

Harvesting a Profit: Session III: Funding

A guide to growing a financially
sustainable agricultural business



Copyright 2015 Farm Credit East. All Rights Reserved. Version 2.0

1

Today's Presenters

Katelyn McCulloch

Business
Consultant

Auburn, Maine

Chris Laughton

Director of
Knowledge Exchange

Enfield, Connecticut



2

Supporting Organizations:

American Farmland Trust
 Beginning Farmer Network of Massachusetts
 The Carrot Project
 Center for Agricultural Development & Entrepreneurship (CADE)
 Community Involved in Sustaining Agriculture (CISA)
 Community and Regional Development Institute of Cornell University (CaRDI)
 Cornell Small Farm Program
 Cornell University Cooperative Extension (CCE)
 Farm Fresh Rhode Island
 Farmer Veteran Coalition
 Glynwood
 Land for Good
 The Last Green Valley
 Maine Farm Bureau
 Massachusetts Farm Bureau
 National Young Farmers Coalition
 The New England Farmers Union
 New Entry Sustainable Farming Project
 New Hampshire Farm Bureau
 New York Farm Bureau
 New York Farm Viability Institute
 New York FarmNet
 Northeast Organic Farming Association of Connecticut (CT NOFA)
 Northeast Organic Farming Association of New Jersey (NOFA-NJ)
 Northeast Organic Farming Association of Rhode Island (NOFA/RI)
 Northeast Sustainable Agriculture Working Group (NESAWG)
 Southeastern Massachusetts Agricultural Partnership (SEMAP)
 Stone Barns Center for Food and Agriculture
 University of Massachusetts Extension



3



Funding your Farm

Today's Lesson: Funding your Farm

- Grants
- What a lender looks for
 - The 5 "C's" of Credit
- Financing Sources
 - Investment
 - Credit
- Interviews with two Farm Funding Organizations



4

Grants



- Everyone wants free money... but what is really out there?
- Why are grants offered?
- What are some examples of grant opportunities?
- What are some resources for grant seekers?



5

Why Do Government Agencies and Others Offer Grants? In General...

1. Meets a Public Interest
2. Achieves a Public Good

Examples

Environmental Improvements



Renewable Energy Objectives



Creation of Jobs



Applications that match projects with public interests are more likely to be successful



6

Grantmakers and Lenders look for many of the same things...



- Easiest to get for established, profitable businesses
- Need a solid business plan and a high likelihood of success
- Grantmakers want to see "return" on investment



7

Unique considerations for grant funding



- Timing and funding cycles are critical
- Most grants do not cover work already completed
- Many require a match
- Can be a maze of funders, applications, and eligible projects



8

Grant Example -Federal

USDA Rural Development – Rural Energy for America Program (REAP)

Purpose: Provides loan guarantees and grant funding to producers to purchase and install renewable energy systems or make efficiency improvements.

Eligibility: Ag producers and small businesses without outstanding delinquent taxes.

Application deadline: May 2, 2016 will be next round

Funding levels: up to 25% of total eligible project costs, to a max of \$500,000

website: www.rd.usda.gov



9

Grant Example -Federal

USDA Natural Resources Conservation Service (NRCS) – Environmental Quality Incentives Program (EQIP) – and others

Purpose: Provides financial and technical assistance to producers to address natural resource concerns and deliver environmental benefits.

Eligibility: Ag producers; special considerations for socially disadvantaged, beginning and limited resource farmers, Indian tribes, and veterans.

Application deadlines and funding levels vary.

website: www.nrcs.usda.gov

Bottom line: Check with your local Farm Services Agency office to see what programs you might be eligible for.

www.newfarmers.usda.gov



10

Grant Example – State of New York

New Farmers Grant Fund

Purpose: Provides grants to support beginning farmers.

Eligibility: Farm operation of 150 acres or less in NY, must have minimum of \$10,000 in sales as reflected in 2014 or 2015 tax return. Must be in first 10 years of having an ownership interest in any farm operation. Other criteria apply.

Grant: Up to 50% of project costs for expanding or diversifying agricultural production, from \$15,000-50,000.

Application deadline: January 22, 2016

website: <http://esd.ny.gov/BusinessPrograms/NewFarmersGrantFund.html>

Check with your State Department of Agriculture for grant opportunities



11

Grant Resources



- Farm Credit East offers a grant writing service: for more information, contact Nathan.Rudgers@FarmCreditEast.com
- Grant information sites, like GrantWatch.com; Grants.gov
- USDA Farm Services Agency
- Your State Dept of Agriculture
- Utilities
- Foundations



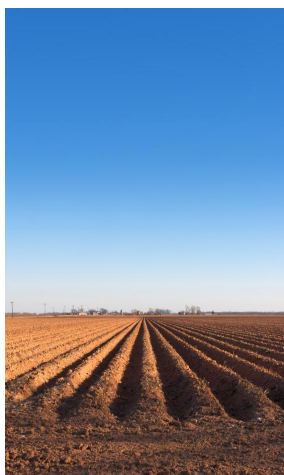
12

Financing



13

Financing



The Five C's of Credit

- Character
- Capital
- Capacity
- Collateral
- Conditions

- Each are important!



14

Character



- Character describes the borrower and his/her track record
 - History of paying loans on time?
 - History of making money?
 - Experienced management/advisor team?
 - Credit score plays an important role.
- www.AnnualCreditReport.com



15

Capital



- How much you own vs. how much you owe
- Solvency – the state of owning more than you owe (positive net worth)
- Leverage – the percentage of assets financed by creditors, as shown by the debt to equity ratio
- Which result shows greater leverage?
 - 74% debt to equity
 - 25% debt to equity



16

Capacity

- Capacity is a company's ability to repay debt.



Sample Budget	
Cash income	\$800
Cash expenses	<u>\$(450)</u>
Net from operations	\$350
Capacity available	\$350
Loan payment	<u>\$(120)</u>
Cash excess (shortage)	\$230



17

Collateral



- Collateral is the "Plan B" for the lender
- Fair market value: Most probable price an asset should bring under normal market conditions
- Net recovery value: Amount of money likely to be realized if the asset was foreclosed upon and sold



18

Conditions



- Conditions are terms under which a loan is written
- Term: Keep loan term shorter than the asset's useful life.
- Insurance: You are still required to make payments if accidents happen.
- Financial covenants: Used to help maintain a positive financial picture



19

Some Debt Capital Options



The Farm Credit System (Farm Credit East)

- Farmer-owned cooperative
- Special programs for young, beginning farmers
- Focused on agriculture



Farm Service Agency

- Mainly for farmers not able to obtain financing elsewhere
- Special programs for young, beginning farmers
- Microloan program
- Sometimes offers very low rates
- Sometimes budgets limit lending ability



Commercial Banks

- May have local branch presence
- May provide additional banking services
- Interest in agriculture varies



Non-Profit, or other source

- Sometimes a friend, benefactor, relative, or non-profit
- Generally mission-driven
- Sometimes offer favorable terms & conditions



Seller

- May be advantageous to seller to finance purchase
- Sometimes the only way to make a deal happen

20

Debt vs. Equity Capital



Debt Capital (Loans)

- Largely collateral based
- Usually given after a business has started to show profits
- Lenders often risk-averse

Equity Capital (Investment)

- May have greater risk appetite
- May finance at earlier stage
- Can dilute ownership
- Say hello to your new partner!
- May expect greater returns
- Time-frames may not align



21

Investment or Equity Capital: FarmStart



- A limited partnership of Farm Credit East, Yankee Farm Credit, and CoBank
- Invests up to \$50,000 in new or growing farm businesses
- Participants have 5 years to pay it back or roll it into a conventional loan
- Comes with a FarmStart advisor
- Participants are expected to meet with their advisor several times a year to review progress
- Program is in its 10th year, and over 160 investments have been made



22

Investment or Equity Capital: More Options



- Angel Investors: Mission-driven investors who want to invest in small farms and food enterprises
- “Slow Money” groups
- Friends and relatives
- Crowd sourcing

These Options May:

- Provide financing to entrepreneurs who align with their vision and goals
- May invest in early stages
- Not for everyone, but can be an important source of funds for some



23

More Financing Considerations



- Don't borrow your **last** dollar.
- Look for the lender's **commitment** to agriculture.
- Don't shop on rate **alone**.
- Be **realistic**.



24



Interview: Keith Stechschulte
Branch Manager, Farm Credit East



- Grew up on a farm in Ohio
- Working in farm lending since 1993



25



Interview: Lynn Weaver
Manager, FarmStart



- Grew up on a farm in Pennsylvania
- Working in farm lending since 1980



26

GenerationNext



Management Development for Today's Progressive Businesses

Designed to take your management skills to the next level.

- Ideal for young farmers who have some existing management experience and/or education, and who would like to:
 - Identify areas for personal growth and development
 - Gain tools that you can readily use in business
 - Have the opportunity to network with other young leaders in agriculture
- Three full-day, in-person sessions with a Farm Credit East Consultant
- Offered this fall/winter at selected Farm Credit East offices across the Northeast
- Contact us for more information.



27

Today We Covered



Today We Covered: Funding Your Farm

- Grants
- What a lender looks for
 - The 5 "C's" of Credit
- Financing Sources
 - Equity
 - Debt capital
- Interviews with two Farm Funding Organizations



28

Supporting Organizations:

American Farmland Trust
 Beginning Farmer Network of Massachusetts
 The Carrot Project
 Center for Agricultural Development & Entrepreneurship (CADE)
 Community Involved in Sustaining Agriculture (CISA)
 Community and Regional Development Institute of Cornell University (CaDI)
 Cornell Small Farm Program
 Cornell University Cooperative Extension (CCE)
 Farm Fresh Rhode Island
 Farmer Veteran Coalition
 Glynwood
 Land for Good
 The Last Green Valley
 Maine Farm Bureau
 Massachusetts Farm Bureau
 National Young Farmers Coalition
 The New England Farmers Union
 New Entry Sustainable Farming Project
 New Hampshire Farm Bureau
 New York Farm Bureau
 New York Farm Viability Institute
 New York FarmNet
 Northeast Organic Farming Association of Connecticut (CT NOFA)
 Northeast Organic Farming Association of New Jersey (NOFA-NJ)
 Northeast Organic Farming Association of Rhode Island (NOFA/RI)
 Northeast Sustainable Agriculture Working Group (NESAWG)
 Southeastern Massachusetts Agricultural Partnership (SEMAP)
 Stone Barns Center for Food and Agriculture
 University of Massachusetts Extension



29

Farm Credit East: Future Webinars

The Food Safety Modernization Act

- Thursday, December 3, 2015 12:00 - 1:30 PM
- This session will discuss the FDA's recently released final rules for the Food Safety Modernization Act. This set of regulations will affect most produce growers across the country. Featuring Wesley Kline of Rutgers University.
- Registration and recordings for all our webinars at:
FarmCreditEast.com/webinars
- Questions/Comments: Chris.Laughton@FarmCreditEast.com or
Katelyn.McCulloch@FarmCreditEast.com
- Thank You!



30