

Town of Warwick, Orange County, New York
Agricultural Business Retention & Expansion Plan

Appendix B

Sources of Plan Implementation Funds

The following is an overview of potential sources of implementation funds for this Plan:

1. USDA Business and Industry Loan Guarantees

USDA Rural Development joins together with local banks and other commercial lenders to provide financing for businesses located in rural areas. Lenders are able to offer larger loans and better terms with a guarantee which may cover up to 80% of the lenders exposure on the loan. Guarantees are available in all parts of New York except for cities of more than 50,000 population and the urbanized areas surrounding them. Eligible lenders include all State or Federally chartered banks, savings banks, savings and loan associations, credit unions and Farm Credit System. Eligible applicants include individuals, corporations, partnerships and cooperatives. Loans can be used to finance real estate purchases, equipment, rolling stock, working capital, expansions and new locations. Purchase of an existing business is included only if it is necessary to preserve jobs or will result in new jobs being created.

The lender determines the repayment term of the loan and the interest rate. Rural Development allows maximum terms of 30 years for loans for real estate purposes, 15 years for machinery and equipment and 7 years for working capital. Revolving credits cannot be guaranteed. Interest rates are not subsidized by the Government and are usually the prevailing commercial rates. Variable or fixed rates are allowed and separate rates can be charged on the guaranteed and unguaranteed portions of the loan. There is no minimum loan size, but applicants eligible for guarantees through the Small Business Administration program are encouraged to also explore the possibility of obtaining assistance through that program. Guarantees of 80% are available for loans up to \$5 million.

A test for other credit is not required. The program seeks to promote long-term job development through guarantee of quality loans to businesses which have the resources to survive and prosper. All applicants must have a positive tangible net worth of at least 10% of tangible assets (20% to 25% for new businesses), adequate collateral to secure the loan, cash flow based on either historical results or well supported projections which is adequate to repay the debt, and good management. Personal guarantees are usually required of the owners. Feasibility studies may be required for new businesses or when past results do not support the projections. A one-time only guarantee fee is charged to the lender and may be passed on to the borrower. The fee is equal to 2% of that portion of the loan which is guaranteed and is payable when the guarantee is delivered.

Town of Warwick, Orange County, New York **Agricultural Business Retention & Expansion Plan**

The guaranteed portion of the loan is considered to be an investment and does not have to be included in determining the bank's maximum loan. Guaranteed loans often help the bank to meet its CRA requirements. The guaranteed portion of the loan can be sold to investors providing more liquidity to the bank. Banks can also participate out part of the unguaranteed portion as long as they retain at least 5% of the loan, all unguaranteed. Application forms and information about the program can be obtained from USDA Rural Development.

2. USDA Rural Cooperative Development Grants

The 1996 Farm Bill revised the Rural Technology and Cooperative Development Grant program to make it available only for cooperative development. The program provides grants for establishing and operating centers for cooperative development. The primary purpose is to improve economic conditions in rural areas. Grant funds can pay up to 75% of the costs for establishing and operating such centers. Grants may be made to public bodies or not-for-profit institutions. The Watershed Agricultural Council used such a grant to help set up the Catskill Family Farms Cooperative.

The Cooperative Services branch of the USDA Rural Business-Cooperative Service also provides a wide range of assistance for people interested in forming new cooperatives. This help can range from an initial feasibility study to the creation and implementation of a business plan. Cooperative Services staff includes cooperative development specialists who do everything from identifying potential cooperative functions through the development of bylaws and business plans. They also provide training for cooperative directors. The overall goal of Cooperative Services is to provide a realistic view of what it will take to make a new cooperative succeed. Recent examples of rural cooperatives. New York Rural Development now has a Cooperative Development Specialist on staff at the Rural Development State Office in Syracuse. He is available to provide assistance to any rural group in New York State that is interested in forming a cooperative organization.

3. Rural Business Enterprise Grants ("RBEG")

Rural communities can receive assistance in promoting the development of small and emerging businesses through the RBEG program. Grants are made to public bodies or not-for-profit organizations. Grantees use the funds to promote the development of small and emerging private businesses which are defined as having 50 or fewer new employees, less than \$1 million in projected gross revenue, or will use innovative technology to produce/manufacture new products in rural areas. Rural communities include cities with up to 50,000 population and cannot be within the urbanized area of a larger city. Eligible applicants for RBEG grants include public bodies and private not-for-profit corporations.

Town of Warwick, Orange County, New York **Agricultural Business Retention & Expansion Plan**

Funds can be used to acquire property such as land, buildings, machinery or equipment which will be owned by the grantee, but will be made available for use by the private business or businesses. Grantees can also use funds to provide technical assistance to private business enterprises, make loans for startup operating costs or working capital or to establish a revolving loan fund. Reasonable fees for professional services necessary for planning and development of the project and training in connection with technical assistance can also be eligible uses of grant funds. Agricultural production is not an eligible type of business to benefit from a grant.

Interested applicants file a preliminary application with the USDA-Rural Development office serving their area. Rural Development will analyze applications and determine their priority score based on the factors in the program regulations. If funds appear to be available for an application the applicant will be notified and requested to complete the full application. Application forms and information about the program can be obtained from USDA Rural Development.

4. Rural Business Opportunity Grants

Rural Business Opportunity Grant funds provide for technical assistance, training, and planning activities that improve economic conditions in rural areas. Applicants must be located in rural areas. Nonprofit corporations and public bodies are eligible. A maximum of \$1.5 million per grant is authorized by the legislation. RBS is designing the program to promote sustainable economic development in rural communities with exceptional needs.

5. Resource Conservation & Development Program (RC&D)

The purpose of the Resource Conservation and Development (RC&D) program is to accelerate the conservation, development and utilization of natural resources, improve the general level of economic activity, and to enhance the environment and standard of living in authorized RC&D areas. It improves the capability of State, tribal and local units of government and local nonprofit organizations in rural areas to plan, develop and carry out programs for resource conservation and development. The program also establishes or improves coordination systems in rural areas.

Current program objectives focus on improvement of quality of life achieved through natural resources conservation and community development which leads to sustainable communities, prudent use (development), and the management and conservation of natural resources. Authorized RC&D areas are locally sponsored areas designated by the Secretary of Agriculture for RC&D technical and financial assistance program funds. NRCS can provide grants for land conservation, water management, community

Town of Warwick, Orange County, New York **Agricultural Business Retention & Expansion Plan**

development, and environmental needs in authorized RC&D areas. Funding and support for RC&D projects typically is obtained from the Natural Resource Conservation Service, Empire State Development, counties and private organizations supporting similar objectives.

6. Small Business Administration 504 Loan Program

The SBA's 504 loan program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. It relies upon the use of Certified Development Companies (CDC) which are nonprofit corporations set up to contribute to the economic development of a community or region. Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped. The maximum SBA debenture generally is \$750,000 (up to \$1 million in some cases). The CDC's portfolio must create or retain one job for every \$35,000 provided by the SBA.

Proceeds from 504 loans must be used for fixed asset projects such as: purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping; construction of new facilities, or modernizing, renovating or converting existing facilities; or purchasing long-term machinery and equipment. The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing.

Interest rates on 504 loans are pegged to an increment above the current market rate for five-year and 10-year U.S. Treasury issues. Maturities of 10 and 20 years are available. Fees total approximately three (3) percent of the debenture and may be financed with the loan.

7. Farmer/Grower Grant Program

The Farmer/Grower Grant Program is an initiative of the Northeast Region Sustainable Agriculture Research and Education (SARE) program. Its goal is to develop, refine, and demonstrate sustainable techniques, and to help farmers shift to production and marketing practices that will enhance the viability of agriculture in the region. Proposals may address any food, production or marketing issue. Project activities may involve small research trials, demonstrations, farmer/grower workshops or surveys. Proposers must show that the problem is one faced by other producers and that the project results will be of general benefit. Grant recipients are required to share information about their projects, including all results, with other farmers and members of the agricultural community. To

Town of Warwick, Orange County, New York **Agricultural Business Retention & Expansion Plan**

this end, each proposal must include an outreach plan. Successful applicants must submit a final report summarizing the project upon its completion.

It is requested that proposals address ways to:

- reduce environmental and health risks in agriculture
- prevent agricultural pollution
- reduce costs and increase net farm income;
- conserve soil, improve water quality, and protect natural resources;
- increase employment opportunities in rural areas; and/or
- enhance the quality of life for farmers and society as a whole.

The local contact for this is the Northeast Region SARE office at the University of Vermont (802) 656-0471. This program could be a source of financial support for marketing and, in particular, crafting a natural certification program.

8. Federal-State Marketing Program

The Federal-State Marketing Improvement Program (FSMIP) provides matching funds to State Departments of Agriculture and other State agencies for 20-30 projects per year. These funds have been used by States to conduct marketing studies or assist in developing innovative approaches to the marketing of agricultural products. FSMIP funds can be requested for a wide range of marketing research and marketing service activities, including projects aimed at:

- Developing and testing new or more efficient methods of processing, packaging, handling, storing, transporting, and distributing food and other agricultural products;
- Assessing customer response to new or alternative agricultural products or marketing services and evaluating potential opportunities for U.S. producers, processors, and other agri-businesses, in both domestic and international markets; or
- Identifying problems and impediments in existing channels of trade between producers and consumers of agricultural products and devising improved marketing practices, facilities, or systems to address such problems.

USDA encourages the State department of agriculture or equivalent agency to assume the lead role for FSMIP activities, using cooperative or contractual linkages with other agencies, organizations, and institutions, including producer or industry organizations, as appropriate. Federal funds requested for FSMIP projects must be matched, at least equally, from non-Federal sources. Matching requirements may be met in the form of

Town of Warwick, Orange County, New York **Agricultural Business Retention & Expansion Plan**

cash or properly valued, in-kind resources. FSMIP funds are most commonly allocated to projects of approximately 1-year duration. Priorities include:

- Increasing the base of marketing research and marketing services of particular importance to small-scale, limited-resource farmers and rural agri-businesses.
- Identifying and evaluating opportunities for producers to respond directly to new or expanding consumer demands for products and value-adding services.
- Encouraging the development of marketing channels and methods consistent with maintaining or improving the environment, with emphasis on projects aimed at expanding consumers' choices with regard to the environmental impact of alternative production and marketing technologies.

9. Community Development Block Grant (CDBG) Program

New York State now administers CDBG funds from HUD under this Federal program for non-entitlement areas. Non-entitlement areas include those units of general local government which do not receive CDBG funds directly from HUD as part of the entitlement program (Cities and urban counties). The State will award grants to units of local government that carry out development activities. Local governments have the responsibility to consider local needs, prepare grant applications for submission to the State, and carry out the funded community development activities.

The primary statutory objective of the CDBG program is to develop viable communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low- and moderate-income. The State must ensure that at least 70 percent of its CDBG grant funds are used for activities that benefit low and moderate-income persons. Communities receiving CDBG funds from the State may use the funds for many kinds of community development activities including, but not limited to:

- acquisition of property for public purposes;
- construction or reconstruction of streets, water and sewer facilities, neighborhood centers, recreation facilities, and other public works;
- rehabilitation of public and private buildings;
- planning activities;
- assistance to nonprofit entities for community development activities; and
- assistance to private, for profit entities to carry out economic development activities (including assistance to micro-enterprises).

Town of Warwick, Orange County, New York **Agricultural Business Retention & Expansion Plan**

This program has been used in nearby Sullivan County to establish an Agricultural Revolving Loan Program used to help finance several poultry processing facilities. It could have applicability to similar projects in Warwick.

10. Environmental Quality Incentives Program (EQIP)

The Environmental Quality Incentives Program (EQIP) provides a source of funding for manure management systems as does the Watershed Agricultural Council's whole farm planning program. EQIP provides technical, financial, and educational assistance primarily in designated priority areas-half of it targeted to livestock-related natural resource concerns and the remainder to other significant conservation priorities. It helps to install or implement structural, vegetative, and management practices called for in 5- to 10-year contracts for most agricultural land uses. USDA also offers the Conservation Reserve Program (CRP), which puts sensitive croplands under permanent vegetative cover for 10 to 15 years. CRP contract holders receive annual rental payments. Other USDA, federal, State, and local programs provide additional tools for producers to care for our private lands-a shared commitment between public and private interests.

EQIP works primarily in priority areas identified through a the local Soil and Water Conservation District, Natural Resources Conservation Service (NRCS) staff, Farm Service Agency (FSA) county committees and key staffs, Additional emphasis is given to areas where State or local governments offer financial or technical assistance and where agricultural improvements will help meet water quality and other environmental objectives. The FSA County Committee approves for funding the highest priority applications. Applications are ranked according to environmental benefits achieved weighted against the costs of applying the practices. Higher rankings are given to plans developed to treat priority resource concerns to a sustainable level. EQIP seeks to maximize environmental benefits per dollar spent.

Cost sharing may pay up to 75 percent of the costs of certain conservation practices, such as grassed waterways, filter strips, manure management facilities, capping abandoned wells, and other practices important to improving and maintaining the health of natural resources in the area. Incentive payments may be made to encourage a producer to perform land management practices such as nutrient management, manure management, integrated pest management, irrigation water management, and wildlife habitat management. These payments may be provided for up to three years to encourage producers to carry out management practices they may not otherwise use without the program incentive. Total cost-share and incentive payments are limited to \$10,000 per person per year and \$50,000 for the length of the contract.

Town of Warwick, Orange County, New York

Agricultural Business Retention & Expansion Plan

Eligibility is limited to persons who are engaged in livestock or agricultural production. Eligible land includes cropland, rangeland, pasture, forestland, and other farm or ranch lands where the program is delivered. The 1996 Farm Bill prohibits owners of large confined livestock operations from being eligible for cost-share assistance for animal waste storage or treatment facilities. However, technical, educational, and financial assistance may be provided for other conservation practices on these "large" operations. In general, USDA has defined a large confined livestock operation as an operation with more than 1,000 animal units.

There are several additional funding programs available through regional planning and economic development agencies and from Empire State Development. These include Economic Development Administration programs, the Grow New York program, linked deposit programs and matching state economic development funding. These programs have been well discussed in various forums, including the workshop held in connection with this planning effort and are well known to Warwick officials.