Takeaways & Next Steps
2/6/19 Farm Transfers Convening: Financing Sticking Points & Solutions
Hosted by the VT Farm to Plate Network's Financing Crosscutting Team
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Introduction

On February 6, 2019, 28 stakeholders convened in Waterbury, VT to address sticking points and solutions for the financing of farm transfers in Vermont. Participants included common senior lenders, alternative lenders such as CDFIs, philanthropic funders, federal and state public sector staff, a legal scholar, as well as leading business assistance providers. To stimulate an innovative dialogue, the conveners shared three cases, two of which reflected nominally successful land transfers of diverse types, with the third case showing how things can potentially go wrong for the incoming farm business over time. See below for a range of Sticking Points and Solutions, as well as next steps regarding further outreach to key stakeholders. This Takeaways document is one of a series of outputs from the Crosscutting Team coming out of the Farm Transfers Convening. *See Appendix II for a current list of outputs.*

Overview

- Assumptions of Farm Seekers & Early Stage Farmers about Land Ownership
- Strategies to Identify and Reach Markets
- Business Assistance When Navigating Land Access and Transfer Transactions
- Where Flexible Capital Could Help Catalyze Farm Transitions
- Payment for Ecosystem Services
- Appendix I: Common Approaches to Improvements While Leasing
- Appendix II: Overview of Outputs from the Farm Transfers Convening

Assumptions of Farm Seekers & Early-stage Farmers about Land Ownership

- ***Sticking Point:*** Beginning farmers assume they need to own land from day one in order to farm.
  - Young farmers tie up limited capital in non-liquid real estate assets, constraining capital available for operations, growth, and the unexpected. As one lender put it, *"New and Beginning farmers need to rethink where they use those 'capital chips'."* Early-stage farmers can shift their approach to investing limited capital toward assets that provide quicker revenue growth as compared to real estate.
- ***What Works:*** Farmers succeed when they lease before buying, and build equity and markets as they prepare to buy. A recommended path is to gradually acquire real estate, starting in year five to seven.
  - *Bottom line:* Farmers succeed most often when they affordably lease a farm large enough to get started, realizing they will acquire additional land or relocate to a larger farm down the road: a phased approach is often necessary to allow them to incrementally leverage equity and market growth opportunities. It also allows the business to evolve, giving them better information about the size and type of property and facility they will need in the long term. Retired farmers can be excellent landlords, who may give younger farmers needed advice and a future option to purchase.
- *Strategies*

- *Improvements while leasing:* Businesses require improvements to real estate, even when leasing, and common approaches vary depending on the type of landlord (retiring farmer, non-farming landowner, investor or nonprofit), the length of the lease, and whether or not there is a purchase option or land contract. *See Appendix I for an overview of common approaches.*
- *Intermediaries for Transition from Lease to Own: Role and Value*
  Buy-lease-sell models for farmland access alleviate some of the challenges of purchasing land and re-starting a business at the same time. Intermediaries are demonstrating such models now. Two were on the Design Team for the 2/6/19 Convening: Vermont Land Trust and Dirt Capital Partners.
  - **Vermont Land Trust—Farmland Access Program**
    - Focus: Connecting farmers with affordable land through a flexible approach
      - Examples of methods:
        - Conserve farm to make it more affordable, including using an OPAV (Option to Purchase at Agricultural Value), which restricts the purchaser to a farmer and further makes farmland affordable.
        - Buy a farm at risk of development and ask for business proposals from farmers interested in buying the land.
        - Work with a retiring farmer to find a new farmer who would be a good match for that land.
        - Work with farmers to evaluate land opportunities, facilitate farm transactions, and help with the purchasing process.
        - Utilize low-cost capital to subsidize the cost of the lease to the farmer.
  - **Dirt Capital Partners:** fills gaps in farmland access by facilitating farmland and farm business transitions, providing long-term leases that allow businesses to expand securely and provide defined pathways to ownership.
    - Here's an overview of Dirt Capital Partners demonstrated model for identifying opportunities:
      - Work in geographic clusters where the following are present:
        1. Business & technical assistance for farmers
        2. Skilled farmers with viable business models
        3. Land affordable to the farmers' business models
      - Focus on farmers with good financial and management processes, character, integrity, and communication

Strategies to Identify and Reach Profitable Markets

- ***Sticking Point:***
  - Market availability, stability, and price, as well as market approach and analysis are all primary challenges.
    - **Key Questions:**
      - *How do service providers help farms analyze market feasibility?*
      - *Are service providers offering technical assistance to access wholesale markets?*
        - ***What Works:***
          - Vermont has a few service providers who are expert in this area and skilled at working with farmers on marketing, but the state could use more like them.
          - Service providers are helping bring farmers through a market

matrix and then the farmers do the legwork.

- Rose Wilson is one practitioner who does offer such market development assistance. She's developed a market-assessment tool. It includes questions like:
  - *Who are your customers?*
  - *Who are your potential customers?*
  - *What are they looking for?*
    - *Attributes?*
- NOFA-VT has developed a Farmstand Audit Tool.
  - This audit focuses on all aspects of a farm's farmstand or store, from stocking to staffing to pricing. It has been created to help develop a retail mindset.
  - NOFA-VT also has funding for technical assistance to support farmers with related evaluation and improvement.
- Having data related to markets that is timely, specific, and relevant to farm operations—or developing the skillset of individual farmers to get such data for their operation.

Business Assistance When Navigating Land Access and Transfer Transactions

- ***Sticking Point:*** *"These are complex transactions to navigate. There are many people to communicate with."*
  - ***What Works*:**
    - A "case manager" to help with the farm transfer transaction
    - VT Land Trust, Dirt Capital Partners, and Vermont Farm and Forest Viability Program consultants all play this role, as an example.
    - That program partners with UVM Extension, The Center for an Agricultural Economy, Intervale Center, Land for Good, and NOFA-VT to deliver business assistance on topics such as succession planning.
    - Additional resources include beginning farmer assistance and other executive business skills consultation.
- ***Sticking Point:*** A lack of farm viability across generations, whether within a family or through non-family transfers
    - 92% of farmers in New England have no identified successor, according to *Gaining Insights, Gaining Access.*
    - Many farms cannot support multiple generations during a transition.
    - Many farms have no financial, legal, or management transfer plan.
    - Many farms are not viable after a generational transfer (where a younger generation would have additional debt service).
    - The budgets of such farms often "work" because of labor that isn't accounted for.
    - Frequently there's a gift of equity that has made past generations of family transfers work. This is a challenge for non-family transfers.
  - ***What Works:***
    - Transfer or retirement planning is an ongoing part of business planning at every stage of business.
    - A focus on viability and what's possible given an individual situation
    - Engage legal, accounting services, and farm viability professionals as "case managers" to help facilitate transfer actions, not just to write plans for the shelf.
    - Structure LLC operating agreements that allow for someone additional to come in later.
    - Service providers have worked with farms that have employees coming in to take

over the farm.

- There is potential to incubate employees (and next-generation family members)
    - Make sure they're exposed to the business.
    - Note the possibility for spin-off businesses, e.g. production + value-added.

Areas Where Flexible Capital Could Help Catalyze Farm Transitions

- ***What Works?***
    1. OPAV funding and interest-rate subsidy for farmers moving from leasing to owning. VT Land Trust has piloted holding farms for two or more years (with the associated extension in carrying costs) to optimize the runway for the incoming farmer to proceed from lease to own.
    2. Loan/loss risk mitigation, especially in certain areas like catalyzing transactions for early-stage farmers and mitigating early-stage farmers' business and borrowing risks, given climate instability.
    3. Facilitate equity on the young farmer's balance sheet: student loan forgiveness or loan matches towards specific business investments that enhance viability and mitigate risk.
        - National Young Farmers Coalition has a student loan campaign: *Farming is Public Service!* making the case to add farmers to the federal Public Service Loan Forgiveness Program.
            - www.youngfarmers.org/studentloans/
    4. *What Can Philanthropy Do?*[1] Program-Related Investments (PRIs) and grants, into models that acquire farmland and enable farmers to engage in lease-to-own arrangements that facilitate financially and environmentally sustainable production businesses.
        - This approach could be supported on a deal-by-deal basis for high-impact situations, or more efficiently as a program or multi-deal engagement with existing organizations.
        - VT Land Trust has piloted holding farms for two or more years (with the associated extension in carrying costs) to optimize the runway for the incoming farmer to proceed from lease to own.
        - Dirt Capital has piloted utilizing philanthropic investments and grants on a deal-by-deal basis to increase land affordability and/or accelerate change in the case of certain projects with high food-system or economic-development impact.
    5. Non-collateralized, high-risk, low-return alternative capital.
        - The Vermont Farm Fund, for example, comes in at 3% for 2-4 years.
            - Many incoming farmers are otherwise doing it on credit cards right now with 15-20% interest.
            - *See summary below and one-page VT Farm Fund overview document.*
                - <VFF_overview_18MAR2019.pdf>

[1] The Crosscutting Team (CCT) produced a more in-depth brief looking specifically at the question, *What Can Philanthropy Do?*—in relation to Farm Transfer Financing Sticking Points and Solutions. It was shared with the VT Food Funders Network in March 2019 and is available from the CCT upon request.

        - The Vermont Farm Fund is a program of The Center for an Agricultural Economy.

- ***What Works:*** **VT Farm Fund**
  - Model and Activities:
    - They generally don't fund startups.
      - Require 2 years of financials
        - VT Land Trust partnership can mitigate this constraint.
          - If they don't have 2 years of prior financials but were vetted by VLT.
      - Uses can include capital equipment.
        - But the loans are non-collateralized.
      - This is not working capital.
        - Project-related funds
        - That support a growth plan
      - The Fund is not utilized directly in relation to farm-transfer transactions.
        - It sometimes helps capitalize related equipment.
      - Details
        - Total assets under management: $562,000 as of February 2019.
        - Range of loan size: $5,000 to $30,000.
        - Terms: These loans are available at 3% amortized interest, to be repaid over a period of 24 to 48 months.
      - Potential Next Steps
        - Further support for VT Farm Fund
        - Recognition of VT Farm Fund as a relevant model
      - Contact: Kate Stephenson, Vermont Farm Fund Program Manager
        - kate@vermontfarmfund.org
        - 802.560.3099
        - www.vermontfarmfund.org

Payment for Ecosystem Services

- ***Sticking Points:***
  - Market vulnerability
  - Climate change
  - Environmental impacts of some farming methods
  - Under-recognized and uncompensated ecosystem services provided by working lands and their stewards
- ***Emergent Opportunity:***
  - *"I'm hearing farms need to look at their income streams. Could it be equity / revenue made through environmental improvement?"*
    - More options would be good.
  - Accelerate the establishment of payment for ecosystem services models
    - There's a need for more, proactive options beyond NRCS (USDA Natural Resource Conservation Service).
    - There's an opportunity for younger farmers to learn about sustainably monetizing woodlands on land they acquire.
    - *What Can Philanthropy Do?*[2] Foundations could potentially fund a New England regional conversation to support clarification of standards for ecosystem-services

[2] This strategy is also highlighted in the CCT document: *What Can Philanthropy Do?*

value.

- For example, a parallel conversation is underway in NH re the social, conservation (environmental) and heritage value of working lands; and how we develop/display/measure the impact of these combined values.
- If foundations stepped forward to support proof-of-concept work, it's plausible that the Federal Reserve could provide data-level work such as statistical and econometric analysis to ground assertions regarding pricing, value, and impact.
- VT Community Loan Fund Executive Director Will Belongia serves on the Federal Reserve Bank of Boston's New England Community Development Advisory Council and could potentially introduce the idea of researching this issue. The Boston Fed maintains research staff for such activities.

▪ Vermont Grass Farmers Association and others have produced whitepapers outlining the topic.

Appendix I: Common Approaches to Improvements While Leasing

- Lessee utilizes moveable or temporary improvements.
  - Common for greenhouses & temporary structures, coolers, storage trailers, movable fencing, etc.
- Lessee pays for the improvements out of cash flow, but the lease term is longer than the depreciated value.
  - Common for soil improvements and temporary structures.
- Landlord finances the lessee's required improvements and charges additional rent.
  - Common for items like wells.
- Lessee finances the improvements, but the lease requires the landlord to pay out the depreciated value if the lessee moves on.
  - Common with non-farming landowners of means.
- Lessee is in a lease with option to purchase or land contract. The landlord finances major improvements, the lessee may contribute capital or sweat equity. Landlord charges additional rent for those improvements over the lease term. Lessee is responsible for the non-amortized value of any improvements upon exercising the purchase option.
  - Common for major buildings.
- Lessee obtains third-party financing for improvements. The lease is longer than the term of the financing, and with most lenders, the landlord guarantees the financing.
  - Common for major buildings.
- NRCS (USDA Natural Resource Conservation Service) or other grants are provided to the farmer to finance improvements, the landlord signs off on the improvements and program participation with the agency.
  - Common water quality, erosion prevention or other improvements to infrastructure, pastures and fields.

Appendix II: Overview of Outputs from the Farm Transfers Convening

- ***What Can Philanthropy Do?*** (March 2019)
- **Process Review** (April 2019)
- **Takeaways & Next Steps** (May 2019)