



**“Rural Development and Energy Programs: Perspectives for the 2018
Farm Bill”**

Hearing

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Testimony by

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Chairman Roberts, Ranking Member Stabenow, and members of the Committee, thank you for the opportunity to testify here today on rural development issues. Additionally, thank you for having this hearing. These issues are often not at the forefront of Farm Bill discussions, but the programs being discussed here today touch every person living in rural America.

The Kentucky Center for Agriculture and Rural Development (KCARD) has provided technical assistance services for agricultural producers, organizations, cooperatives, and businesses for 16 years in the Commonwealth of Kentucky. Through this work, we see first-hand the conditions facing agricultural producers as they start new businesses, seek to add value to their commodities to capture more of that food dollar, and face significant challenges to their bottom line. Because KCARD speaks “agriculture” and “business”, we help bridge gaps between farmer and lender, and between farmer and buyer. Because we work with all entities along the local food supply chain – from farmer to processor to end users – we have an enhanced understanding of the challenges within the local food continuum.

In Kentucky, this work means that we help businesses developed by agricultural producers at all stages of development. At the conceptual stage, we help them consider the feasibility of their idea, fleshing out the skeleton to help them envision the good and bad of a fully conceived business. Once the business launches, we help with the inevitable hiccups small businesses face as they grow, as they hire their first employee, as they experience management challenges, supply chain challenges, and challenges with family and outside labor. As the business changes, we will be there when questions arise to help with the waves of doubt about new product lines, with the disagreements about which direction the business will take, and with the discussions about how to handle new competitors. Finally, when a business reaches its end, we will do our best to help it wind down with the least amount of impact and meeting its obligations as best it can.

People start these agricultural businesses because the owners seek to improve the chances their farming operation will succeed and will be passed along. Their path to these goals has led them to diversify, to start value-added operations, and to market their products in ways that are new to them.

Since 2001, KCARD has provided assistance to over 1,000 different entities and individuals seeking assistance. Since January 1, 2016, over 380 different businesses or projects have received KCARD help, ranging from farmers markets to meat processors to value-added producers to commercial kitchens.

Demand for KCARD services continues to increase. In 2017, inquiries requesting KCARD assistance are up considerably from two years ago. The average per month increase for the first six months of 2017 over the corresponding month in 2015 was a 104% rise, effectively doubling demand for KCARD services. In June 2017 alone, KCARD staff answered inquiries or provided assistance to 160 different individuals and businesses, an increase of 39% over the prior June.

This work would not be possible without the support of the federal Rural Cooperative Development Grant program. This program – authorized in the Farm Bill – provides support for KCARD to be the resource for the development of cooperatives in Kentucky. Cooperatives serve a unique role in rural areas, bringing together the combined forces of people in those areas toward a common cause.

By forming cooperatives, farmers are able to achieve gains that would be out of reach if they were facing the market alone. In Kentucky, KCARD has worked with many cooperative efforts:

- KCARD worked with an organic feed mill cooperative, helping it organize, developing a business plan and financial projections, and providing advice as the business expands. This cooperative has seen its sales increase dramatically in the past two years.
- KCARD worked with a small sweet potato cooperative formed by five former tobacco farmers looking for a new enterprise to replace tobacco. These farmers jointly market their sweet potatoes to numerous wholesalers in the region.
- KCARD worked with a grain elevator cooperative to examine the feasibility of expanding into different markets and merchandising and processing new commodities.
- KCARD has worked with multiple farmers markets to organize as cooperatives, helping them develop their membership agreements and navigate inevitable disputes.

Currently, KCARD is working with a group of producers seeking to purchase a portion of a large agribusiness that serves them, creating continuity for that agribusiness and its owners and creating a way for the producers to gain a stake in a business directly serving them.

The Rural Cooperative Development Grant Program has delivered results nationwide, as RCDG-funded centers like KCARD have developed over 300 cooperatives and 350 non-cooperative businesses and created or saved over 10,000 jobs in just a documented 8-year timespan. It deserves to be reauthorized in the farm bill and funded at the highest possible level in the annual appropriations bills.

Kentucky is fortunate to bring other resources to bear on the business needs of agricultural producers through the Kentucky Agricultural Development Fund, which provides funds to KCARD and other entities to advance the continued diversification of Kentucky agriculture, providing opportunities for our farmers to seek new enterprises and develop value-added enterprises.

Through the combined resources of RCDG and the Kentucky Agricultural Development Fund, KCARD addresses complicated agricultural business situations every day:

- When a livestock group wanted to come together to add value to their cattle and sell branded product to local retailers, KCARD helped them develop financial projections, conduct market research, and run through scenarios with regard to pricing.
- When a farmers market needed help figuring out how to grow the right way and develop a plan for a new structure, KCARD facilitated the discussion, helping them arrive at a solution without splitting the market.
- When a farm's second generation needed help figuring out whether to continue their direct beef marketing business, KCARD scoured their numbers to figure out if their pricing was where it needed to be to support both households with the farm income.

Through KCARD's work with businesses, we see at the ground level their experiences with various federal grant and loan programs. We see where they work, where they struggle, and where simple improvements could be made that would make the programs more likely to achieve their stated policy goals.

The Value Added Producer Grant (VAPG) program is one program with which KCARD has unique expertise. We have worked with the vast majority of VAPG recipients in Kentucky in the past five years, so we have seen the applications, the recordkeeping required, and the paperwork challenges. To be clear, this grant program reaches producers directly and for that reason alone, it is special. Its eligibility is restricted, so the funds go to producers and producer groups themselves to advance the goal of producers securing a greater percentage of that food dollar.

Because it is administered by USDA Rural Development, the program is able to benefit from Rural Development's staff on the ground in the states who have a deep familiarity with the businesses and develop relationships with those entities and the folks around those entities, such as KCARD, that help the business navigate.

We have seen many federal grant programs, and the application process and the paperwork required for VAPG put the others to shame. That is not necessarily a bad thing, since the business must demonstrate that it is a good investment to the federal government. It accomplishes this through submission of business plans, financial projections, estimates of customer growth, and pricing calculations that show that the business will be more profitable with the completion of the VAPG project.

We have seen amazing things from the VAPG program. One example is a farmstead creamery that markets artisan cheese manufactured from milk produced on the family's dairy farm. KCARD conducted a Business Management and Operations Analysis for the creamery and identified opportunities for improvement within the business operations. As part of our follow-up work, KCARD assisted the creamery develop a new business and marketing plan that included the hiring of a marketing and sales representative and planning for a major expansion, which created 5 new jobs. After the creamery completed its planning for its market expansion, it received a VAPG grant. Since KCARD began working with the family farm, sales have improved by over \$800,000 a year, or approximately 170%, and net income has improved by over 300%. The VAPG grant has helped tremendously with the creamery's growth and improved profitability. The creamery's growth has also improved the sustainability of the family's dairy farm.

Another example is a family-owned business that markets meat products and cheese produced from livestock and produced from its farm and other farms in the region. KCARD assisted the business with conducting a feasibility study and developing a business plan. To help with a market expansion, the business applied for and received a VAPG grant. Annual sales have increased by over \$400,000 since KCARD began assisting the business.

VAPG should be reauthorized and receive consideration for funding in the farm bill. To build on the program's past success, the Committee should consider the following:

- 1.) Business plans and basic financial statements (such as profit/loss statements) should not be optional documents as they are for applications of less than \$50,000. If a business has not thought through the basic financial, marketing, and pricing questions that go into creating these documents, it will be operating with one hand tied behind its back. The idea behind accepting simplified applications is commendable and the application does ask questions that relate to these issues, but removing the requirement for a business plan is not the right choice to simplify. By all means, provide resources to help people know what should be included in those documents and let them submit simple versions of them, but do not make them optional.
- 2.) Planning grants have too long a turnaround for many businesses to make good use of them. If you want to incentivize someone conducting a well thought-out feasibility study before making a large capital investment, consider a rolling application process for those planning grants with approval done on an expedited basis. A business owner will rarely wait for a complete 8-month grant cycle (funding notice, application, application review, award, study completion) for the results of a feasibility study.
- 3.) Maintain producer eligibility restrictions. While it seems counterproductive for me to argue that eligibility should not be expanded to groups including KCARD, if that is done, applications from organizations will crowd out applications from producers.

Nonprofit organizations will have a better understanding of the SR-424 form, the SR-424 A or B, the SAM registration required to submit electronically, and a whole host of other technical issues, along with having development folks on staff to draft proposals. The effect of this will be to reduce VAPG's producer focus unless serious attention is paid to walling off funds with just producer eligibility.

- 4.) As mentioned earlier, Rural Development has executed VAPG with an emphasis toward protecting the government's investment in these projects and with an understanding of the conditions faced by producers on the ground in the regions around their offices. Because they have assets on the ground, they are uniquely suited to run this program.

In addition to the VAPG, we have worked with numerous other USDA grant and loan programs, including other Rural Development programs and the Agricultural Marketing Service grant programs. These programs offer enormous potential benefits for the businesses and organizations with whom we work. However, these entities often struggle with accessing these programs. We have outlined some of our observations below in that regard, which range from fundamental program changes to the mundane, such as how applicants submit their applications.

- 1.) Grants.gov is challenging at best. The grants.gov platform is often difficult for people to navigate and poses even greater challenges for rural areas with spotty broadband services. Programs that allow for paper submission are well-received by the entities with whom we work.
- 2.) Producers are not grant-writers, and programs need to be careful to not advantage a well-written proposal over one that actually has a better chance of succeeding. We have seen applications funded that were less worthy than others simply because the wordsmithing was of a high degree.
- 3.) Performance measures are important, but recognize that performance measures are too often a trap. We maintain data and deliverables on everyone with whom we work, and there is no question that the federal government needs to ensure it is making good investments with these programs. Unfortunately, we have seen numerous instances where isolation of certain program metrics lead to the wrong outcome or the wrong conclusion.

As one example, KCARD measures the success rates of the businesses with whom we work, and we are very proud to note that 86% of businesses with whom we have worked that launched are still in business. However, if we only focused on that one measure, we will not take on the hard cases, we will not take on the ones that are facing the most serious challenges, we will not take on any businesses that look like they might hurt that number. That is not the way we operate, but focusing on that one number incentivizes an organization to do just that.

As another example, KCARD often hears from people within the state that the most valuable work we do is to tell people who are facing a “go/no go” decision, “no go”. We deliver that answer only after a deep dive into the numbers and after considering their individual situation using all of the experience we have with hundreds of businesses. Where does that work show up on a performance metric? Many of our clients think it is the best work we do, but advising a business that they should NOT invest in a project or enterprise does not end up captured in jobs numbers, business starts, or many other metrics we keep.

- 4.) Rural Development (and any other funding agency) can only fund those applications that cross their proverbial desks and that meet the eligibility requirements. As a result, many of our most challenging rural areas, including the persistent poverty counties in Appalachia, often struggle with the competitive grant programs. Organizations like KCARD provide a valuable service in getting the word out about these programs, helping them navigate the process, and reducing the intimidation resulting from someone’s first encounter with the SF-424 form.

Despite my strong passion for these Rural Development programs and KCARD’s considerable experience with them, I hesitated agreeing to testify this week. Right now, we are dealing with many businesses in crisis. We have QuickBooks files that we are poring through to figure out how a loan can be restructured in hopes of saving a family operation. We have new inquiries from producers facing tough economic conditions and wondering if now is the time to pull the trigger on enterprises that they have considered to add value, diversify, and create new markets.

These are real problems faced by real farm families in Kentucky. Our work with these individuals and their families helps them navigate really tough situations to come out the other side to continue to operate, to continue to provide jobs in rural areas, and to continue to allow future generations on-farm opportunities. While we work closely with other entities, this particular work focused on agricultural and rural businesses is not duplicated by any other agency or program. When individuals find us, they often exhale for the first time in a long time, finally feeling like they have someone they can go to for the questions that they are facing and to provide honest feedback and options to the financial situations that they are facing.

KCARD Client Feedback:

“I already have ideas about what I want to look at next year. My perspective has changed with regards to new projects that I am approached with or new endeavors that I am considering.”

Farmer with value-added cheese business after completing her business plan

"I can't tell you how many times that I have turned to KCARD to review numbers on a project to make sure it makes sense. I know when I turn to KCARD they give a real evaluation with realistic expectations that I can trust as we move forward with our business plan."

Farmer with value-added cheese business

"KCARD provides excellent educational and technical resources that significantly contribute to the economic development of rural Kentucky. Having this kind of support allows us to devote more time to growing our food, developing partnerships in our community and building our customer base."

Farmer speaking on behalf of the farmers market we assisted

"Our sales are up year to date over 90%. I feel this is mainly a result of our increased marketing efforts and our remodeled store layout, both of which KCARD recommended and helped us implement."

Orchard owner with on-site farm store

Rural development programs respond to a need driven by the notion that economies of scale are harder to achieve in rural areas, that services are harder to provide because of that, and that people living in these rural areas deserve the same access to services and opportunity as those living in metro areas. The programs are tailored to "rural" and are implemented by people who understand why the programs exist, which is not to serve as rural counterparts to other urban programs, but specifically designed to address challenges faced by rural areas due to their rurality.

Rural Development programs delivered \$1.1 billion in grant and loan funds to Kentucky's rural areas in 2016 alone. These funds are flowing to business, infrastructure, housing, and community facility projects that start from the ground up at the local level. Because these projects grow in this way, they respond to the local needs that the rural communities and individuals in those rural areas see.

KCARD staff works with farmers and rural businesses every day to help them survive and thrive. I live in a rural area on a rural water system, I use rural broadband provided by a rural telecom cooperative to do my work, I buy my electricity from a rural cooperative, and I can say unequivocally that these programs are critical to the health of our rural areas. If we want our rural areas to be strong, we have to support all of these programs working together to deliver needed infrastructure, foster job creation, and provide a high quality of life for our rural citizens.

Thank you so much for the opportunity to testify, and I look forward to your questions.