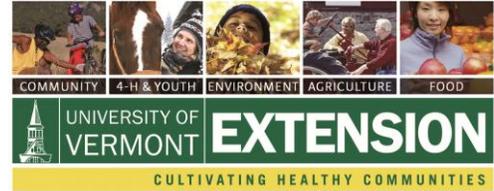


Across the Fence
University of Vermont Extension
106 High Point Center, Suite 300
Colchester, Vermont 05446-8800
802-656-5059 or 888-283-3430
www.uvm.edu/extension/atfblog/



TRANSCRIPT

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EPISODE NAME: Financing Community Supported Agriculture

Today on *Across the Fence* we look at how UVM Extension is helping farmers bring home the bacon by finding alternatives to traditional farm financing. Good afternoon and thanks for joining us I'm Judy Simpson. It used to be that banks loans from friends or family or an inheritance were the only ways to establish a farm business. For a new generation of beginning farmers these conventional methods are not always easy to come by. In an effort to support these agricultural entrepreneurs the University of Vermont Extension's Center for Sustainable Agriculture has produced a guide to financing the community supported farm. To talk about the details of the guide I'm joined by UVM Extension's Ben Waterman and Kristina Michelsen an Attorney at law in Hardwick who specializes in a wide range of general and civil matters. Welcome to both of you. Ben how this guide come about? Because it's pretty comprehensive there's a lot of information in here. Where did it all begin?

Ben.: Thanks Judy. The guide is been in the works for several years now and the idea for creating it came about from talking with farmers who in general were finding trouble accessing financing from traditional sources. This is a very common problem especially for new farmers starting out. For whatever reason it might be perhaps they might have a lack of credit history they might lack good credit scores they might not have collateral to back the loan for whatever reason it might be they are having trouble accessing financing. As a result they look to alternatives and as with anything unconventional it's the same for financing. The unconventional financing mechanisms are a lot less known. The legal and tax implications of crafting unconventional financial agreements are not so well known. So we decided to dig deeper. We put together a team of experts including accountants attorneys farm business management specialists, agricultural service providers to dig deeper into the issues and address the many questions that farmers are having about what the best ways to craft unconventional financial arrangements are.

Judy.: So what is community financing and how can it be used?

Ben.: Community financing is simply where a farmer or any small business for that matter reaches out to community members for financial support. A community we can keep in mind can be geographically based they can be any one that resides in a town or village or state. Or it can be a group of like-minded individuals such as a church a singing group or any community based organization or even an Internet forum. In community financing typically for farms it's a matter of reaching out to individuals. These individuals can be neighbors they can be friends or family or they can even be a loyal customer. For example if a loyal customer visits a farm stand regularly the farmer could look to that loyal customer as a potential source of financing. For example a customer could extend a five or \$10,000 loan to the farmer to enable him or her to expand their operation. The benefits of engaging community financing are primarily for the community member to be able to support an operation they'd like to see stay and thrive within their community. That in essence is just community financing.

Judy.: So Christina what type of legal issues are involved?

Kristina.: The main legal issue that farmers and other small businesses need to be aware of when seeking financing in a community is a security law. There are federal and state security laws that are designed to protect investors from potentially fraudulent hucksters who are raising money. They're very serious and violating securities rules has some very serious consequences so it is important to know what they are and talk to somebody with the kinds of fund raising you want to do and figure out a way to comply with security rules. There are a number of exemptions. The state has exemptions from certain owner requirements the Feds have exemptions from certain owner requirements so there are ways to reduce the amount of work you need to do to comply with securities but they are complex.

Judy.: That's probably why an attorney is a good idea when you're trying to facilitate these kinds of arrangements.

Kristina.: I think so because the risks are great the consequences are great if you run afoul of security rules sometimes you can call the state and will be very helpful to make sure you don't do something wrong with and if you do do something wrong they can sometimes correct it. But it is a good idea to have a plan and to know that you're fitting in with an exemption and that you are providing the right kind of information so you're not vulnerable to liability.

Judy.: So you need to do your research as you said have a plan a business plan and actually know who it is you're going to be contacting for financial help.

Kristina.: You should have an idea in your business plan you should know what kind of money you're looking for what are your other sources of funding? It has wonderful advantages for connecting community members. It's not going to be your only source of money but have an idea of where you might look in your community. Do you have loyal customers as it's been talked about. They're probably your best source. Do you have friends or other people that you know who want your farm to succeed? Have an idea before heading off to the attorney.

Judy.: In the Internet age community means more than just your neighbors down the street. Vermont farmers are finding financiers both far and near. *Across the Fence*'s Keith Silva visited a farm where supporting local agriculture can provide a real kick start.

Walter Jeffries VO: You're surrounded by about 300 pigs.

Sugar Mountain Farm is a porcine paradise. When these pigs aren't lolling in the sun or being too cute for their own good ... they dine on dairy and graze across seventy acres of pasture-land in West Topsham ... and yet, this hog heaven could still stand some improvement.

Walter Jeffries//Sugar Mountain Farm

"Just raising the pigs isn't good enough; I've got to sell them. And until you've got the meat, you're not going to pay for it and I need that money to pay the mortgage and all those good things so getting the pork to your fork is the key."

Once a week Jeffries wife, Holly, gets up at 2 AM and drives a load of animals to the farm's butcher ... in Massachusetts. Switching butchers is a tricky business and it can take months or even years to get onto a schedule at a slaughter facility.

Jeffries: "We worked with five different butchers, six different butchers and there were issues with some of them not doing things right. There was one couple that retired. There was another one who announced he was going to retire and at the same time we found out that our backup butcher was planning to retire. And the combination of all that made me realize I really had to build our own

facility. And that was back in April of 2008. And I spent a year meeting with the USDA and the Vermont Department of Agriculture, learning the regulations, getting trained in what the necessary safety things are that was the first year and by the end of that year I had all that and I got all my permits by June of 2009. And after that we tore down our old hay shed and began building.”

Jeffries had about thirty thousand dollars for a project that he estimated would cost him one hundred and fifty thousand ... so off he went to find financing.

Jeffries: “Banks which normally were a good source of funds, getting a loan, paying it back, done that for decades, but the money had dried up this was the beginning of the economic downturn. And banks said we’re not lending to new or expanding businesses. I looked into loans from the USDA and other agencies in Vermont and basically it was, you’re not big enough, your project’s not big enough, if you wanted a million dollars we could do it, but we can’t do a little project like yours. There were also some very small project loans, but those weren’t enough so we were sort of caught in the middle.”

Every pig that went to market allowed Jeffries to save a little more, to buy another bag of concrete, customers made pre-buys, or donated money, but it was still slow going. Jeffries then hit on an idea that could ‘kick start’ his project into completion.

Kickstarter.com is a crowd-source funding website. Projects range from books to movies to – as it turns out – a USDA-approved on-farm processing facility. Each project has a deadline and projects that don’t meet their goal are not funded. Creators allow for different levels of funding and often offer incentives.

Jeffries: “We actually went for twenty-five thousand dollars, however, we got thirty-three thousand and the first twenty-five of that will go towards finishing off the initial meat cutting section of the building the inspectors office, the bathroom, the laundry so making it so we can actually do meat cutting here and do sausage making. The next eight-thousand dollars that we got from the kick starter project will go into finishing off the slaughter facility and we need to get some more money for that, but we’re on line to continue doing that so by fall or winter we’re hoping my wife will no longer have to get up at 2 AM and drive pigs all the way down to Massachusetts. About four thousand dollars came from people who asked for nothing in return they just wanted to be part of creating something. And that that was extremely generous, the rest of it is people who are essentially doing a pre-buy when the butcher shop is up and going they will receive meat, everything from 3 pounds all the way up to 140 pounds different size packages. And so like somebody who pledged \$900 dollars is getting 140 pounds in 4 separate shipments.”

[Walter and Ben walk-and-talk]

Ben: Are you pleased with the progress of the build so far? Walter: Yep, very much. We have about 90% of the building done.

When Jeffries began looking into crowd-source funding, he contacted Ben Waterman of UVM Extension’s New Farmer program.

Ben Waterman/UVM Extension: “It’s relatively tough to find financing for these types of projects. What we’re looking at here is a significant capital investment it’s a long-term asset that doesn’t necessarily generate immediate cash flow and lenders are generally reluctant to fund or finance these kinds of projects when there’s a long-term payback horizon. It’s challenging to find financing through traditional means for projects like these in terms of going through alternative routes which is reaching out to customers and community members, Angel investors, the key is to have an innovative project. [...] And it really serves as a model for other farmers at this stage of business at this scale of operation who want to implement similar type of projects.”

Sugar Mountain farm serves as an inspiration for other ambitious farmers. So too does Jeffries’s

persistence and vision to see the project through.

Jeffries: “Things don’t happen necessarily exactly how you want in terms of each little step, there will be pianos as we call them that fall from the sky and you may feel flattened by them, but you just keep going and you get to the next step and you may have to take a slightly circuitous route. So sometimes things happen a little differently than you think, but you still got to be plotting forward.”

Jeffries’ doggedness and business savvy is what’s making his farm really take off. Who says pigs can’t fly? In West Topsham, I’m Keith Silva with *Across the Fence*.

Judy.: Thanks Keith. Ben are more farmers using the Internet to raise funds?

Ben.: Yes they are it's been really interesting to see over the past couple years. It's a relatively new phenomenon to use the Internet to find financing but farmers are noticing that they can use the Internet for what's known as crowd funding. Crowd funding is reaching out to many individuals who could contribute small amounts of money towards a particular project or towards expanding a particular business. I think we're going to be seeing this more and more. The Internet is enabling these kinds of crowd funding websites which are popping up. The most popular of which recently has been kickstarter.com last I checked there was for farms just in Vermont. But keep in mind kick start are is a worldwide phenomenon. It's used worldwide. There's for farms in Vermont with successfully raised funds this way. There's recently web site that was just launched called three revolutions and it's specific to farms and food businesses in Vermont. It's something to keep an eye on.

Judy.: Christina what are some of the legalities a farmer should look out for?

Kristina.: What's interesting about funding is the Federal gov't just passed the Jobs Act and one of the provisions of that act permitted crowd funding that allows businesses to raise investment capital. A kick starter allows for donations and they don't violate security rules because they are only soliciting donations or pre-buys as Walter is doing. For businesses to use a website to raise money for investment purposes. The rules are not in place yet. The sites that will be hosting the crowd funding platforms will have some pretty onerous and serious requirements related to filing with the Federal gov't. So you can't exactly go out and raise money yourself on Facebook or create your own web site. There are still rules that apply but it does open up a huge new avenue for raising money.

Judy.: We're just about out of time I want to mention the guide the financing the community supported farm is free and available online through UVM Extension New Farmer website. The 62 page guide covers the ins and outs of financing options and also includes case studies as well. If you'd like you can also call the UVM New Farmer Project at 802-223-2389.

Judy.: That's our program for today; I'm Judy Simpson. We will see you again next time on *Across the Fence*.

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