Financing Food Enterprises & Cooperative Businesses

– USDA WEBINAR SERIES –

USDA Rural Development
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Welcome!

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Financing Food Enterprises and Co-ops:

- Role of USDA and Rural Development
- Stages of business development and capital stacking
- Financing food enterprises - Examples
- Financing tools for cooperative businesses
- Raising capital while keeping member-owners in control
Website: One-stop shop for financial and technical assistance resources from USDA to grow your local food enterprise

[www.usda.gov/knowyourfarmer](http://www.usda.gov/knowyourfarmer)

Mapping Tool: See what’s funded in your community and learn how others are using USDA programs

[www.usda.gov/kyfcompass](http://www.usda.gov/kyfcompass)
Professional staff conduct research and provide educational trainings, technical assistance, and grant support to co-ops across the country.
Library of Co-op Publications

www.rd.usda.gov/publications/publications-cooperatives

Extensive library of over 150 publications, including *Rural Cooperatives* magazine, and many “how to” guides like:
Food Hub Technical Report Series

- Running a Food Hub: Lessons Learned from the Field
- Running a Food Hub: Business Operations Guide
- Running a Food Hub: Assessing Financial Viability

Electronic copies of these publications can be downloaded at [www.rd.usda.gov/publications/publications-cooperatives](http://www.rd.usda.gov/publications/publications-cooperatives)

-- Hard copies also available for free upon request --
Rural Development and Food Systems

Local & Regional Food Systems Resources


Includes publications, webinars, online trainings, initiatives, blogs, and other food systems resources

Co-op Webinars

http://www.rd.usda.gov/programs-services/all-programs/cooperative-programs#coopwebinar

www.rd.usda.gov
Online Training Opportunity!

Online Training on Assessing and Financing Regional Food Enterprises

Learn how to use Wholesome Wave’s Food Hub Business Assessment Toolkit through a case-based interactive training.

Access the food financing training here:

Financing Food Enterprises
Local Food Enterprise Activities

First-mile aggregation
Last-mile distribution
Processing (Preservation)
Processing (Convenience)
Retail or diversified markets

*Graphics designed by Samantha Bertini, courtesy of Wholesome Wave*
III. Stages of Emerging/Growth Company Capital Sources

Source: Oregon Capital Scan: A Line is Drawn. University of Oregon’s Business Innovation Institute, June 2014.
Support along the Supply Chain

- Seasonal High Tunnel initiative (hoop houses)
- Farm loans, microloans and Farm Storage Facility Loans
- Regional food hubs and other local food infrastructure
- Marketing and retail opportunities (farmers markets, mobile markets)

www.usda.gov/knowyourfarmer
USDA PROGRAMS IN THE LOCAL FOOD SUPPLY CHAIN

USDA is committed to supporting robust regional food economies across the food chain through the programs noted below.

**LAND CONSERVATION**
- Agricultural Conservation Easement Program
- Conservation Reserve Program
- Conservation Stewardship Program
- Environmental Quality Incentives Program

**PRODUCTION**
- Environmental Quality Incentives Program
- Farm Microloans
- Farm Storage Facility Loans
- Grass-fed Verification
- NAP
- Organic Cost Share
- Rural Energy for America Program
- Whole Farm Revenue Protection

**PROCESSING**
- Business and Industry Guaranteed Loans
- Community Facilities Loans and Grants
- Local Food Promotion Program
- Rural Business Development Grants
- Value-Added Producer Grants

**AGGREGATION/DISTRIBUTION**
- Business and Industry Guaranteed Loans
- Community Facilities Loans and Grants
- Local Food Promotion Program
- Rural Business Development Grants
- Specialty Crop Block Grants

**MARKETS/CONSUMERS**
- Community Food Projects Competitive Grants
- Farmers Market Promotion Program
- Farm to School Program
- Senior Farmers’ Market Nutrition Program
- Specialty Crop Block Grants
- WIC Farmers’ Market Nutrition Program

**Research, Education, and Technical Assistance Programs Along the Supply Chain:**

- Agriculture and Food Research Initiative
- Beginning Farmer and Rancher Development Program
- Conservation Technical Assistance
- Federal State Marketing Improvement Program
- Risk Management Education Program
- Rural Cooperative Development Grants
- Small Business Innovation Research
- Specialty Crop Block Grants
- Specialty Crop Research Initiative
- Sustainable Agriculture Research and Education Program

**Color Key**

- Agricultural Marketing Service
- Farm Service Agency
- Food and Nutrition Service
- National Institute of Food and Agriculture
- Natural Resources Conservation Service
- Rural Development
- Risk Management Agency

[www.usda.gov/knowyourfarmer](http://www.usda.gov/knowyourfarmer)
Stage of Business Development
- USDA Grants for Food Enterprises -

Planning
- Rural Business Enterprise Grants
- Local Food Promotion Program
- Specialty Crop Block Grants
- Value-Added Producer Grants

Implementation
- Rural Business Enterprise Grants
- Local Food Promotion Program
- Specialty Crop Block Grants
- Value-Added Producer Grants
- Farm to School Grants
- Community Food Projects Competitive Grants

Growth
- Local Food Promotion Program
- Specialty Crop Block Grants
- Value-Added Producer Grants
- Business and Industry Guaranteed Loans
- Community Facilities Loans and Grants
GrowNYC - Nonprofit with 35 years of experience helping family farms and ensuring a supply of fresh, healthy produce for all New Yorkers

**Programs**

- **Greenmarket** – 54 farmers markets, with 220 participating producers
- **Youthmarkets** – 16 teen run farm stands, created over 70 youth jobs
- **Wholesale Farmers Market** – $2 million in annual sales
- **Fresh Food Box** – 22 locations. Use SNAP and nutrition incentives to purchase $12 box valued between $20-30 retail price
- **Fresh Pantry** – over 1 million lbs donated annually from Greenmarkets

**Greenmarket Co.** – GrowNYC established a **food hub in 2012** serving NYC food retailers, institutional buyers, and GrowNYC programs
Food Enterprise Financing

–GREENMARKET CO. Start-up to Growth Stage–

Greenmarket Wholesale

Following local food at every step in the food system...

From the Greenhouse

To the Field

Hand Picked

Fresh Packed

Locally Aggregated

Personal Delivery with Merchandising Support

Orders Processed to Meet Client Demands

Successful food system operators are involved at all stages of a regional food system. This engagement allows unprecedented support to local farms and New York City buyers in the form of access to markets, innovative partnerships, merchandising assistance, food access, and consumer education.
Snapshot of Greenmarket Co.

- Established 2012
- 16 employees earning living-wage and works with 60+ producers
- 300+ customers - grocery stores, restaurants, senior centers, childcare centers and GrowNYC Youth Markets and Food Box program
- Over 60% of sales to date have been to buyers serving low- to mid-income consumers

Infrastructure

- City Harvest – initially utilized excess storage capacity at food relief organization’s warehouse.
- 2014 moved to their own 5,000 sq. ft. warehouse
- And the future... NY State Greenmarket Regional Food Hub - $15 million investment in a 75K sq. ft. facility at Hunt’s Point.
Some of the Funding Streams

- **Planning stage**: USDA Farmers Market Promotion Program (FMPP) and USDA Healthy Urban Food Enterprise Development (HUFED) Program

- **Implementation stage**: Doris Duke Charitable Foundation, Deutsche Bank Americas Foundation, New World Foundation

- **Beginning expansion**: City of NY grant – truck purchase; USDA Local Food Promotion Program (LFPP) – for working capital, marketing and sales.

- **Growth stage**: State of NY investment - $15M for Hunt’s Point Food Hub Facility. Greenmarket Co. to utilize 20K sq. ft. of facility
Wisconsin Food Hub Cooperative
– Financing Example –

Business Snapshot

- Incorporated 2012 – officially started business April 2013
- 39 producer members, and several business “associates” with value-added products
- $2.6 million gross annual sales for 2016 (projected) $2,600,000 projected sales
- Sells over 60 different fresh vegetables, both conventional and organic, mainly to retail grocery

*The Food Hub lets us concentrate on what we do best, grow vegetables. The Co-op does the sales and logistics, billing and marketing. This is great, leave that to the co-op staff and let me get out in the field!*

Steve Hoekstra, Hoekstra’s Sweet Corn
Fox Lake, WI
Wisconsin Food Hub Cooperative
– Financing Example –

Total Co-op Sales Growth

- **2013** 11 farmer members with $400,000 in sales
- **2014** 32 farmer members with $900,000 in sales
- **2015** 37 farmer members with $1,770,000 in sales
- **2016** 39+ farmer members with $2,600,000 projected sales

Examples of Co-op Member’s Sales Growth

**Farm A:** Conventional
- 2013: $22,000
- 2014: $125,000
- 2015: $358,000

**Farm B:** Organic
- 2013: $9,400
- 2014: $158,000
- 2015: $315,000
Financing WI Food Hub Cooperative
– Snapshot at Start-up/Early Growth–

Planning (2010-11)

- **Feasibility Study** – HUD Sustainable Communities Planning ($75,000)
- **Technical Assistance** – WI RD Cooperative Development Specialist

Implementation (2012-2013)

- **Business Launch Equity** from co-op members
- **Working Capital** – VAPG ($150,000) - match by WI Farmers Union (WFU)
- **Line of Credit** from Forward Community Investment. (WFU acting as a guarantor on the line of credit)

Early Growth (2014)

- **Market Expansion**: Local Food Promotion Program ($100,000)
- **Line of Credit** and loan from CoBank (WFU acting as guarantor on loan)
If you organize your local food enterprise as a co-op

There are financing options that honor co-op principles and values
What is a Co-op?

A cooperative is a business owned and democratically controlled by the people who use its services

• Member - owner
• Member - control
• Member - benefits
Various types of co-ops
Defined by who owns the organization

- Consumer Co-ops
- Producer Co-ops
- Shared Services Co-ops
- Worker Co-ops
- Multi-stakeholder Co-ops
Seven Co-op Principles

- Voluntary & open membership
- **Democratic member control**
- Member economic participation
- **Autonomy & independence**
- Education, training, information
- Cooperation among co-ops
- Concern for community

*Inspired by the Rochdale Pioneers, updated in 1995 by the International Cooperative Alliance*
Values

Cooperative Values
• Self-help
• Self-responsibility
• Democracy
• Equality
• Equity
• Solidarity

Ethical Values
• Honesty
• Openness
• Social responsibility
• Caring for others

*Inspired by the Rochdale Pioneers, updated in 1995 by the International Cooperative Alliance*
Capitalization while remaining true to co-op principles and values

Desire for democratic member control (principle #2) + autonomy and independence (principle #4) means that co-ops value member economic participation (principle #3)
Funding a Co-op

- Membership equity
- Transaction fees
- Equity drive
  - Preferred stock
  - Direct public offering
- Subsidized loans
  - Loans from members
- Commercial rate loan
- Grants

Most co-ops use a combination of funding sources
Membership Equity

• Membership equity
  • Initial (used in every co-op)
    • Called: common stock, membership stock, or voting stock
    • Payable in full or in installments
      • Hourly withholding (in worker co-ops)
      • Individual loans for member equity requirement (i.e. housing co-op)
  • Annual or ongoing (in some cases)

• Avoid calling this a “fee”
  • Fee implies revenue to the co-op, not equity
  • Fee has tax implications

• How much?
  • Least complicated – determine capital needs, then divide among members
  • Realistically – what is a reasonable amount for the membership
Transaction Fees

• “Per unit retains”
• Common in producer co-ops
  • In ag marketing co-ops: i.e. 5% surcharge on each item sold
  • In artist gallery co-ops: i.e. 20% surcharge on each art piece sold
Equity drive options

Preferred stock and direct public offerings

Invest with us

Organic Valley Cooperative
Raising Equity

- Preferred stock, direct public offerings, some member loans are equity
  - Count as an asset on the balance sheet
  - May increase willingness of lender to make a loan

- All types of co-ops raise equity
  - Consumer – Natural food co-ops
  - Producer – Organic Valley
  - Worker – Equal Exchange
  - Multi-stakeholder – Wisconsin Food Hub Co-op, Fifth Season Co-op
Preferred Stock Observations

• “Redemption of preferred stock is at the discretion of the board of directors”
  • Co-op board annually assesses co-op’s finances
    • Good years – pay preferred stock in cash
    • Lean years – pay in additional stock (with compounded interest)
  • Be clear about potential risk
    • “looking for at least a 5 year investment”
    • Delicate balance on early redemption by stockholder
      • Don’t harm the co-op
      • But investor is a friend of the co-op and may be in need
  • Co-op may buy back preferred stock from investors
    • Essentially is paying off the community loan

• Very limited voting rights for preferred stockholders
  • Only for merger, acquisition, dissolution, consolidation, division
  • Only one vote on specific issue, regardless of investment
Preferred Stock Basics

• Co-ops may offer up to 8% return (state, IRS code)
  • Going rate at 4%-5%
  • Better rate than CD (for stockholder)
  • Better rate than loan (for the co-op)

• Declare a “series”
  • For major infusions of capital
    • Initial start-up, equipment purchase, expansion
  • Set rules and rates for that series

• Work with experienced co-op accountant
  • By 1/31 - send 1099 DIV to investors
  • Investors - do not file taxes until receiving 1099DIV

• Work with experienced co-op attorney

Members of Groundbreakers Co-op
LaRue County, Kentucky
Two Options in Offering Preferred Stock

- SEC Exempt - In some states, co-ops may make a private offering without filing with Securities & Exchange Commission (SEC)
  - Assumed transparency and good communication
  - Offer to members, local community
  - Offer only to residents of your state
  - Don’t advertise
  - States offering this option – Wisconsin, Minnesota
    - Can incorporate in these states and operate in another state

- File with SEC - to make a wide, public offering
  - Allows investment across state borders
  - Can advertise
  - Costly to file with SEC – makes sense if need to raise substantial capital
Direct Public Offering

- Can sell shares publicly
  - Individuals, customers, suppliers, other co-ops
- Can advertise
- Non-voting preferred stock
  - Way for co-op to maintain control
- File with the SEC
  - Substantial legal, accounting, other fees
  - Cutting Edge Capital
    - www.cuttingedgecapital.com
- Real Pickles case study
  - Conversion of existing business to worker co-op
    - www.buylocalfood.org/real-pickles-financing-case-study

Worker-owners Annie Winkler, Rebecca Lay, and Brendan Flannelly-King load cucumbers into the walk-in cooler – Real Pickles, Greenfield, MA
Subsidized Loans

• Loans from members or community supporters

• Member loans could be treated as equity if
  • term, interest rate, and subordination to senior lenders
  • board can suspend payment if co-op isn’t profitable

• Loans from local, state, federal government
  • Debt (even at a reduced interest rate) is a liability
  • Debt must be paid back prior to equity

Sally Cutler, founding member
Auburndale Food Co-op, WI
Commercial Rate Loans

Obviously, debt is a liability for the co-op
Grants

• Co-ops are businesses
  • Grants have a cost
  • Avoid grant dependence

• When is it appropriate to rely on grants?
  • Early stage development
  • One time special initiatives
    • i.e. VAPG to enter a new market
  • Education activity

Vang Thao, member of the Hmong American Farmers Association (HAFA) Farm
Hastings, MN
Thank You!

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