



THE DEPUTY SECRETARY OF AGRICULTURE
WASHINGTON, D.C.
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Date: August 26, 2009
From: USDA Deputy Secretary Kathleen A. Merrigan
Subject: **Harnessing USDA Rural Development programs to support local and regional food systems**

I suspect that many USDA programs are under-utilized by those seeking to build local and regional food systems. I would like to play the role of match-maker during this Administration. By this I mean I will work to help USDA program administrators understand how our programs may better serve your efforts to build local and regional food systems as well as highlight for you USDA programs that present great opportunity for the work that you do.

As a start, this memorandum highlights three such programs within our Rural Development mission area:

- (1) Community Facilities Program;
- (2) Business and Industry Guaranteed Loan Program; and
- (3) Value-Added Producer Grant Program

Please share this information with your colleagues. Thank you for all you do to help people eat fresh, healthy, and delicious local food.

Community Facilities Program

Imagine an NGO receiving USDA grant money to construct a community kitchen where farmers drop off produce and families join cooking classes that teach about healthy eating while everyone prepares fresh nutritious meals to bring home...Imagine a community using USDA money to construct an open-sided structure to house a farmers market...Imagine a school using USDA loan money to set up cold storage as part of a larger effort to retrofit the school cafeteria to buy produce directly from farmers and return cooking capacity for school lunch...Imagine...

The Community Facilities (CF) Program supports the success of rural communities by providing loans and grants for the construction, acquisition, or renovation of community facilities or for the purchase of equipment for community projects.

Among other things, these facilities can improve access to high-quality and affordable local foods and provide opportunities for local foods producers in those communities to develop and grow their businesses.

This year, the American Recovery and Reinvestment Act (AARA) added funds to the program. As of August 26, 2009, over \$930 million in Recovery Act loan funds and over \$31 million in Recovery Act grant funds for CF were still available. The Recovery Act money is being awarded on a project-by-project basis and must be spent by August 31, 2010. The additional funds available for CF through the Recovery Act present a great opportunity for non-profit organizations and cooperatives involved with local foods to obtain equipment or facilities that will support their work and benefit their communities.

Who is eligible to apply for CF loans and grants?

Local governments, non-profit organizations, and Federally-recognized Indian tribes are all eligible to apply for funds to finance “essential community facilities.” Applications must be for projects in rural areas (defined as areas with no more than 20,000 residents). This is not to say that CF projects do not relate to needs in urban areas. For example, rural producers could use a CF loan or grant to help them distribute products to urban consumers.

What is a Community Facility? How does this program relate to agriculture?

The uses of CF funds are limited principally by the requirement that the project be for the benefit of the community as a whole rather than for a private, commercial purpose. To help ensure that a facility under the control of a non-profit organization will carry out a public purpose and continue to serve rural communities, USDA looks for strong ties between the organization and the rural area in which it is located. Such ties might be evidenced by a local membership base or funding from the local government or community.

The CF Program finances many types of facilities and equipment that facilitate production, distribution, and marketing of local foods. Projects that support local and regional food systems that may qualify for CF funding include, but are not limited to, the following:

- Farmers markets
- Community kitchens and food processing centers
- Facilities and equipment used by not-for-profit food distribution networks
- Cooking schools
- Community food banks

What are the Loan and Grant Amounts?

Loan amounts vary widely depending on the project, but the average CF direct loan in FY 2008 was \$665,229. Grants, which are available for projects in communities with smaller populations and lower median household incomes, are usually highly leveraged with other loan and grant awards.

How do I Apply?

All applications for CF projects are filed and processed in either the state or local USDA Rural Development Office for the project location. Contact your State Office either by telephone or through our web site to obtain more information on how to proceed with your loan or grant request. The locations and contact information for State and Local Offices can be found at http://www.rurdev.usda.gov/recd_map.html. For more detailed information about eligibility, loan rates and terms, and security requirements, you can also visit our website at <http://www.rurdev.usda.gov/rhs/cf/cp.htm>

The Business and Industry (B&I) Guarantee Loan Program

Imagine a business is formed, using USDA loan money, to aggregate local farm products so that the volume is sufficient to serve a large school system...Imagine USDA financing a mobile slaughterhouse that supports local free-range poultry growers...Imagine a food processor adding a second line of equipment and storage facilities to handle certified organic food products to meet local demand...Imagine...

The purpose of the B&I program is to help new and existing businesses in rural areas gain access to affordable capital. By issuing a guarantee to a private lender, USDA essentially co-signs the loan to a business owner, promising to pay a portion of any loss that might result in case the business owner is unable to repay the loan. Having the guarantee lowers the lender's risk, and allows more favorable interest rates and other terms to be offered.

The 2008 Farm Bill placed a special emphasis on supporting locally and regionally produced agricultural food products through a set-aside within the B&I loan program for initiatives that establish and facilitate the processing, distribution, aggregation, storing, and marketing of locally or regionally produced food products. Through FY 2012, the U.S. Department of Agriculture will reserve (until April 1 of each year) at least 5 percent of the funds made available to the program for initiatives to support local and regional agriculture. This is likely to yield over \$100 million in available loan guarantee program levels in FY 2010, making the B&I Loan Guarantee Program a wonderful resource for farmers, processors, wholesalers, retailers, and vendors. Even

after April 1, when reserved funds are added back to the total funding available for all eligible B&I purposes, applications for projects involving local food infrastructure will be welcome.

Who is eligible to receive B & I Guaranteed Loans?

- It is important to distinguish loan guarantees from loans received directly from USDA. The recipient of a loan guarantee is a private lender, making a loan in an eligible rural area to any of the following business owners: cooperatives, non-profit organizations, corporations, partnerships, or other legal entities; Indian tribes on a Federal or State reservation or other federally recognized tribal groups; public bodies; or individuals.
- Priority will be given to projects that have components benefiting underserved communities. An underserved community (urban, rural, or Indian tribe) is one with limited access to affordable, healthy foods, including fresh fruits and vegetables, in grocery retail stores or farmer-to-consumer direct markets, as well as a high rate of hunger, food insecurity, or poverty.
- While urban areas can be the beneficiaries of a project, the project itself must be located in an eligible rural area. An eligible rural area is any area except a city or town where the population exceeds 50,000 or any urbanized area contiguous or adjacent to a city or town of greater than 50,000.

How is “locally and regionally produced agricultural food products” defined under B&I?

- Any agricultural food product that is raised, produced, and distributed in the locality or region in which the final product is marketed is considered a “locally or regionally produced agricultural food product”. The total distance that the product can be transported is up to 400 miles from its origin, or in the State in which it is produced.
- Food products are raw, cooked, or processed edible substances, beverages, or ingredients used or intended for use or for sale in whole or in part for human consumption.
- Recipients of loans or loan guarantees must have an agreement with the facility to which they sell their locally and regionally produced products. The agreement will require retail or institutional facilities to inform customers that they are purchasing or consuming locally or regionally produced agricultural food products.

How May Funds May be Used?

Loans can be used for a wide variety of business-related activities, including:

- Business conversion, enlargement, repair, modernization, or development.
- Purchase and development of land, easements, rights-of-way, buildings, or facilities.
- Purchase of equipment, leasehold improvements, machinery, supplies, or inventory.
- Working capital and debt refinancing.

What do Lenders Need to Know?

The maximum loan guarantee is 80 percent for loans of \$5 million or less, 70 percent for loans between \$5 million and \$10 million, and 60 percent for loans exceeding \$10 million. Generally loans to a single borrower are capped at \$10 million, though several exceptions apply.

What are the Loan Terms?

The maximum repayment period for loans on real estate is 30 years; machinery and equipment repayment will not exceed the useful life of the machinery and equipment purchased with loan funds or 15 years, whichever is less; and working capital repayment will not exceed 7 years.

What are the Interest Rates?

The interest rate for the guaranteed loan will be negotiated between the lender and the applicant and may be either fixed or variable as long as it is a legal rate. Interest rates are subject to Agency review and approval.

Where and when can lenders apply?

For general information on the B&I Guaranteed Loan Program, visit:

http://www.rurdev.usda.gov/rbs/busp/b&i_gar.htm. Lenders interested in participating in the B&I Loan Guarantee program should contact their USDA Rural Development State Office to receive approval as a participating lender. Participating lenders should send complete applications to the USDA Rural Development State Office for the project location. A list of offices and additional information can be obtained at http://www.rurdev.usda.gov/recd_map.html. Applications are considered on a rolling basis and should be submitted as soon as the proposal is complete.

Value-Added Producer Grant Program

Imagine an organic cooperative receiving a grant to conduct a feasibility study and develop a marketing plan to provide Vermont-grown fruits and vegetable to local schools...Imagine a Wisconsin farmer receiving a grant to help direct market pasture-raised lamb to restaurants and stores...imagine a sixth generation New York sustainable dairy farm receiving a grant to help plan and execute a marketing campaign for their premium ice cream...Imagine...

The Value-Added Producer Grant (VAPG) Program provides grant funding for agricultural producers who add value to their raw products through processing and/or marketing, thereby increasing farm income. With the 2008 Farm Bill language, producers of food that is marketed as locally-produced are eligible for the VAPG Program.

VAPG grants support planning activities like business plan development and working capital expenses, such as website development and additional staff, to assist producers in receiving a greater share of the consumer's dollar for value-added agricultural products.

Through FY 2012, the Agency will reserve 10 percent of the funds made available until June 30 of each year to fund applications of eligible entities that propose to develop "mid-tier value chains." Mid-tier value chains are local and regional supply networks that connect producers to markets in a way that strengthens competitiveness and profitability of small- and medium-sized farms. Additionally, 10 percent of the funds made available to the programs until June 30 of each

year will be targeted to fund projects that benefit beginning farmers and ranchers and socially disadvantaged farmers and ranchers.

At this date, we are still waiting for the Notice of Fund Availability (NOFA) for 2009 to be published in the Federal Register. We expect that will occur within the next month so keep checking our website: <http://www.rurdev.usda.gov/rbs/coops/vadg.htm>

Who is eligible?

Eligible applicants are:

- Independent Producers
- Farmer or Rancher Cooperatives
- Agricultural Producer Group
- Majority-Controlled Producer-Based Business Ventures

What types of products are considered eligible?

To be eligible, a value-added product must meet one of the following:

- Locally-produced agricultural food product
- Change in physical state
- Produced in a manner that enhances value - must reference a business plan
- Physical segregation
- Agricultural commodity that is a source of renewable energy

What are the eligible purposes?

- Planning Activities (e.g. feasibility study, business plan, marketing plan)
- Working Capital (e.g. labor, inventory, advertising)

How much are the grants for?

- Planning Activities – Maximum of \$100,000
- Working Capital - Maximum of \$300,000

What is the term of the grant?

- Applications can be up to 36 months and scaled to complexity.
- For projects longer than 1 year, applicants must identify unique tasks for the first and subsequent years.

Are there any priorities in the program?

- 10 percent of available funds are reserved for beginning and socially disadvantaged farmers or ranchers.
- An additional 10 percent of available funds are reserved for projects that propose to develop local and/or regional supply networks linking independent producers with businesses and cooperatives that market agricultural products in a manner that targets and strengthens the profitability of small and medium-sized farms and ranches.
- Priority will be given to applications for small to medium-sized farms structured as family farms.

Where Should Applications be Filed?

- Complete applications should be sent to the USDA Rural Development State Office for the project location. A list of offices and additional information can be obtained at http://www.rurdev.usda.gov/reed_map.html. Electronic applications must be submitted via www.grants.gov. Additional program information is found at <http://www.rurdev.usda.gov/rbs/coops/vadg.htm>