

FINANCING A SMALL FARM

Molly
Fusselman

Kansas State
University

M.S. Candidate,
Horticulture,
Urban Food
Systems

INTRODUCTION

- Kansas State University
- M.S. Candidate
- Horticulture, Urban Food Systems Program
- Dr. Cary Rivard
- Research Assistant- Horticulture Research Station, Olathe, KS
- Growing Growers Program

Growing Growers
Kansas City



OUTLINE

Financing Options for Beginning Farmers

- Local Program Funding
 - Get Growing Kansas City
 - Neighborhood Revitalization Act
- Loans
 - Bank: Short, Intermediate, Long-term loans
 - Federal: Farm Service Agency (FSA)
- Grants
 - NRCS
 - SARE
 - NIFA



FINANCING

- **DEVELOP BUSINESS PLAN**
- **BUDGET-** determine cash flow, expenses and value of your assets



FUNDING OPTIONS

- Existing cash flow to make down payments
- Off-farm job (PT or FT) to supplement income
- Family and friends fund
- Partnerships, co-ops or investment groups
- Loans
- Grants

LOCAL



GET GROWING KANSAS CITY

GET GROWING

GOOD FOOD GROWING IN EVERY NEIGHBORHOOD

GET GROWING KANSAS CITY

Mission	Help new farms and community gardens get started and existing farms expand
Eligibility	<ul style="list-style-type: none">▪ Farmer selling produce▪ 501c3 org or a project that has fiscal sponsorship of a 501c3▪ Only Jackson County, MO; Wyandotte County, KS; Johnson County, KS
To Qualify	<ul style="list-style-type: none">▪ State Retail Sales Tax License▪ At least one full production season of documented sales of farm products
Maximum Award	<ul style="list-style-type: none">▪ Maximum grant size is \$3,000▪ Range from \$250 to \$3,000
Application Deadline	Twice a year in June & December: <ul style="list-style-type: none">▪ June 13, 2014, awarded by August 15, 2014▪ December 5, 2014, awarded by February 13, 2015
Grant Details	<ul style="list-style-type: none">▪ Focus on limited resourced areas & access to fresh, locally grown food▪ 2 year project▪ Funds must be spent within 12 months

GET GROWING KANSAS CITY

Grant Restrictions

- Farmer(s) can only receive ONE grant
- ONLY projects/farms/gardens that grow or raise food (vegetables, fruits, dairy, meat or other edibles)
- Must be consumed by residents in those three counties

Covers

- Start up and expansion costs (fencing, compost, water access, raised beds, tools, and equipment)
- Up to 40% may be used for stipends, wages, or fees
- Infrastructure (high tunnels, small greenhouses, buildings)



KANSAS CITY
COMMUNITY
GARDENS



CULTIVATE
Kansas City



NEIGHBORHOOD REVITALIZATION ACT (NRA)

WYANDOTTE COUNTY ECONOMIC DEVELOPMENT

Mission	TAX REBATE INCENTIVE PROGRAM on construction and farm improvements in Wyandotte County <ul style="list-style-type: none">▪ Rebate of any additional property taxes assessed as a result of the significant property improvements
Eligibility	<ul style="list-style-type: none">▪ Owner of the property▪ In NRA Zoned Area – Kansas City▪ Taxes on the property current▪ Planned improvement comply with the Zoning Ordinances and codes
Guidelines	<ul style="list-style-type: none">▪ Must apply BEFORE construction or renovation begins to be eligible▪ Must submit plans, building permits, lists of materials, estimated costs BEFORE construction▪ Must submit photos and expense receipts to receive rebate▪ Final inspection at completion
Covers	<ul style="list-style-type: none">▪ New infrastructure▪ Renovations▪ Additions

LOANS



TWO TYPES OF LOANS

Farm Ownership Loans (FO)

- Buy, improve or enlarge farms
- Capital improvements: construction or repair of farm homes and service buildings
- Improvement of on-farm water supplies
- Refinancing debts
- Establishing nonagricultural enterprises that supplement farm income

Farm Operating Loans (OP)

- Livestock
- Farm and home equipment
- Minor building improvements that can be repaid within 7 years
- Debt refinancing
- Farm and family living expenses



FARM BANK LOANS

Short-term Operating Loans

- Loan for annual expenses (seeds, fertilizer)
- Paid off within the year

Intermediate-term Loans

- Finance capital purchases (machinery, equipment, and livestock)
- Typically 2-5 year loan

Long-term Loans

- Typically for purchasing real estate or finance construction of major structures
- Financing 10 years or more
- Fixed or adjustable interest rates



FEDERAL LOANS

United States Department of Agriculture (USDA)
Farm Service Agency (FSA)



FSA LOAN PROGRAM OVERVIEW

Microloans

- Small Loans
- Small beginning farmers, urban farmers (non-traditional farmers), produce specialty crops and fill niche markets

Beginning Farmer & Rancher Loan Program (BFRL)

- Beginning farmers and/or socially disadvantaged who are unable to obtain financing from commercial lenders - high risk
- Protects the seller who sells to beginning farmer
- FSA foots the bill if mortgage payments default

Beginning Farmer & Rancher (BRFL) Downpayment Farm Ownership Loan Program

- Special program under BFRL to help beginning farmers and/or socially disadvantaged applicants buy a farm or ranch



FSA MICROLOAN



Mission	To provide funding opportunities for specialty crop growers and small farmers who often face limited financing options
To Qualify	<ul style="list-style-type: none">▪ Need 3-5 years of experience, farm apprenticeships count▪ Must be a family-sized farm (annual sales of \$250,000 or less for small farms)▪ Good credit and unable to obtain loans elsewhere▪ Individual liability insurance is required▪ Must be secured by a first lien on a farm property or agriculture products having a security value of at least 100 percent of the microloan amount
Maximum Award	<ul style="list-style-type: none">▪ Up to \$50,000, no minimum amount▪ No down payment required
Covers (FO + OP)	<ul style="list-style-type: none">▪ Initial start-up expenses▪ Annual expenses (seed, fertilizer, utilities, fuel, chemicals, insurance, and land rents)▪ Marketing and distribution expenses▪ Family living expenses▪ Purchase of livestock, farm equipment, and other materials

FSA MICROLOAN, CONT.



Application

- Must include projected annual farm income and expenses in loan application — tricky!
- Farm financial records from the last 3 years, including tax returns, and production records, unless the applicant has been farming less than 3 years

Repayment Plan

- Annual OP loans are repaid within 12 months or when the commodities produced are sold
- Repayment term may vary but will not exceed 7 years



FSA BEGINNING FARMER/RANCHER LOAN

Four Types of Loans offered through this program:

- Direct Farm Ownership Loan (FO)
- Direct Farm Operating Loan (OP)
- Guaranteed Loan Program
- Down Payment Farm Ownership Program



FSA DIRECT LOAN PROGRAM



■ Farm Ownership and Operating Loans

To Qualify

- Have not operated a farm for more than 10 years and/or socially disadvantaged
- Must have participated in the business operations of a farm for at least 3 years out of 10 prior to the date of application
- Demonstrate adequate farm experience, training, & managerial ability
- Cash down payment of at least 5% of the purchase price
- Must be US citizen or legal resident alien
- Unable to obtain sufficient credit elsewhere

Maximum Award

- Maximum FO amount: \$300,000
- Maximum OP amount: \$300,000

Length

- Standard FO loan may be up to 40 years

Requirements

- All members in the entity must be related by blood or marriage and ALL must be eligible beginning farmers
- Either does not own property or must not own a farm greater than 30 percent of the median size farm in the country

FSA GUARANTEED LOAN PROGRAM



- Help farmers get commercial credit by joint financing with the FSA guaranteed loan program
- Provides a safety net for the commercial lender
- FSA guarantees against potential loss if a commercial loan of 90% of the principal and interest is lost
- FSA can provide a 95% guarantee for existing FO and OP loans for up to \$1,355,000 (amount varies annually due to inflation)
- Applicants may seek FSA direct loan first, but a guaranteed loan must always be considered before a direct loan can be provided.



HOW IT WORKS



- Apply for agriculture loans with local commercial lenders
- The lender analyzes the business plan and financial condition.
- If the farm loan proposal looks realistic, financially feasible, and there is sufficient collateral, but it **cannot be approved because it does not meet the lending institution's loan underwriting standards, the lender may apply for an FSA loan guarantee.**
- Once an applicant provides all the information to the lender, the lender submits a guaranteed loan application to the local FSA office.
- Request will be approved or disapproved within 30 days after receipt of a complete application.



FSA GUARANTEED LOAN PROGRAM



To Qualify

- Be a citizen of the United States (or legal resident alien)
- Have the legal capacity to incur the obligations of the loan
- Have a satisfactory credit history, demonstrate repayment ability, and provide sufficient security
- Have not had a previous Direct or Guaranteed Loan that resulted in a loss to FSA and not be delinquent on any federal debt
- Unable to obtain sufficient credit elsewhere with or without a guarantee at reasonable rates and terms to finance needs
- Operator of family farm after the loan is closed
- For FO guaranteed loan, the producer needs to own the farm



FSA DOWN PAYMENT FARM OWNERSHIP

Mission	<ul style="list-style-type: none">▪ Help beginning farmers and ranchers and/or socially disadvantaged applicants buy a farm or ranch.▪ Helps retiring farmers transfer their land to a future generation of farmers and ranchers.
Eligibility	<ul style="list-style-type: none">▪ Same as Beginning Farmer and Rancher Loan, plus▪ Financing by FSA and <u>all other creditors</u> must not exceed 95% of the purchase price or appraised value of the farm or ranch, whichever is the lesser
Loan	<ul style="list-style-type: none">▪ 20 year loan▪ Fixed interest rate 4% below the direct FO interest rate but not lower than 1.5%
Maximum Award	<ul style="list-style-type: none">▪ Maximum amount equal to 45% of the purchase price or appraised value, or \$500,000, whichever is lower.▪ Maximum loan amount is \$225,000
Repayment	<p>The repayment period is scheduled in equal, annual installments for a term not to exceed 20 years</p>

DISADVANTAGES TO FSA LOANS

■ RUN OUT OF MONEY!

Fiscal year is Oct. 1 through Sept. 30th the following year

- Each year the U.S. Congress appropriates money for FSA farm loans as part of the USDA budget.
 - **The amount of money appropriated does not always meet the demand and the agency may run out of money.**
 - Each state receives an allocation of money from the FSA. It is possible for one state to deplete its funds while other states are still funding loans.
 - The agency allocates loan money to states based on the potential need. This is determined by the number of farmers in each state, the value of farm assets and net farm income. The largest factor is the number of farmers in each state.
- ## ■ NOT A LONG-TERM SOLUTION
- Temporary source of credit
 - FSA's goal is to graduate borrowers to conventional credit once finances become strong enough to meet standards.

FEDERAL GRANTS



DISADVANTAGES TO GRANTS

- Competitive
- Need excellent grant-writing skills
- Short-term funding for a specific project
- Not a fast process
- Most grants do not pay 100% of costs, need additional resources
- Frame your farm to meet grant guidelines
- Must meet grant outcomes, record keeping, reporting, activity requirements, and deadlines

NATURAL RESOURCE CONSERVATION SERVICE (NRCS)

Seasonal High Tunnel Initiative

Mission	To provide financial and technical assistance to agricultural producers to install Seasonal High Tunnels and associated conservation measures to extend the growing season for high value crops in an environmentally safe manner.
Eligibility	<ul style="list-style-type: none">▪ Agricultural producer and have control of eligible land for the term of the contract (includes cropland)▪ Can prove an improvement in plant and soil quality, reduced nutrient and pesticide transportation, improved air quality, and reduced energy use by providing local source of fresh produce
Restrictions	<ul style="list-style-type: none">▪ Maximum HT size NRCS will fund: 2,178 square feet



NATIONAL INSTITUTE OF FOOD & AGRICULTURE (NIFA) GRANTS

Community Food Project Grant Program

Mission

- Help community food projects designed to meet the food needs of low-income people
- Promote comprehensive responses to local food, farm, and nutrition needs
- Support the development of entrepreneurial projects
- Developing innovative linkages between the for-profit and nonprofit food sectors

To Qualify

Non-profit, community garden, pantry garden

Award

- Dollar-for-dollar match from non-federal sources
- Projects may be funded for 1 to 3 years
- Range from \$10,000 to \$300,000



United States Department of Agriculture
National Institute of Food and Agriculture

SUSTAINABLE AGRICULTURE RESEARCH AND EDUCATION PROGRAM (SARE)

Farmer Rancher Grants

- Competitive grant program for farmers and ranchers who want to explore sustainable solutions to problems through on-farm research, demonstration, and education projects.
- Improve agricultural sustainability through the protection of land and water, limiting off-farm inputs, reducing erosion

Example of NCR-SARE grant topics

Pest/Disease management, Crop and Livestock production, Education/Outreach, Networking, Quality of life issues, Marketing, Soil quality, Energy, and more.

Maximum Award

Individual (\$7,500 maximum), partner (\$15,000 maximum), or group (\$22,500 maximum) for ideas initiated by farmers and ranchers

Length

Projects may last up to 22 months.

Application Timeline

Early August - Call for Proposals
Mid-November - Proposals Due
March - Funding Decisions
Spring - Funds Available to Recipients



EXAMPLES OF NCR-SARE FARMER RANCHER GRANTS IN 2014

Project Title	Total Request	Cumulative	Project Description
Cover Crop-based Reduced Tillage for Fall Production of Cabbage, Cauliflower and Broccoli Using a Roller-Crimper and No-Till Planting Aid	\$ 7,480.00	\$ 346,830.00	Cover crop-based reduced tillage will involve seeding a rye/vetch cover crop, roller-crimping it, building a No-Till Planting Aid to open up a furrow and then transplanting fall brassica. Test plots using these new methods will be compared with our current cover-cropping practices. Late tomatoes and beets will also be trialed.

EXAMPLES OF NCR-SARE FARMER RANCHER GRANTS IN 2014

Project Title	Total Request	Cumulative	Project Description
Growing Mushrooms on Local Agricultural Byproducts	\$ 11,320.00	\$ 205,469.00	Our project is a collaboration between three farms in Northeast Kansas to develop a system for collecting agricultural byproducts from local farms for use as a growing medium for mushrooms.
Integrated Wildlife Management for Sustainable Agriculture	\$ 7,470.00	\$ 114,636.00	The control of unwanted wildlife through the use of laser triggered, water based scarecrows.

EXAMPLES OF NCR-SARE FARMER RANCHER GRANTS IN 2014

Project Title	Total Request	Cumulative	Project Description
Economics of Grazing and Haying Cover Crops in North Central Kansas	\$ 7,223.00	\$ 336,900.00	Cover crops will be planted after wheat harvest in NC-Kansas and 1/3 of the acreage of each will be untouched, hayed, and grazed, respectively. Soil and forage tests along with rate of gain will be utilized to provide economic analysis on what method(s) is sustainable.
Growing a Pear Orchard at an Organic Farm School to Increase Supply and Demand for Organic Tree Fruit in St. Louis, MO	\$ 7,500.00	\$ 329,677.00	EarthDance proposes to install a half-acre pear orchard at the Organic Farm School in St. Louis, MO, to educate other local growers about best practices in sustainable orchard production, and address the insufficient supply of sustainably produced fruit in St. Louis.

FINAL DECISIONS

- Weigh pros and cons of all options
- Do your research
- Don't go at it alone!



RESOURCES

- Get Growing Kansas City Mini Grants

<http://getgrowingkc.org/wp-content/uploads/2013/09/GGKC-Mini-Grant-Description-2013-to-20151.pdf>

- NRA (Neighborhood Revitalization Act)<http://www.wycokck.org/uploadedFiles/Departments/Development/NRA%20Application%20Revised%202012.pdf>

- NIFA Community Food

Projecthttp://www.nifa.usda.gov/funding/rfas/pdfs/14_community_foods.pdf

- NCR-SARE Farmer Rancher Grants

<http://www.northcentralsare.org/Grants/Our-Grant-Programs/Farmer-Rancher-Grant-Program>

- Farm Credit System (FCS): provides credit and related services to young, beginning, and small farmers and ranchers

QUESTIONS

