

• Financial institutions don’t know how to work with non-traditional farmers

• Many small financial and technical assistance programs competing for same audience and same resources
What’s Out There – Traditional Financial Assistance

- Farm Service Agency
- Farm Credit
- Family & Friends
- Aggie Bonds
- Small Business Administration
FSA Microloan Program

• Unveiled January 2013

• Intended to “better serve the unique financial needs of beginning, niche, and small family farm operations”

• Like a FSA Direct Operating Loan, but with smaller loan amount and fewer application requirements

• Loans up to $35,000 with repayment terms of up to 7 years

• Requires a simplified balance sheet and cash flow summary instead of a full business plan and three-year production history

• Requirements for farm management experience modified – will accept non-farm experience, 4-H, and farm incubator programs

• Collateral of at least 100% of loan value is required
What’s Out There – Non-Traditional Financial Assistance

State
- Iowa Beginning Farmers Tax Credit
- Nebraska Beginning Farmers Tax Credit

Companies/Corporations
- Whole Foods Local Producer Loan

Private Dollars (Philanthropy/Private donors)
- NOFA Vermont
- Food Roots (Oregon)
- Practical Farmers of Iowa

Crowdfunding
- The Carrot Project (New England)
- Open Space Institute LTO
- Slow Money Soil Trust

Shade Fund
Case Study: The Carrot Project

- Administers four geographic-specific programs in the Greater Berkshires, Maine, Massachusetts, and Vermont
- Provides loans from $3,000 to $35,000 with 1 to 7 year terms
- Loans can be used for working capital or capital needs such as equipment or buildings
- Partners with local lending institutions, such as a regional bank, a CDFI, or an economic development agency
- Solicits investments to fund the initial loan & risk capital
- Provides certain loan origination and underwriting services usually performed by a lender like farmer outreach, technical assistance (business plan and cash flow preparation), staffing a volunteer loan review committee, and site visits
Case Study: The Carrot Project

- 70% of Carrot Project borrowers are beginning farmers
- Majority of applicants need 5 to 15 hours of technical assistance
- Since 2009:
  - Worked with more than 60 farm and food businesses, 4 lending institutions, and 23 investors
  - Made over $400,000 in loans to 30 of the 60 businesses
  - 0 borrowers have defaulted

Matthew Burke, Bloomfield Farm, Microloan Recipient
Source: E. Ferry, The Carrot Project
Case Study: Nebraska Beginning Farmer Tax Credit

• Incentivizes agricultural asset owners to lease agricultural land, machinery, or livestock to a qualified beginning farmer

• The owner receives a tax credit equal to 10% of the cash rent or 15% of the value of the share crop rent

• Example:

  • 100 acres x $250 cash rent per acre = $25,000 total cash rent
    $25,000 x 10% = $2,500 tax credit each year for three years
    **Total of $7,500 tax credit over 3 years**

  • 100 acres x 200 bushels per acre = 20,000 bushels
    20,000 bushels x 50% (owner’s share) = 10,000 bushels
    10,000 bushels x $3.50 (price per bushel) = $35,000
    $35,000 x 15% = $5,250 tax credit each year
    **Total of $15,750 tax credit over 3 years**
Case Study: Nebraska Beginning Farmer Tax Credit

- Requires a three year lease term, proof of a financial management class, net worth statement, and a projected cash flow analysis
- No limit on number of participants
- Since 2000:
  - Helped 716 beginning farmers
  - Provided over $4.5 million in tax credits to 860 agricultural asset owners

Scott Wagner’s Farm
Source: Nebraska Agriculture and You 2013
Case Study: Whole Foods Local Producer Loan Program

• Provides loans ranging from $1,000 to $100,000

• Loan can be used for capital expenditures (livestock, equipment, crops, etc.) or working capital

• Select Whole Foods Regional and Store Buyers recommend producers that are either already selling in a Whole Foods store or outside producers that meet Whole Foods quality standards

• Producers that are endorsed by the Region are sent to the global office for loan approval

• The regional and global offices Whole Foods will review:
  • Income
  • Cash flow
  • Business plan
  • Return on investment
  • Collateral
Case Study: Whole Foods Local Producer Loan Program

• The average loan is $52,000 with a 5% interest rate and 5 year payback period

• Since 2007:
  
  • Whole Foods has made 165 loans to 142 different producers, totaling $9.03 million
  
  • The LPLP has a default rate of 7.1%
  
  • All of the defaulted loans were given out prior to 2009

Source: LPLP Quarterly, Q3 2013
What’s Out There – Technical Assistance

National
- Start2Farm
- Sustainable Agriculture Research and Education
- National Sustainable Agriculture Information Service

Regional
- The Seed Farm
- Cornell Northeast Beginning Farmers Network
- Vermont New Farmer Project

New Jersey
- Northeast Organic Farming Association Of New Jersey (NOFA-NJ)
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- Penn State Extension
- PA Farm Link

Pennsylvania
- Pennsylvania Department Of Agriculture Center For Farm Transitions
- Pennsylvania Association Of Sustainable Agriculture (PASA)
- Pennsylvania Small Business Development Centers (PASBDC)

Select County Programs
- Delaware Valley College
- Chester County Economic Development Council (CCEDC)
- The Seed Farm
- Cornell Northeast Beginning Farmers Network
Recommendations to Improve Access to Capital and Knowledge

• Create a financial program that capitalizes on regional capacity
  • More coordination between technical and financial assistance providers to either scale up or specialize
  • Opportunity for states to create tax credits, individual development accounts, and other tools to support new/beginning farmers

• Create a financial tool that complements existing agricultural lending

Source: Peace Crops
Recommendations to Improve Access to Capital and Knowledge

• Create communities of practice at county and regional levels
  • Opportunity for county or regional entity to coordinate private, public, and nonprofit service providers. (Ex. Chester County Ag Service Provider Mixer in January 2013)

• Create a financial and technical assistance clearinghouse by State or Region

• Establish relationship lending

Ginger Salkowski
Source: R-evolution Farm
Questions?