



**THE TOBACCO TRUST FUND
COMMISSION'S ANNUAL REPORT TO
THE JOINT LEGISLATIVE COMMISSION
ON GOVERNMENTAL OPERATIONS
AND THE CHAIRS OF THE HOUSE AND
SENATE APPROPRIATIONS
COMMITTEES**

November 1, 2006

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November 1, 2006

The Honorable Marc Basnight
Co-Chair, Joint Legislative Commission on
Governmental Operations
2007 Legislative Building
Raleigh, NC 27601-2808

The Honorable Jim Black
Co-Chair, Joint Legislative Commission on
Governmental Operations
2304 Legislative Building
Raleigh, NC 27601-1096

Dear Senator Basnight and Representative Black:

Pursuant to North Carolina General Statute 143-722(a), the Tobacco Trust Fund Commission hereby presents a report to the Joint Legislative Commission on Governmental Operations from the Chairman, J.W. "Billy" Carter, III. As specified in the legislation, this report contains an update on grant activity and operating expenditures.

If we can provide any further information or answer any questions, please do not hesitate to contact us.

Respectfully,

J.W. "Billy" Carter, III
Chairman



November 1, 2006

The Honorable David Hoyle
Co-Chair, Natural & Economic Resources Subcommittee
of the Joint Legislative Commission on Governmental Operations
300-A Legislative Office Building
Raleigh, NC 27603-5925

The Honorable William Owens
Co-Chair, Natural & Economic Resources Subcommittee
of the Joint Legislative Commission on Governmental Operations
635 Legislative Office Building
Raleigh, NC 27603-5925

Dear Senator Hoyle and Representative Owens:

Pursuant to North Carolina General Statute 143-722(a), the Tobacco Trust Fund Commission hereby presents a report to the Natural & Economic Resources Subcommittee of the Joint Legislative Commission on Governmental Operations from the Chairman, J.W. "Billy" Carter, III. As specified in the legislation, this report contains an update on grant activity and operating expenditures.

If we can provide any further information or answer any questions, please do not hesitate to contact us.

Respectfully,

J.W. "Billy" Carter, III
Chairman



November 1, 2006

The Honorable Debbie Clary
Co-Chair, House Appropriations Committee
303 Legislative Office Building
Raleigh, NC 27603-5925

The Honorable James Crawford
Co-Chair, House Appropriations Committee
2301 Legislative Building
Raleigh, NC 27601-1096

The Honorable Beverly Earle
Co-Chair, House Appropriations Committee
634 Legislative Office Building
Raleigh, NC 27603-5925

The Honorable Edd Nye
Co-Chair, House Appropriations Committee
639 Legislative Office Building
Raleigh, NC 27603-5925

The Honorable William Owens
Co-Chair, House Appropriations Committee
635 Legislative Office Building
Raleigh, NC 27603-5925

The Honorable Wilma Sherrill
Co-Chair, House Appropriations Committee
305 Legislative Office Building
Raleigh, NC 27603-5925

Dear Representative Clary and Representative Crawford and Representative Earle and Representative Nye and Representative Owens and Representative Sherrill:

Pursuant to North Carolina General Statute 143-722(a), the Tobacco Trust Fund Commission hereby presents a report to the Co-Chairs of the House Appropriations Committee from the Chairman, J.W. "Billy" Carter, III. As specified in the legislation, this report contains an update on grant activity and operating expenditures.

If we can provide any further information or answer any questions, please do not hesitate to contact us.

Respectfully,

J.W. "Billy" Carter, III
Chairman



November 1, 2006

The Honorable Walter Dalton
Co-Chair, Senate Appropriations/
Base Budget Committee
523 Legislative Office Building
Raleigh, NC 27603-5925

The Honorable Linda Garrou
Co-Chair, Senate Appropriations/
Base Budget Committee
627 Legislative Office Building
Raleigh, NC 27603-5925

The Honorable Kay Hagan
Co-Chair, Senate Appropriations/
Base Budget Committee
411 Legislative Office Building
Raleigh, NC 27603-5925

Dear Senator Dalton and Senator Garrou and Senator Hagan:

Pursuant to North Carolina General Statute 143-722(a), the Tobacco Trust Fund Commission hereby presents a report to the Co-Chairs of the Senate Appropriations/Base Budget Committee from the Chairman, J.W. "Billy" Carter, III. As specified in the legislation, this report contains an update on grant activity and operating expenditures.

If we can provide any further information or answer any questions, please do not hesitate to contact us.

Respectfully,

A handwritten signature in black ink that reads "John William Carter III". The signature is written in a cursive style and is positioned above a horizontal line.

J.W. "Billy" Carter, III
Chairman



November 1, 2006

**TO: THE JOINT LEGISLATIVE COMMISSION ON GOVERNMENTAL
OPERATIONS AND THE CO-CHAIRS OF THE HOUSE AND SENATE
APPROPRIATIONS COMMITTEES**

The tobacco industry made one of the most significant changes in its history. Farmers, former quota holders and tobacco workers moved from a stable, federally run price support system to a free market, dependant on contracts and the goodwill of the cigarette manufacturers. This transition has forced both young and old people to make life changing decisions that will impact their operation for the rest of their lives. Larger farmers, for the most part, have been able to move more successfully into the contract growing world. This opportunity that most people would perceive as stable is still a fluid situation controlled by a few key players. The remaining members of the tobacco family have to choose new avenues of survival while still fighting the misinterpretation that the tobacco buyout funds made them whole. In actuality, change is still the order of the day.

But new alternative crops and agribusinesses require technical and marketing expertise that is not easily available for many farmers. These farmers are a core part of North Carolina's rural economy--- their prosperity drives the livelihood of the small-town retailer, the accountant, car dealer, insurance sales representative and others who keep our small towns alive.

In the last five years, the Tobacco Trust Fund Commission has gained significant expertise in understanding what it takes to help farmers diversify successfully, through our grant program and our relationships with other expert organizations. We are uniquely equipped, and we are prepared to assist these farmers and others in tobacco-dependent communities to develop a viable rural economy in the 21st century where tobacco is no longer a price-supported commodity crop.

The members of the NC Tobacco Trust Fund Commission are grateful for the support of the members of the NC General Assembly, and stand ready to assist in expanding the prosperity of our great state to rural communities from the mountains to the coastal plain.

Sincerely,

J. W. "Billy" Carter, III
Chairman

COMMISSION MEMBERS

2006

BOYD, Robert B.

Waynesville, NC
County-Haywood
Appointee Officer-
President Pro Tem

BRITT, James Ralph Jr.

Calypso, NC
County-Duplin
Appointee Officer-
Speaker of the House

CARTER, J.W. (Billy)

III - CHAIRMAN
Eagle Springs, NC
County-Moore
Appointee Officer-
Speaker of the House

CREWS, Sam

Oxford, NC
County-Granville
Appointee Officer-
Speaker of the House

EALEY, Gary

Marshall, NC
County-Madison
Appointee Officer-
Speaker of the House

HINNANT, David J.

Kenly, NC
County-Wilson
Appointee Officer-
Governor

JACOBS, Larry E.

Lumberton, NC
County-Robeson
Appointee Officer-
Speaker of the House

JONES, Kenneth W.

Pink Hill, NC
County-Lenoir
Appointee Officer-
President Pro Tem

MCLAWHORN, John B. Jr.

Hookerton, NC
County-Greene
Appointee Officer-
Governor

OWENBY, Larry W.

Brevard, NC
County-Transylvania
Appointee Officer-
Governor

SMALL, Willard

Fair Bluff, NC
County-Columbus
Appointee Officer-
President Pro Tem

SMITH, Rick

Greenville, NC
County-Pitt
Appointee Officer-
Speaker of the House

SPAULDING, Eric V.

Selma, NC
County-Johnston
Appointee Officer-
Governor

TEAGUE, William H.
"Bill" – ACTING
VICE-CHAIRMAN

Leicester, NC
County-Buncombe
Appointee Officer-
President Pro Tem

WARD, Dan

Clarkton, NC
County-Bladen
Appointee Officer-
President Pro Tem

WRIGHT, T. Craig

Whiteville, NC
County-Columbus
Appointee Officer-
President Pro Tem

COMMISSION HISTORY

Background

North Carolina's share of the Master Settlement Agreement (MSA) was divided into three different parts. Under the terms of the consent decree in North Carolina, 50% of the funds are directed to a non-profit corporation, Golden LEAF, to be used for economic development in tobacco-dependent communities. By statute the remaining 50% is equally divided between two state Commissions. The Health and Wellness Trust Fund Commission utilizes their portion for health-related needs. The final portion is allocated to the Tobacco Trust Fund Commission.

The Tobacco Trust Fund Commission was created on August 2, 2000 by the approval of House Bill 1431. The purpose of the Commission is to assist tobacco farmers, former tobacco quota holders, persons engaged in tobacco-related businesses, individuals displaced from tobacco-related employment, and tobacco product component businesses in this State due to the adverse effects of the MSA. Funds can be disbursed through **compensatory programs** and **qualified agricultural programs**.

Commission membership is made up of 18 people, six appointed by the Governor, six by the Speaker of the House and six by the President Pro Tem of the Senate. The Commission met for the first time February 15, 2001 at which the members were given their charges and sworn in.

Since November 1, 2005

The Tobacco Trust Fund Commission was able to complete another year with the same fortitude and tenacity that has been present since day one. One of those individuals that epitomized those qualities and was a true friend to North Carolina Agriculture is no longer with the Commission. Our Vice Chairman, Mr. Bob Jenkins, passed away this year. Mr. Bob had been with the Commission since day one and will be deeply missed.

The Tobacco Trust Fund Commission met three times this past year. During these meetings, Commission Members received grantee updates and took action on grant amendment requests. The Commission also added four new board members. Staff continued the due diligence of monitoring grant recipients and undertaking the involved process of developing a grant monitoring plan that complies with the new audit process outlined in G.S. 143-6.2.

The TTFC also experienced a year of limited financial resources. Since FY 02, the Commission has had \$226.3 million of its Master Settlement Agreement funds diverted to the General Fund and university bond debt. Currently, the General Assembly has designated an additional \$30 million to be taken in FY 07, and the second installment of approximately \$2.5 million on the university bond package will come due. All told, over \$258.7 million will have been transferred from the Fund. Due to the aforementioned transfers and a decrease in the amount of MSA receipts, the Tobacco Trust Commission decided not to conduct a regular granting cycle for 2006.

Even with the limitations in funds, the Commission and its grantees made a strong contribution to North Carolina's rural economy. New enterprises have taken hold, new markets have been developed, and new knowledge has been delivered to farm families. These contributions, detailed throughout this report, illustrate the potential for additional investment to restore prosperity to tobacco-dependent communities and businesses. A significant amount of funding will be utilized to provide state of the art resources and care with the establishment and/or upgrade of structures at various universities. These facilities will be an educational and/or medical resource to many tobacco dependant individuals in tobacco dependant areas.

Alternative crops and new markets, value-added businesses and new technologies can be the answer for many of these farmers, provided they have access to the knowledge and incentive or transition grants to help them build the infrastructure. The Tobacco Trust Fund Commission, with its expert partners, has pioneered new approaches that can now be extended to additional farmers, workers and communities who are looking for a future beyond tobacco.

NC TOBACCO TRUST FUND COMMISSION 2001 - 2002

GRANTS

UPDATE ON ACTIVE GRANTS

Project: Burley Marketing Center Grant

Contact: N.C. Rural Economic Development Center
& The Agricultural Advancement Consortium
4021 Carya Drive
Raleigh, NC 27610
919-250-4314

Grant Amount: \$2,509,555.21 over five years

This grant was used to create a pilot marketing center for burley tobacco in Asheville. North Carolina had only two burley auction warehouses left this past season. Due to the current tobacco situation, both of these warehouses were looking at closing prior to the 2002 season. This would have forced our burley producers to travel out-of-state to market their crop. At the same time, no tobacco company burley receiving stations for contract purposes are located in the state. To help our burley producers save money and put more finances in Western North Carolina's agricultural economy; the Commission established this grant as a Qualified Agricultural Program. Both of the remaining burley auction warehouses in the state are participating in this grant, which has prevented their closing and thus prevented the need for N.C. burley farmers to carry their product out of state to market it.

Update: The Burley Marketing Center has completed the fifth and final year of the project. The market ended on a high note with the transition from a federally controlled tobacco program into a free market system with burley tobacco being in high demand. The market is going to open in 2006 without the need for state funds. A final report on the entire project, which includes the 2005 results, is forthcoming from the N.C. Rural Center.

Area Served: Western North Carolina – Burley

NC TOBACCO TRUST FUND COMMISSION 2002 - 2003

GRANTS

UPDATE ON ACTIVE GRANTS

Project: Support for the Transition to Value-Added Agribusiness

Contact: Keith Oakley
NC Agricultural Foundation
NCSU
Campus Box 7645
Raleigh, NC 27695-7645
919-515-2000

Grant Amount: \$295,000

Project will work with farmers to provide agricultural and economic strategies and transfer technologies such as on-farm diversification and entrepreneurship through hands-on consultation. The project will conduct community meetings to identify needs and participants, conduct technical and business education workshops, and provide individual guidance to farmers piloting the program. The project will target 200 families.

Update: To more effectively utilize this grant, the Commission decided to merge it with a new project funded by the Golden LEAF. The Grassroots Project is designed to equip educators and other service providers in the principles of developing value-added agricultural businesses, so that they can serve as effective "first responders" to potential business owners/developers. In addition, the capacity developed in service providers will be sustained and enhanced by developing and implementing information centered networks that will foster information and resource sharing, connecting business people with needed resources, and supporting a value-added agricultural information website.

Based on requests from **Creating Business Opportunities** (CBO) participants, a marketing workshop was offered. Creating Business Opportunities workshop was an effort at capacity building in the area of business opportunities. The idea was to bring together professionals from Cooperative Extension, community colleges, NCDA&CS, small businesses and non-government organizations to form regional groups that could help entrepreneurs develop successful businesses. Evaluating the market potential for a new enterprise is a critical business skill needed by CBO participants as they work with new business. The

workshop focused on how to conduct practical market research. Thirty eight people attended the workshop.

Extension agents are requesting additional business reference materials to help them address business questions. The CBO web page is being updated to serve as a source for business reference materials. Five business tools addressing key business start up questions will be completed this month. The business tools will be posted on the CBO web site and distributed during marketing workshops. Seven case studies are being developed. The case studies will serve as a teaching tool for extension agents.

During the next quarter the business reference materials will be completed and distributed to extension agents and others. The CBO web page will be completed. An additional two day marketing workshop is being planned for November. This workshop will focus on direct marketing. A reference book is being developed for the workshop.

Area Served: Statewide

Project: Equipping Conservation Districts Through Automation and Outreach for Greater Service to Farmers Facing New Environmental Standards and Regulations

Contact: Cecil Settle
NC Foundation for Soil and Water Conservation Districts
2012 Lodestar Dr.
Raleigh, NC 27615
919-873-2158

Grant Amount: \$350,000

Project will minimize impact of farming on natural resources, particularly water resources, by installing computers in conservation districts, conducting outreach initiatives to targeted farmers, raising capacity of staff to provide high-tech services, and helping farmers determine nutrient losses on their farms and plan for nutrient management and thus mitigate the effect of farm run off on North Carolina water resources. The project will be implemented in at least 75 counties.

Update: In 2005, the Commission approved the grantee's request to use the remaining funds from this project for a Phase II component that will assist in conserving working farmland by obtaining conservation easements.

The Foundation continues coordinating with Natural Resources Conservation Service (NRCS) to share Farm and Ranch Land Protection Program (FRPP) proposals and general communications from land trusts and local entities expediting the Foundations's work with those entities and local conservation districts.

The Foundation has now approved grants on ten projects for payment of transactional costs for the acquisition of easements on federal FRPP farms in Franklin, Granville, Halifax, Macon, Nash, Rowan, Wake, and Warren Counties. All of those easements are projected to close by the end of December 2006.

The Foundation has received notices of intent to apply from land trusts, conservation districts, and other local entities for transactional cost reimbursement grants on four additional conservation easement projects in Durham and Randolph Counties.

This program is operating as a reimbursement of actual costs for core closing costs approved by the Foundation. To actually receive payment, participating local applicants must provide a copy of the closing statement and receipts verifying expenses incurred in closing on the named conservation easement. The easement applications approved by the Foundation are limited to those approved for participation in the federal FRPP. By limiting participation to this group of easements, the Foundation (and the Commission) is assured that all easements acquired are for the retention of high priority actively operating farmlands.

Area Served: Statewide

NC TOBACCO TRUST FUND COMMISSION 2003 - 2004

GRANTS

UPDATE ON ACTIVE GRANTS

Project: Helping NC Farmers Improve Water Quality on their Farms

Contact: Cecil Settle
NC Foundation for Soil and Water Conservation Districts
2012 Lodestar Drive
Raleigh, NC 27615
(919) 873-2158

Grant Amount: \$350,000

Project will provide cost-share assistance to farmers transitioning from tobacco production or diversifying to additional income-producing agricultural enterprises. Project will provide up to 75% of the farmers' cost to implement water-quality best management practices that prevent pollutants from entering streams within the boundaries of their farms.

Update: The Foundation has worked closely with interested Districts gathering the strongest proposals for projects. The Board's Executive Committee approved eleven proposals committing \$322,657 of the \$322,700 available for grants. Eight projects have been completed. The three remaining projects will finish their work by December 1, 2006. All of the approved projects address existing problems on tobacco farms where growers want to continue growing tobacco, want to transition to other agriculture enterprises, or want to retire the land from crop production. These projects cover nine counties and involve items such as no-till vegetable production, conversion of tobacco land to pasture and hay, land application of livestock and poultry litter, installation of grassed waterways and purchase and use of no-till planters.

Area Served: 80 tobacco-producing counties statewide

Project: Tar River Tobacco Farmland Preservation

Contact: Chuck Peoples
Tar River Land Conservancy
123 North Main Street
Louisburg, NC 27549
(919) 496-5902

Grant Amount: \$350,000

Project will protect 4,000 acres of land valued at \$12 million and 24 miles of streams by providing an alternative to tobacco farmers wanting to protect their farm from development by maintaining their land in an agricultural land base that purchases the development rights.

Update: *Newell Farm – Warren County* - Project is nearing completion and expected to close within the next 30 days.

Currin Farm – Granville County – Easement Closed.

Funds from the NCTTFC served as matching monies to leverage over \$501,000 in total project value including \$228,500 in Federal Farmland Protection Program dollars.

Wise Farm – Nash County - Additional matching funds have been secured, and both the survey and the appraisal have been completed.

Area Served: Upper Tar River Basin, Granville, Franklin, Nash

Project: NC Farm Transition Network

Contact: Stephen A. Woodson
NC Farm Bureau Legal Foundation
5301 Glenwood Avenue
Raleigh, NC 27612
(919) 782-1705

Grant Amount: \$135,000

Project will connect retired farmers with new farmers by establishing a list serve and provide apprenticeship/mentoring programs for new farmers; as well as provide business and estate-planning services to retiring farmers and develop a list of professionals who can assist in farm transitions.

Update: The North Carolina Farm Transition Network (NCFTN) has continued its work with conducting outreach programs. Staff will be working with NCDA&CS and others to conduct regional workshops on farmland preservation.

NCFTN is continuing to upgrade and refine their web site so information can be readily accessible on the web to assist farmers with transition/preservation.

NCFTN will also be commissioning a comprehensive survey to compile an objective analysis of other state programs along with a review of present NC resources and partners.

Area Served: Statewide

Project: Sustaining Far Western NC Farms through Financial Education

Contact: Tammara Cole
NC Cooperative Extension
PO Box 456
Cherokee, NC 28719
(828) 497-3521

Grant Amount: \$39,875

Project will provide 25 farmers in western NC with non-formal training in business financial management, including planning, to give them skills to sustain their occupation and families.

Update: In the past two quarters, farmers on this program have submitted receipts and received their second year reimbursements for accountant fees. Along with the reimbursement, a survey was sent out to determine the effectiveness of the “Farm Financial Management Series”.

Verbal, non-formal surveys of the participants have helped determine what characteristics of this program the participants like best. A final survey will be sent to participants this fall to determine the successes and shortcomings of this project. Participants will also be asked questions to help determine what management skills they retained from activities over the last three year. This survey should help determine what improvements can be made for future classes and effort in Farm Financial Education.

Area Served: Cherokee, Cherokee Reservation, Clay, Graham, Jackson, Macon, and Swain

NC TOBACCO TRUST FUND COMMISSION 2004 - 2005
OUT-OF-CYCLE GRANTS**

UPDATE ON ACTIVE GRANTS

Project: Tobacco Communities Reinvestment Project (TCRP)

Contact: Jason Roehrig
Rural Advancement Foundation International–USA (RAFI)
PO Box 640
Pittsboro, NC 27312
(919) 542-1396

Grant Amount: \$185,000

During 2004-2007, this project will generate up to 15 cost-share (up to \$10,000) initiatives in seven tobacco producing counties by enabling individual tobacco growers and tobacco-dependent communities to test farm-based initiatives to supplement or replace tobacco income and to help in developing the rural workforce by assisting growers in acquiring the skills to redirect scarce resources into viable agricultural businesses. This grant is made in response to hurricane damage to farms and the end of price supports for tobacco.

Update: The demonstration projects funded by the TCRP continue progressing toward completion of project activities. All demonstration activities will be concluded in November of 2006. Periodic site visits enable RAFI staff members to ensure adequate progress towards project goals and to assist participants identify technical support needs.

Based on information from site visits and interim project reports, project participants have made significant progress in improving the conditions on individual farms and in rural communities. To date, project participants have leveraged \$135,000 of new investment in alternative agricultural enterprises, helped to retain 60 existing farm jobs, created 7.5 new farm jobs, and conducted outreach to more than 700 individuals. Project participants indicate that the new enterprises created through the TCRP will add an additional \$800,000 of farm revenue to their operations in the coming year.

Area Served: Caswell, Duplin, Granville, Lee, Moore, Nash and Yancey

*** The Full Commission decided at the June 15, 2004 meeting that the normal granting cycle be suspended because of the lack of new funding this year. Instead of funding new initiatives through a 2004 granting cycle, the members decided to focus the Commission's limited available funds on maintaining current grantees and otherwise furthering the statutory obligations of the Tobacco Trust Fund Commission.*

NC TOBACCO TRUST FUND COMMISSION 2005-2006

GRANTS

UPDATE ON ACTIVE GRANTS

Project: Helping NC's Farmers in Transition from Tobacco Production Improve Water Quality While Protecting Natural Resources for the Public

Contact: Cecil Settle
NC Foundation for Soil & Water Conservation, Inc.
2012 Lodestar Drive
Raleigh, NC 27615-2519
(919) 873-2158

Grant Amount: \$150,000

Project will provide cost share assistance (up to 75%) to farmers, transitioning from tobacco production or diversifying to additional income producing agricultural enterprises, for installing BMP's that prevent sediment, nutrients, or other pollutants from entering streams within the boundaries of their farms.

Update: The Foundation announced the program and authorized the Executive Director to work closely with interested Districts to gather the strongest proposals from suggestions offered for projects. The Board's Executive Committee has approved seven District's proposals to date committing \$120,507 of the \$137,000 available for grants. One project has been completed and the other projects are under active implementation. The approved projects address existing problems on tobacco farms where growers want to continue growing tobacco, want to transition to other agriculture enterprises, or want to retire the land from crop production.

The Foundation is working to carefully guide the approval of projects to priority areas where unique projects can be accomplished outside of those funded under state and federal program authorities.

Area Served: Statewide

Project: Sustaining Working Farms Through Conservation

Contact: Reid Wilson
Conservation Trust for NC
PO Box 33333
Raleigh, NC 27636
(919) 828-4199

Grant Amount: \$200,000

Project will build on the ongoing work of North Carolina Land Trusts to contact tobacco farmers and buyout participants to make them more aware of conservation easements as a tool to protect their farms, keep them in farming, and provide tax incentives and other economic benefits. The project will use the results of outreach activities for Phases One and Two and the Farmland Conservation Plan (FCP) developed through the May, 2005 "Tobacco Buyout Farmland Conservation Planning" grant.

Update: CTNC is cosponsoring a series of four Agricultural Development and Farmland Preservation Workshops organized by the NC Department of Agriculture and Consumer Services (NCDACS) in November. Workshops will be targeted to county officials, agricultural support agencies and conservation organizations and will include concurrent sessions on conservation easements and farm succession planning.

In consultation with several partner organizations and government agencies, CTNC staff has drafted a survey questionnaire that will be distributed to county cooperative extension directors, NRCS district conservationists and Soil and Water Conservation Districts. The purpose of the survey is to gauge the level of awareness and perceptions of conservation agreements among agricultural support agencies, which in turn, will be used to establish a baseline awareness level for the project.

CTNC is continuing to work with several local land trusts to assist in locating and educating potential participants in farmland conservation.

Area Served: Statewide

Project: Tobacco Communities Reinvestment Project

Contact: Jason Roehrig
Rural Advancement Foundation International-USA
PO Box 640
Pittsboro, NC 27312
(919) 542-1396

Grant Amount: \$300,000

Project will generate up to 15 cost-share initiatives in 22 counties to enable individual tobacco growers to test farm-based initiatives to supplement or replace tobacco income. In addition, these initiatives will help develop the rural workforce by assisting growers in acquiring skills to redirect scarce resources into viable agricultural businesses.

Update: The demonstration projects funded by the TCRP continue progressing toward completion of project activities. All demonstration activities will be concluded in November of 2006. Periodic site visits enable RAFI staff members to ensure adequate progress towards project goals and to assist participants identify technical support needs.

Based on information from site visits and interim project reports, project participants have made significant progress in improving the conditions on individual farms and in rural communities. To date, project participants have leveraged \$947,000 of new investment in alternative agricultural enterprises, helped to retain 154 existing farm jobs, created 14 new farm jobs, and conducted outreach to more than 2,000 individuals. Project participants indicate that the new enterprises created through the Tobacco Communities Reinvestment Fund will add an additional \$215,000 of farm revenue to their operations in the coming year.

Area Served: Alexander, Alleghany, Ashe, Caswell, Craven, Davidson, Duplin, Franklin, Granville, Iredell, Jones, Lenoir, Onslow, Person, Robeson, Rockingham, Sampson, Stokes, Surry, Vance, Warren

Project: Western North Carolina Agricultural Options Demonstration Program

Contact: Adrienne Bernardi Hume
HandMade in America / NC Cooperative Extension West District
94 Coxe Ave.
Asheville, NC 28802
(828) 255-5522

Grant Amount: \$250,000

Project will assist farm operations to diversify and expand in order to generate new sustainable economic growth in Western NC. Project will provide seed money to aide western NC farmers with crop diversification and/or agri-tourism and help with financial aid, education, training and marketing.

Update: The most recent work has been primarily focused on the following:

1. Future Funding Opportunities - The WNC Ag Options Program has secured \$90,000 in funding for NC Cooperative Extension—West District for the provision of educational programming, training and

technical assistance for business and marketing plan development through USDA-Risk Management Agency, *Community Outreach and Assistance Partnership Program*.

2. Delivery of Risk Management Workshops - In response to requests for “risk management assistance,” three workshops were developed and delivered across the West District for the WNC Ag Options Program.

3. Continuance of Economic Impact Study for 2006 - The Steering Committee opted to utilize available funding to extend the Economic Impact Study conducted by the Center for Assessment and Research Alliances (CARA).

4. Fall Farm Visits - With harvest season in full swing, the month of September was filled with farm visits and will continue throughout the month of October. Follow-up has been completed in Watauga, Avery, Mitchell, Yancey, Graham, Henderson, Transylvania, Buncombe, Swain and Jackson Counties with Haywood, Clay, Macon and the Cherokee Reservation to wrap-up in the coming weeks. Together, the Project Coordinator and at least one County Agent made individual visits to program participants.

Area Served: Buncombe, Haywood, Madison, Yancey, Graham, Avery, Cherokee, Cherokee Reservation, Clay, Henderson, Jackson, Macon, Mitchell, Swain, Transylvania, Watauga

Project: Regional Water Supply System

Contact: Wayne Malone
Neuse Regional Water and Sewer Authority
PO Box 6277
Kinston, NC 28501
(252) 522-2567

Grant Amount: \$172,543

Project will design a surface water treatment plant and distribution system to preserve capacity of ground water sources in Lenoir and Pitt Counties. Project will protect and create jobs in water-dependent enterprises and help maintain and improve sales in the agricultural sector.

Update: Construction of the Neuse Regional Water & Sewer Authority Transmission Main is at \pm 35%. Neuse Regional Water & Sewer Authority continues to work with property owners and legal counsel to reach an acceptable compensation for land acquisition throughout the transmission route. Neuse Regional Water & Sewer Authority

continues to coordinate with property owners and contractors to resolve any remaining easement issues.

Area Served: Central Coastal Plain

Project: Management of Pierce's Disease of Grapes in the Piedmont of NC

Contact: Turner Sutton
NC Agricultural Foundation, Inc.
Box 7616, NCSU
Raleigh, NC 27695
(919) 515-6823

Grant Amount: \$71,795

Project will develop a management program for Pierce's disease of grapes, which will allow tobacco farmers and others in the eastern and southern Piedmont of North Carolina to successfully plant winegrapes. Winegrapes are at considerable risk because of Pierce's disease.

Update: Seven to 20 interceptor traps, constructed of screen wire and coated with tanglefoot (to trap the insects) were deployed around four vineyards in mid-April with difficulty. Yellow sticky traps, also deployed in the four vineyards, worked well and additional traps were positioned around the vineyards and in the insecticide trial plots. The three insecticide programs were initiated in mid-April in Cloers and Irongate vineyards. Plots have been established in 2 vineyards (Polk and Alamance Co) and once symptoms begin to appear we will begin monitoring and testing the vines for the Pierce's disease bacterium and initiating the pruning study.

Area Served: Piedmont, Southern Mountains

Project: Value Added Projects for Tobacco Farmers in Transition

Contact: Blake Brown
NC Foundation for Value Added Agriculture and Applied
Biotechnology
Box 8109, NCSU
Raleigh, NC 27695
(919) 515-4536

Grant Amount: \$245,028

Project is to increase the effectiveness of CALS faculty in developing and implementing profitable value-added enterprises for North Carolina farm families.

This project will enhance the effectiveness of CALS extension and research projects by providing 1) farm business management resources to faculty to assist with evaluation of the profitability and implementation of newly developed value-added enterprises, 2) assembling information on potential value-added opportunities and publishing information about the cooperative efforts of NCSU and TTFC, 3) grant writing and planning assistance to faculty developing research or extension proposals for value-added projects for farm families and 4) facilitating assembling resources for faculty projects. This proposal is an initial step by CALS to increase faculty focus and resources on value-added enterprises.

Update: The farm business management position has been hired. This position will provide business management expertise and resources to CALS campus and field faculty working on value-added and alternative agriculture projects. Several projects are already being considered for the assistance offered by this position. The website, www.cals.ncsu.edu/value-added, focusing on value-added and alternative agriculture has been further developed. Almost 800 enterprise budgets for alternative agriculture and value-added enterprises from across the US and Canada have been linked to the website. Grant writing assistance to CALS faculty is underway and being utilized. To date, six CALS Faculty have taken advantage of the grant writer assistant for various aspects of grant development including, writing, editing, consultation, funding agency review, etc.

Area Served: Statewide

Project: Development of the North Carolina Tobacco Black Shank Task Force

Contact: Kelly Ivers
NC Tobacco Foundation, Inc.
NCSU Department of Plant Pathology
455 Research Dr.
Fletcher, NC 28732
(828) 684-3562

Grant Amount: \$47,868

Project will conduct an intensive survey of the tobacco-growing regions for the incidence of black shank in tobacco cultivars, collect isolates of Ppn (fungus causing black shank disease) and determine the race structure of field populations across the state, and correlate Ppn race profiles with supplementary crop and field-site information.

Update: The project was begun in mid-March of 2006. Since this time, they have developed protocols for identifying and sampling tobacco fields in the flue-cured and burley areas across the state during the summer months when symptoms of black shank are easily diagnosed.

In the flue-cured area, sampling began the second week of July and continued until the end of September. They have collected soil samples from fields in the top 17 tobacco-producing counties in the flue-cured area, encompassing 552 total soil samples, of which 309 have yielded isolates of *Phytophthora nicotianae* so far. Pathogen isolation from the remaining soil samples is still in progress. Of the 309 isolates collected, 146 isolates have been screened for race; 92% of these isolates have been determined as *P. nicotianae* race 1, 6% as *P. nicotianae* race 0, and 2% as *P. nicotianae* race 4.

In the burley area, sampling began the third week of July and continued until the end of September. They have collected soil samples from fields in the top 6 tobacco-producing counties in the burley area (western mountains of NC), encompassing 245 total soil samples, of which 125 have yielded isolates of *Phytophthora nicotianae* so far. Pathogen isolation from the remaining soil samples is still in progress. Seedlings are being grown in the greenhouse to complete the first test to determine the race of isolates from each field in this region.

After all isolates have been screened for race and replicated, the mating type of each isolate will be determined *in vitro* by crosses with standard known mating type cultures already prepared. All soil samples are currently being processed for texture, percent sand, silt and clay, and other additional analyses.

Area Served: Statewide

Project: College of Agriculture and Life Sciences Agricultural Leadership Development Program

Contact: Bill Collins / Billy Caldwell
NC Agricultural Foundation, Inc.
Box 7643, NCSU
Raleigh, NC 27695
(919) 515-2717

Grant Amount: \$144,440

Project will develop a leadership seminar where participants will learn of pertinent agricultural issues and develop leadership skills. The project will conduct eight three-day seminars that targets agricultural professionals aged 25-45. The program will enhance the economic impact of participants by increasing their understanding of their businesses, industries, communities, economies and society as they are related to agriculture and rural communities. The program will enhance participants' capacities in problem solving, interpersonal communications, practical application of

leadership abilities, and participatory processes to enable them to more effectively address contemporary issues related to agriculture, rural communities and citizens.

Update: There are 31 participants in the two year program. Recently the focus has been on planning for the second year of the program that commenced on October 23, 2006. This year's program will include three classroom sessions in Raleigh, a 10-day study tour to Brazil, a seven-day study tour to California, and a final session that will focus on accomplishments and learning experiences. Tobacco Trust Funds will not be used to support the Brazil Study Tour.

For the first year, the program was successful in meeting its objectives. At the end of the year a formative survey was conducted. From the survey 68% of the participants indicated that this program was the most valuable professional development program they had experienced; 64% had been appointed or elected to a public office or committee; 77% were more active in professional, community, or industrial organizations; and 100% indicated that their leadership abilities and behaviors had improved. Success was also evident in the outreach area with 81% sharing information with agribusinesses, 95% with friends and neighbors, 54% with commodity groups, and 50% with community groups. Success was also evident in leadership with 88% indicating a greater capability in problem identification and 72% felt capable of addressing the problems.

The second year the goal will be to continue to enhance their leadership skills through additional training and the application of their skills through a practicum. The practicum will require the participants to study an important issue facing the agricultural and rural community. The Brazil Study Tour will provide an opportunity to observe another culture, the diversity of agriculture, and production and processing systems. The California Study Tour will provide the participants an opportunity to observe the diversity of agriculture, production systems, and environmental and natural resource issues.

Area Served: Statewide

Project: Tobacco Grower Communication Assistance

Contact: Kathy Kennel
NC Tobacco Foundation & Tobacco Growers Association of NC
Box 7645, NCSU
Raleigh, NC 27695
(919) 515-9259

Grant Amount: \$140,413

Project will sustain and deliver critical and valuable information to tobacco growers statewide by producing the Tobacco Grower Newsletter, The Tobacco Grower Resource Guide and a new edition of the Tobacco Growers Field Manual.

Update: Distribution of the Tobacco Grower Resource Guide has been completed. Flue Cured and Burley Field Manuals were distributed via mail, distribution at industry meetings, direct delivery and by request at tobacco receiving stations. Over 6,600 Flue Cured Manuals and over 4,000 Burley Manuals were mailed – every grower in the Piedmont received both manuals. Growers have been very happy with the results. Supplies of both remain on hand at TGANC and NCDA to send in response to specific requests.

Area Served: Statewide

Project: Reducing Losses to Tomato Spotted Wilt Virus in Tobacco

Contact: Bill Collins
NC Tobacco Foundation, Inc.
Box 7643, NCSU
Raleigh, NC 27695
(919) 515-2717

Grant Amount: \$75,025

Project will develop the knowledge and management tools necessary to reduce losses to the tomato spotted wilt virus (TSWV) in tobacco. The project's goal is to develop a system to predict the likelihood that damaging levels of TSWV will occur each year over locations in order to provide growers information on which to base their management practices and reduce losses. This information will be distributed to all NC tobacco farmers.

Update: Tomato Spotted Wilt Virus: Predicting and Mitigating Outbreaks began February 3, 2006 with the following objectives:

- 1: Relate weather-based prediction of TSWV inoculum levels and vector flights to the timing of TSWV spread into tobacco and final incidence of TSWV in commercial tobacco crops.
- 2: Define the relationship between crop age, temperature and susceptibility to infection by TSWV.
- 3: Relate incidence of TSWV in commercial tobacco production fields to winter and spring temperatures, amount of rain and number of days with rain, transplant date in relation to temperature and the timing of thrips vector flights, the use of Admire, tobacco variety, the occurrence of surrounding crops, and to the extent possible, the timing of land preparation in adjacent crop fields relative to transplant date of tobacco.

4: Evaluate potential plant defense activating compounds for effect on TSWV incidence in tobacco.

A second project titled Reducing Losses to Tomato Spotted Wilt Virus in Tobacco has begun. Previously, about 24 molecular markers linked to TSWV resistance were identified in the F₂ progeny of a cross of Polalta and the flue-cured variety K326. A map of these markers in relation to the resistance gene was constructed and four of these markers were converted into simple PCR based markers for screening large backcross populations.

The next part of the project is to use this information to develop breeding lines with TSWV resistance that contains a smaller amount of genetic material from Polalta (additional information is available).

Area Served: Statewide

Project: Project New Start: Phase II

Contact: Anne Bacon
NC Rural Economic Development Center
4021 Cary Drive
Raleigh, NC 27610
(919) 250-4314

Grant Amount: \$300,000

Project will refine the Project "New Start" model of helping dislocated workers through community-based strategies, explore new ways to engage nonprofit organizations in helping dislocated workers, and support research to identify to what extent tobacco farm workers need the kind of help that Project New Start has targeted to tobacco processing workers. The project's goal is to provide job re-training assistance to former tobacco workers.

Update: Direct services for dislocated workers at Opportunities Industrialization Center (OIC) of Wilson: OIC of Wilson continued its services to dislocated workers with the help of the Tobacco Trust Fund Commission, continuing to increase service levels.

Continuing technical assistance and groundwork for evaluation: With a combination of N.C. Tobacco Trust Fund and U.S. Department of Labor funds, the Rural Center is continuing its work with technical assistance and evaluation contractors to promote effective Project *New Start* services and help us capture data regarding project impacts.

- **Number of dislocated workers served by Project *New Start* in Wilson:**

- Dislocated tobacco workers: 91
 - Other dislocated workers: 110
- Number of dislocated workers who (with help from OIC Wilson) developed **employment transition plans: 201**
 - Dislocated tobacco workers: 91
 - Other dislocated workers: 110
- Number of individuals receiving **emergency/support services: 16**
 - Dislocated tobacco workers: 5
 - Other dislocated workers: 11
- Number of dislocated workers participating in **employability training or job search training: 201**
 - Dislocated tobacco workers: 91
 - Other dislocated workers: 110
- Number of dislocated workers participating in **education/skills training or job training** offered/paid for by the CBOs: 12
 - Dislocated tobacco workers: 5
 - Other dislocated workers: 7
- Number of dislocated workers who **got a new job: 55**
 - Dislocated tobacco workers: 16
 - Other dislocated workers: 39

Area Served: Wilson, Statewide

Project: Project "Skill-UP"

Contact: Barbara Boyce
 NC Community College System
 5001 Mail Service Center
 Raleigh, NC 27699-5001
 (919) 807-7100

Grant Amount: \$184,000

Project will develop customized fast-track (3-8 month) programs that focus on the development of basic workplace skills to minorities (especially males), Hispanics, welfare recipients, and the working poor--who are over-represented in tobacco-related employment. Program participants will receive skill assessment, training, and career development counseling in order to obtain marketable skills.

Update: Pilot sites continued to have meetings with agencies and organizations to include: JobLink, Employment Security Commission, Agricultural Cooperative Extension agencies, Vocational Rehabilitation, Dept. of Social Security, Commission on Indian Affairs, Champion Family Resource Center, and other areas within the community college.

Print media has been distributed which includes informational flyers, local newspaper ads, referral cards, and class/course schedules.

Pilot sites (collectively) reported over **280 phone calls** and **265 office visits** in response to Project Skill-UP outreach and recruitment activities. Pilot sites reported **181 participants** enrolled in Project Skill-UP courses/training.

Area Served: Statewide

Project: Increasing the Utilization of Biodiesel Fuels in the NC Agricultural Community

Contact: Sandra Maddox
NCDA&CS Research Stations Division
1001 Mail Service Center
Raleigh, NC 27699-1001
(919) 733-3236

Grant Amount: \$61,000

Project will establish the use of biodiesel fuel on all agricultural research stations, provide biodiesel information at each research station Field Day, which are open to the public, and conduct additional Field Days to highlight and increase the use of biodiesel. The project's goal is to provide farmers information regarding the benefits of using biodiesel on their farms.

Update: All Research Stations have made the transition to a biodiesel blend. Two locations, one in the east and one in the west, had the greatest difficulties locating a vendor that would deliver to their locations. After talking with other locations both made the decision to mix biodiesel on site and were able to locate vendors that would sell or deliver B99. Both locations are pleased with the decision and have not encountered any problems.

The Research Stations Division provided opportunities to share information on biodiesel with local communities. The initial opportunity was the Fall Festival held at the Center for Environmental Farming Systems located on the Cherry Research Farm at Goldsboro, NC. Estimated attendance at the Saturday event held on September 16th was around 700 individuals of all ages and backgrounds. The Division shared information using the recently updated biodiesel display and brochures printed by Blue Ridge Biofuels out of Asheville. Employees at the Cherry Farm assisted with setting up, staffing the exhibit and answering questions.

The second opportunity for sharing information was the Central Crops 50th anniversary celebration at the Research Station in Clayton.

Approximately 350 people were in attendance for this event that started around 3:30 and included tours and a meal. Two different 30 minute tours were scheduled – one to discuss on-going research relating to biofuels and one on crops and their relationship to pharmaceuticals. The tour trailers were packed and the questions from participants extended the tour length to more than 45 minutes each. Additionally, Dr. Alex Hobbs with the NCSU Solar Center was available to explain the biodiesel making process. The event was very successful.

Area Served: Statewide

Project: Agricultural Heritage Outreach & Agritourism Program

Contact: Lynn Wagner
Tobacco Farm Life Museum, Inc.
PO Box 88
Kenly, NC 27542
(919) 284-3431

Grant Amount: \$100,000

Project will procure resources such as supplies, equipment, technology updates, and Board of Director's and staff development necessary for the operation of the tobacco museum and the expansion of the education and agritourism programs. The Museum will also employ farmers who will conduct farm tours for participating tour groups.

Update: They held several on farm tours for motor coach groups and school groups. They hosted two Agritourism groups who were in workshops with the Extension Agencies from Wilson and Wayne Counties. They held a summer day camp with 25 children participating in a week of Agricultural activities.

A 1,000 piece mailing was sent to schools and daycares in a 10 county radius of the museum and to senior groups in Baptist churches all over the state. The tour schedule for the past quarter has been full and they are scheduling for 2007 dates.

Area Served: Eastern NC

Project: Capital Access: Creating a Continuum of Financial Services for Alternative Agriculture in NC

Contact: Brian Schniederman
Center for Community Self Help
PO Box 3619
Durham, NC 27702
(919) 956-4400

Grant Amount: \$45,750

The Capital Access project is a continuation and enhancement of the previous financial needs survey of farmers. This project will provide further outreach to farmers and lenders and advocate for reforms in lending policies and programs to better serve farm enterprises. The project's goal is to survey tobacco farmers to determine their banking needs and then educate bankers on the benefits of providing loans to assist tobacco farmers with their diversification initiatives.

Update: The project is more than halfway completed: The "Farmer's Guide to Agricultural Credit" was written and published with input from the Steering Committee. The "Strategy Report" is being written based on stakeholders' definitions of the problems. Progress towards their goals continues on target with the project work plan.

Area Served: Statewide

Project: Expanding Homegrown/Handmade in Ashe County

Contact: Kathy Howell
Town of West Jefferson
PO Box 490
West Jefferson, NC 28694
(336) 246-3551

Grant Amount: \$100,138

Project will assist Ashe County growers in developing and maintaining profitable farm operations by offering a viable market for their crops, and increasing pedestrian traffic. A Farmers Market shelter addition with restrooms and electricity will be constructed. The project's goal is to provide amenities to the farmers market in order to attract additional customers and farmers to the site.

Update: Construction bids have been submitted with the lowest bid being considered. All bids came in over budget so attempts to secure the additional funding needed from county and local government is

underway. The current project director has departed for another job so a request to extend contract is forthcoming.

Area Served: Ashe

Project: Iseley Farm

Contact: Bethany Olmstead
Piedmont Land Conservancy
PO Box 4025
Greensboro, NC 27404
(336) 691-0088

Grant Amount: \$300,000

Project will assist with protecting a 370-acre organic tobacco producing farm in Alamance County through an agricultural easement. The Iseley Farm currently grows certified organic tobacco, maintains certified organic greenhouses, has a cow-calf beef cattle operation, has an on-site farm market selling strawberries, fresh vegetables, mums, etc. and offers educational programs for schoolchildren. The project will also protect the water quality of the Haw River by establishing a no-touch riparian areas along several tributaries to the Haw River and to the Haw River itself.

Update: The primary focus of PLC's efforts to date has been to secure additional funds for the purchase of the development rights. In March, they applied for a \$500,000 grant from the Smithfield Environmental Enhancement Program administered through the North Carolina Attorney General's Office. A decision on this grant is expected in November. In May, they applied for a \$144,000 grant from the North Carolina Clean Water Management Trust Fund to protect the riparian portion of the property along the Haw River. The grant was approved for further review by the NC-CWMTF Board of Trustees and a decision is expected in mid-November about what amount of funding is available.

In consultation with our partners in Alamance County, PLC determined that the ability of the Iseley Farm to qualify for funds from the USDA Farm and Ranch Protection Program (USDA-FRPP) would be enhanced if the farm was designated as a historic farm and a completed appraisal of the property. Therefore, they deferred their application to the USDA FRPP until the 2007 funding cycle. In the time before the grant is due, the appraisal should be complete and an application will have been submitted to the NC Department of Agriculture for the farm to be designated as a Century Farm.

Area Served: Alamance

Project: Growing Local Profits

Contact: Keith Baldwin
NC Agriculture and Technical State University
PO Box 21928
Greensboro, NC 27420
(336) 334-7995

Grant Amount: \$112,000

Project will demonstrate the economic viability of horticultural crops by providing farmers opportunities to diversify using plasticulture, assisting with fertigation systems, and assisting with direct marketing through local food projects. The project's goal is to place approximately 100-400 acres of farm land under efficient irrigation and weed-management systems.

Update: The primary activities that took place recently were visiting farmers that are currently participating in the program and assisting previous growers who wish to use the equipment from this program in new projects. The farm visits overall have been good. There are a lot of successful farmers this year in this program. This also has been a good year for plasticulture growers in our state. The people who have taken advantage of this program and have seen what the use of plasticulture can do as a supplement to their income are pleased with this new production strategy.

Area Served: Statewide

Tobacco Trust Fund Commission Operating Statement July 1, 2005 - June 30, 2006 (2006 Fiscal Year)

	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Total Amounts
Cash Carried Forward	\$6,736,189.68												
INTEREST INCOME*	\$15,591.25	\$17,983.06	\$17,410.17	\$17,180.73	\$17,800.39	\$18,562.34	\$19,314.94	\$16,628.74	\$14,645.63	\$18,637.80	\$17,149.43	\$16,613.36	\$207,517.84
TOBACCO SETTLEMENT*	\$0.00	\$0.00	\$0.00	{1}	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	{2}	\$0.00	\$0.00	\$0.00
OTHER REVENUE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$42.92	\$0.00	\$0.00	\$108.81	\$0.00	\$346.22	\$0.00	\$497.95
Fiscal Year 2006 Revenue	\$15,591.25	\$17,983.06	\$17,410.17	\$17,180.73	\$17,800.39	\$18,605.26	\$19,314.94	\$16,628.74	\$14,754.44	\$18,637.80	\$17,495.65	\$16,613.36	\$208,015.79
EXPENSES													
<u>Personnel Expenses</u>													
Per Diem-BD MEM	\$0.00	\$0.00	\$0.00	\$120.00	\$165.00	\$15.00	\$0.00	\$0.00	\$0.00	\$60.00	\$45.00	\$135.00	\$540.00
Trans-BD MEM	\$0.00	\$0.00	\$0.00	\$344.25	\$663.50	\$9.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$715.25	\$1,732.50
Subsistence-BD MEM	\$0.00	\$0.00	\$0.00	\$312.49	\$389.24	\$32.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$383.44	\$1,117.17
Other-BD MEM	\$0.00	\$0.00	\$0.00	\$154.00	\$0.00	\$114.90	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$216.00	\$484.90
	\$0.00	\$0.00	\$0.00	\$930.74	\$1,217.74	\$171.40	\$0.00	\$0.00	\$0.00	\$60.00	\$45.00	\$1,449.69	\$3,874.57
<u>Staff Personnel Expenses</u>													
Sal, Ins, Ret, SS Bene.**	\$12,047.68	\$11,340.80	\$12,106.41	\$11,724.68	\$11,724.68	\$11,921.74	\$11,724.68	\$12,993.01	\$11,724.68	\$11,724.68	\$11,724.68	\$11,724.68	\$142,482.40
Travel, Exp Acts, Reg Fees, Train.	\$800.74	\$0.00	\$0.00	\$60.60	\$751.82	\$202.74	\$15.52	\$960.10	\$0.00	\$482.82	\$67.20	\$858.69	\$4,200.23
	\$12,848.42	\$11,340.80	\$12,106.41	\$11,785.28	\$12,476.50	\$12,124.48	\$11,740.20	\$13,953.11	\$11,724.68	\$12,207.50	\$11,791.88	\$12,583.37	\$146,682.63
<u>Office Expenses</u>													
Repairs	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Postage Freight & Del***	\$10.79	\$253.12	\$143.77	\$274.88	\$88.22	\$197.94	\$91.54	\$260.69	\$111.53	\$184.65	\$17.97	\$171.21	\$1,806.31
General Office Supplies	\$32.50	\$989.32	\$33.85	\$301.49	\$26.90	\$19.95	\$76.54	\$13.90	\$58.95	\$19.95	\$19.95	\$89.33	\$1,682.63
Furniture	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Computer Equipment	\$0.00	\$1,457.43	\$0.00	\$0.00	\$0.00	\$1,126.44	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,583.87
Communication/Office Equipment	\$22.98	\$831.11	\$12.20	\$30.98	\$17.20	\$12.20	\$29.60	\$335.71	\$83.24	\$12.20	\$179.03	\$26.81	\$1,593.26
Other Administrative Expenses	\$5.54	\$58.00	\$0.00	\$0.00	\$0.00	\$249.00	\$0.92	\$11.76	\$20.25	\$0.00	\$0.00	\$184.09	\$529.56
Telephone Services****	\$0.00	\$301.56	\$144.37	\$145.44	\$0.00	\$148.04	\$149.36	\$146.96	\$90.85	\$459.42	\$0.00	\$305.85	\$1,891.85
	\$71.81	\$3,890.54	\$334.19	\$752.79	\$132.32	\$1,753.57	\$347.96	\$769.02	\$364.82	\$676.22	\$216.95	\$777.29	\$10,087.48
<u>Professional Services</u>													
Legal Services/Office Equip.-DOJ	\$21,912.36	\$3,226.09	\$0.00	\$0.00	\$27,794.23	\$0.00	\$27,588.26	\$817.05	-\$115.20	\$0.00	\$28,490.76	\$0.00	\$109,713.55
Contract Services	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$9,600.00	\$0.00	\$14,045.00	\$0.00	\$0.00	\$0.00	\$0.00	\$23,645.00
Misc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	\$21,912.36	\$3,226.09	\$0.00	\$0.00	\$27,794.23	\$9,600.00	\$27,588.26	\$14,862.05	-\$115.20	\$0.00	\$28,490.76	\$0.00	\$133,358.55
Fiscal Year 2006 Expenses													\$294,003.23

Encumbered Funds	Remaining Grants from the 2002 Granting Cycle	2004 Out-of-Cycle Grants Paid Out	Cash Carried Forward
2002 Granting Cycle \$332,894.66	FY 03-05 FY 06	FY 05 FY 06	\$6,736,189.68
Burley Marketing Center \$205,003.00	NC A&T \$112,264.46 \$25,318.64	RAFI \$92,500.00 \$32,941.45	Total Revenue 06 \$208,015.79
2003 Granting Cycle \$549,351.43	NC Tobacco Foundation \$119,078.61 \$16,247.50	NC Ag Foundation-Herbs \$47,185.50 \$0.00	Total Expenses 06 (-) \$294,003.23
Out-of-Cycle Grants \$314,081.69	NC Ag Foundation \$462,820.59 \$0.00	NC Ag Foundation-Agritourism \$0.00 \$123,007.17	Total \$6,650,202.24
2005 Granting Cycle \$1,907,634.77	NC Foundation Soil & Water \$243,903.10 \$0.00	TRLG \$0.00 \$30,000.00	Total Grants Paid Out (-) \$1,550,280.33
TOTAL \$3,308,965.55	ASAP \$258,373.07 \$34,363.37	TOTAL \$139,685.50 \$185,948.62	Current Cash Balance \$5,099,921.91
Budget Shortfall Transfers/Debt Service Payment	TOTAL \$1,196,439.83 \$75,929.51	2005 Granting Cycle Paid Out	Encumbered Funds (-) \$3,308,965.55
FY 02 Designated Interceptions \$82,004,511.11	Remaining Grants from the 2003 Granting Cycle	FY 06	TOTAL GrantMgmt/Admin/ Enforcement of the MSA \$1,790,956.36
FY 03 Designated Interceptions \$38,000,000.00	FY 04-05 FY 06	NC Foundation Soil & Water \$75,000.00	
FY 04 Designated Interceptions \$37,146,734.06	NC Foundation Soil & Water \$175,000.00 \$76,560.00	Conservation Trust for NC \$100,000.00	
FY 05 Designated Interceptions \$35,000,000.00	RAFI \$275,582.71 \$60,733.17	RAFI \$214,689.67	
FY 06 Designated Interception {1} \$417,455.48	Johnston County Coop Ext \$8,371.00 (\$3,180.33)	HandMade in America \$185,867.61	
FY 06 Designated Interception {2} \$31,716,720.29	NCSU \$132,498.20 \$12,447.34	NRWASA \$86,271.50	
FY 06 Planned Interception \$1,865,824.23	Old North State \$139,681.44 (\$1,000.00)	NC Ag Foundation-Pierce's Disease \$35,897.50	
FY 06 Debt Service Payment {2} \$1,979,096.00	TGANC \$177,502.53 \$9,797.51	NC Ag Foundation-Value Added \$122,514.00	
TOTAL \$228,130,341.17	Tar River Land Conservancy \$118,230.28 \$0.00	NC Tobacco Foundation-Black Shank \$23,934.00	
Total Grants Paid Out Since Inception	Rural Center - Cooperatives \$67,100.00 (\$3,194.24)	NC Ag Foundation-CALS Leadership \$72,220.00	
Barn Retrofit \$41,090,228.00	Rural Center - Workforce Dev \$329,575.28 \$14,337.57	NC Tobacco Foundation-Grower Communication \$70,206.50	
Burley Marketing Center \$2,350,000.00	Farm Bureau Legal Foundation \$86,575.66 \$9,580.88	NC Tobacco Foundation-TSWV \$37,512.50	
NCDA/NCSU Barn Retrofit \$168,254.00	Cherokee Coop Ext \$19,937.50 \$0.00	NC Rural Center \$2,236.52	
Hay Relief \$5,000.00	NC Tobacco Foundation \$42,118.41 \$0.00	NC Community College System \$0.00	
FCTCC \$1,880,113.85	NC Ag Foundation \$222,663.59 \$12,254.07	NCDA&CS Research Stations \$841.43	
2002 Granting Cycle \$2,450,118.73	TOTAL \$1,794,836.60 \$188,335.97	Tobacco Farm Life Museum \$50,000.00	
2003 Granting Cycle \$3,188,552.40		Center for Community Self Help \$22,875.00	
2004 Out-of-Cycle Grants \$325,634.12		Town of West Jefferson \$0.00	
2005 Granting Cycle \$1,100,066.23		Piedmont Land Conservancy \$0.00	
TOTAL \$52,557,967.33		NC A&T \$0.00	
		TOTAL \$1,100,066.23	

*Interest Income-May vary due to adjusting interest rates & date of deposit.

**Sal, Ins, Ret, SS Bene.-Some data was not available at the time of this report.

***Postage Freight & Deliv-NCDA&CS keys USPS fees for TTFC. Several months are accumulated before data is entered into NCAS.

****Telephone Services-Due to billing dates, some data was unavailable for this report.

This report is based on data from
7/1/05-6/30/06

Tobacco Trust Fund Commission Operating Statement July 1, 2006 - June 30, 2007 (2007 Fiscal Year)

	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Total Amounts
Cash Carried Forward	\$5,099,921.91												
INTEREST INCOME*	\$16,508.70	\$16,528.61	\$16,798.91	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$49,836.22
TOBACCO SETTLEMENT*	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
OTHER REVENUE	\$0.00	\$0.00	\$8.32	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$8.32
Fiscal Year 2007 Revenue	\$16,508.70	\$16,528.61	\$16,807.23	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$49,844.54
EXPENSES													
<u>Personnel Expenses</u>													
Per Diem-BD MEM	\$15.00	\$15.00	\$15.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$45.00
Trans-BD MEM	\$168.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$168.00
Subsistence-BD MEM	\$54.75	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$54.75
Other-BD MEM	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	\$237.75	\$15.00	\$15.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$267.75
<u>Staff Personnel Expenses</u>													
Sal, Ins, Ret, SS Bene. **	\$14,278.20	\$13,231.13	\$13,008.23	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$40,517.56
Travel, Exp Acts, Reg Fees, Train.	\$937.84	\$116.59	\$298.41	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,352.84
	\$15,216.04	\$13,347.72	\$13,306.64	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$41,870.40
<u>Office Expenses</u>													
Repairs	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Postage Freight & Del***	\$111.22	\$256.40	\$20.91	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$388.53
General Office Supplies	\$205.28	\$259.34	\$61.80	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$526.42
Furniture	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Computer Equipment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Communication/Office Equipment	\$26.80	\$105.00	\$26.48	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$158.28
Other Administrative Expenses	\$52.76	\$235.00	\$65.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$352.76
Telephone Services****	\$144.53	\$0.00	\$997.38	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,141.91
	\$540.59	\$855.74	\$1,171.57	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,567.90
<u>Professional Services</u>													
Legal Services/Office Equip.-DOJ	\$28,037.71	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$28,037.71
Contract Services	\$2,750.00	\$1,750.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4,500.00
Misc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	\$30,787.71	\$1,750.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$32,537.71
Fiscal Year 2007 Expenses													\$77,243.76

Encumbered Funds		Remaining Grants from the 2002 Granting Cycle			2005 Granting Cycle Paid Out				
			FY 03-06	FY 07		FY 06	FY 07		
2002 Granting Cycle	\$307,853.71		\$137,583.10	\$13,686.77	NC Foundation Soil & Water	\$75,000.00	\$0.00	Cash Carried Forward	\$5,099,921.91
Burley Marketing Center	\$45,447.79		\$462,820.59	-\$247.72	Conservation Trust for NC	\$100,000.00	\$0.00	Total Revenue 06	\$49,844.54
2003 Granting Cycle	\$350,680.46		\$243,903.10	\$11,601.90	RAFI	\$214,689.67	\$30,684.98	Total Expenses 06 (-)	\$77,243.76
Out-of-Cycle Grants	\$247,535.75		\$844,306.79	\$25,040.95	HandMade in America	\$185,867.61	\$11,999.04	Total	\$5,072,522.69
2005 Granting Cycle	\$1,799,833.09				NRWASA	\$86,271.50	\$15,052.08	Total Grants Paid Out (-)	\$557,614.75
TOTAL	\$2,751,350.80							Current Cash Balance	\$4,514,907.94
Budget Shortfall Transfers/Debt Service Payments		Remaining Grants from the 2003 Granting Cycle						Encumbered Funds (-)	\$2,751,350.80
			FY 04-06	FY 07				TOTAL GrantMgmt/Admin/ Enforcement of the MSA	\$1,763,557.14
FY 02 Designated Interceptions	\$82,004,511.11		\$251,560.00	\$71,320.97	NC Ag Foundation-Pierce's Disease	\$35,897.50	\$0.00	*Interest Income-May vary due to adjusting interest rates & date of deposit.	
FY 03 Designated Interceptions	\$38,000,000.00		\$118,230.28	\$127,350.00	NC Ag Foundation-Value Added	\$122,514.00	\$0.00		
FY 04 Designated Interceptions	\$37,146,734.06		\$96,156.54	\$0.00	NC Tobacco Foundation-Black Shank	\$23,934.00	\$0.00	**Sal, Ins, Ret, SS Bene.-Some data was not available at the time of this report.	
FY 05 Designated Interceptions	\$35,000,000.00		\$19,937.50	\$0.00	NC Ag Foundation-CALS Leadership	\$72,220.00	\$0.00		
FY 06 Designated Interceptions	\$32,134,175.77		\$42,118.41	\$0.00	NC Tobacco Foundation-Grower Comm.	\$70,206.50	\$6,340.92	***Postage Freight & Deliv-NCDA&CS keys USPS fees for TTFC. Several months are accumulated before data is entered into NCAS.	
FY 06 Debt Service Payment	\$1,979,096.00		\$528,002.73	\$198,670.97	NC Tobacco Foundation-TSWV	\$37,512.50	\$0.00		
FY 07 Planned Interception	\$30,000,000.00				NC Rural Center	\$2,236.52	\$12,895.95	****Telephone Services-Due to billing dates, some data was unavailable for this report.	
FY 07 Estimated Debt Service Payment	\$2,510,989.50				NC Community College System	\$0.00	\$4,643.98		
TOTAL	\$258,775,506.44				NCDA&CS Research Stations	\$841.43	\$10,797.01		
Total Grants Paid Out Since Inception		Remaining 2004 Out-of-Cycle Grants							
			FY 05-06	FY 07					
Barn Retrofit	\$41,090,228.00		\$125,441.45	\$19,636.77	Tobacco Farm Life Museum	\$50,000.00	\$15,387.72		
Burley Marketing Center	\$2,509,555.21		\$47,185.50	\$46,909.17	Center for Community Self Help	\$22,875.00	\$0.00		
NCDA/NC SU Barn Retrofit	\$168,254.00		\$30,000.00	\$0.00	Town of West Jefferson	\$0.00	\$0.00		
Hay Relief	\$5,000.00		\$202,626.95	\$66,545.94	Piedmont Land Conservancy	\$0.00	\$0.00		
FCTCC	\$1,880,113.85				NC A&T	\$0.00	\$0.00		
2002 Granting Cycle	\$2,475,159.68				TOTAL	\$1,100,066.23	\$107,801.68		
2003 Granting Cycle	\$3,387,223.37								
2004 Out-of-Cycle Grants	\$392,180.06								
2005 Granting Cycle	\$1,207,867.91								
TOTAL	\$53,115,582.08								

This report is based on data from 7/1/06 - 9/30/06

This report is based on data from 7/1/06 - 9/30/06

Summer 2006

Living with Pierce's disease

By Dave Caldwell



Dr. Turner Sutton plans a three-year effort aimed at learning how to manage Pierce's disease in wine grapes.

Photo by Daniel Kim

The first symptoms usually appear in mid-July to August, the hottest part of a North Carolina summer. The leaves of grapevines turn brown at the edges, as though scorched by the summer heat. Then clusters of grapes shrivel up. Eventually, the entire vine dies.

This is Pierce's disease, and it is the bane of North Carolina's growing viticulture industry. It is also the object of Dr. Turner Sutton's scrutiny. Sutton, a professor of plant pathology and Extension specialist in the College of Agriculture and Life Sciences, is looking for ways to allow North Carolina wine grape growers to live with Pierce's disease.

"Growers are concerned about it, and they should be concerned about it," says Sutton.

Pierce's disease, he says, "has the potential to limit the success of North Carolina vineyards."

Growing European-type vinifera wine grapes and making wine is a growing industry in North Carolina. The number of wineries in the state has doubled since 2002, according to the North Carolina Wine and Grape Council. North Carolina is home to more than 50 wineries, with five

more expected to open this year. How successful Sutton is in determining how to deal with Pierce's disease will likely affect the success of this expanding industry.

Pierce's disease is caused by a bacterium, *Xylella fastidiosa*, which is spread from a variety of plants to grapevines by insects such as leafhoppers and spittlebugs, Sutton says. Among the reservoir plants on which the bacterium is found are oak trees, blackberries, wild grapes and Virginia creeper. When the bacterium infects a grapevine, it plugs the xylem, the water-conducting tissue of the plant, cutting off the vine's water supply.

Sutton has studied how the disease is spread and how it survives and plans to test methods of managing it.

If winter temperatures drop low enough, the bacterium that causes Pierce's disease can't survive, Sutton says. Sutton has looked at the effect of winter temperature on Pierce's disease in North Carolina. What he found is not particularly good news for grape growers.

Winters are warm enough throughout eastern North Carolina and the southern and eastern piedmont that the Pierce's disease bacterium can overwinter. As a result, Sutton describes the risk of the disease in these areas as "quite high." He describes disease risk as "somewhat less" in the north and central piedmont, where winters are a little cooler but still not cool enough to kill *Xylella fastidiosa*. Sutton points out that as a result of warmer winters in recent years, the risk of the disease has increased throughout the piedmont.

One of Sutton's students recently looked at the vectors of the bacterium, the insects that transmit the disease to grapevines. In 2004 and 2005, insect traps were placed in vineyards in the piedmont and coastal plain. Four species of leafhopper were identified as being most abundant in the vineyards, and three of the species tested positive for the bacterium. At least two of these leafhopper species are thought to be the primary vectors for Pierce's disease on grapes in North Carolina.

Sutton and Dr. George Kennedy, William Neal Reynolds Professor of Entomology, are now working with a \$72,000 grant from the N.C. Tobacco Trust Fund Commission to look at methods of managing Pierce's disease. They are attacking the disease on three fronts.

The grant is being used to develop an insecticide spray program designed to control the leafhoppers thought to be primarily responsible for spreading the disease. At the same time, Sutton plans to work on more specifically identifying the reservoir plants that harbor the Pierce's disease bacterium. If growers know where the bacterium resides when it's not on grapevines, it may be possible to eliminate these plants from the vicinity of a vineyard and reduce the likelihood of the disease.

Sutton is going to experiment with pruning to remove infected parts of the vine. It may be possible to halt the disease before it spreads too far on the vine. Sutton explains that the bacterium moves from grapevine leaves to the vine's cordon, the part of the vine that is trained to grow horizontally along a trellis. The bacterium then moves to the vine trunk, which kills the vine. If a grower sees infected leaves in July, he may be able to save the vine by pruning the infected shoots.

"We don't have a lot of answers at this time," says Sutton, who hopes to "come up with a plan that allows us to live with the disease."

THE NORTH CAROLINA FOUNDATION FOR SOIL & WATER CONSERVATION

*The following is a selection of updates from The North Carolina Foundation for Soil & Water Conservation's 2000-2006 Accomplishments Report.
Cecil Settle, Executive Director*

Conservation Districts equipped through Automation for Outreach to Farmers on Nutrient Management Issues

Conservation district's capacity for service to farmers with nutrient management issues and helping farmers respond to new state nutrient management regulations received a major boost from this Foundation project. In that effort, 82 computers and 66 laser printers were installed in district's offices for use in making nutrient loss assessments and developing management plans.

In addition, fifteen informational meetings were funded for 1,643 farmers, 35,200 informational brochures were printed and distributed for informing farmers, 81 statewide radio programs and 385 one-minute radio spots were run all in an effort to inform farmers of the need to act on nutrient management issues on their farms to stay in compliance with new government regulations.

This very successful project was funded by a \$245,000 grant from the **NC Tobacco Trust Fund Commission**.



Moore District Conservationist Kevin Williams demonstrates new computer equipment for doing nutrient loss assessments and plans for (from left) Billy Carter, Nowell Brown, and Michael Holden local conservation and government officials.

Conservation District's Protect the State's Best Farmland by Funding Closing Costs on Conservation Easements

The Foundation has awarded \$60,000 in grants for reimbursing closing costs on ten conservation easements endorsed by local conservation districts. These easements cover 1,789 acres of the best active farmland in Franklin, Granville, Halifax, Macon, Nash, Rowan, and Wake Counties and are cumulatively valued at \$5,246,025.

Conservation district's capacity for protecting the State's best farmland long-term for agriculture was enhanced by becoming a conduit for funding that makes conservation easement procurement possible using funds from other sources. These highly leveraged projects funded by the Foundation were approved for participation in the federal Farm and Ranchland Protection Program assuring that they are, in fact, the best active farmlands in the State.

This project was funded by a \$105,000 grant from the **NC Tobacco Trust Fund Commission**.



An example of the state's best farmland being protected for long-term agriculture production.

Water Quality Projects on Tobacco Farms get Foundation Support

The Foundation has funded 18 conservation district proposals that assist tobacco farmers in transition from tobacco production or diversification to other agricultural enterprises install needed land treatment on their farms. Cost share grants for these projects are funding "Best Management Practices" on cropland that prevents sediment, nutrients, or other pollutants from entering streams on participating tobacco farms.

Conservation practices covered by these grants include planting cropland to grass or trees, grassed field borders and filter strips, grassed waterways, forested buffers, and fencing to keep livestock out of streams. One additional project is being formulated for funding from the Foundation. To date, over 70 farmers have participated in the project. **The NC Tobacco Trust Fund Commission** provided \$500,000 for this project.



Lexington tobacco farmer Adam Hilton tends his crop after installing water quality practices protecting nearby streams from sediment and nutrients using the Foundation's NC Tobacco Trust Fund grant



Spring 2006

Adding value to value-added agriculture



Attending a March meeting on value-added and alternative programs are Dr. John Rushing, Martha Mobley, Karen McAdams, Dr. Jeanine Davis, Dr. Blake Brown and Rob Hawk.

Courtesy Blake Brown

As an economist whose specialty is tobacco and peanut policy, Dr. Blake Brown is well aware of how the role tobacco plays in North Carolina's economy has changed in recent years.

Indeed, Brown, Hugh C. Kiger Distinguished Professor of Agricultural and Resource Economics, has seen the writing on the tobacco curing barn wall.

"If you look at North Carolina agriculture, we have transitioned from a tobacco-based economy," says Brown. He points out that in 1983 tobacco accounted for 27 percent of total North Carolina farm cash receipts. In 2003, tobacco provided 9 percent of cash receipts. While tobacco is and

will likely continue to be an important part of North Carolina's agricultural economy, many farm families who have relied on tobacco can no longer do so.

But there are other agricultural options, and Brown is working to make sure those options are readily available to North Carolinians who wish to pursue them. Brown has been working in recent months to support efforts in the College of Agriculture and Life Sciences and North Carolina Cooperative Extension that focus on value-added and alternative agricultural enterprises.

Brown's long-term goal is the creation in the College of a Center for Value-Added Profitability. But creating a center is a bureaucratic endeavor that can take time. So in the meantime, Brown is content with, as he describes it, working to focus College resources to help Extension specialists and agents help North Carolinians develop value-added and alternative enterprises.

"We have a lot of activity (focusing on value-added and alternative enterprises) in the College on campus and in the counties," says Brown. "A lot of this is grassroots in nature."

Brown, in conjunction with the Department of Communication Services, has developed a Web site (<http://www.cals.ncsu.edu/value-added>) that will feature information on value-added and alternative agriculture programs and resources that may be used to develop value-added enterprises. In early March he organized a meeting that brought together Extension specialists, agents and others to discuss value-added activities. He is paying for these and other activities with a \$245,000 grant from the **North Carolina Tobacco Trust Fund Commission**.

Brown is using some of the Tobacco Trust Fund grant to hire a person with business management and economic assessment expertise for a year. The person in this master's level position will be available to work with Extension agents and specialists who are helping farm families develop value-added and alternative enterprises.

"I hope we can bring more focus to value-added and alternative enterprises by trying to bring resources to bear in terms of business management and economic assessment expertise," says Brown. "These seem to be missing pieces."

He adds, "Campus and field faculty increasingly rely on external funding for their value-added and alternative agriculture programs. The Tobacco Trust Fund grant will also enable us to provide assistance to field and campus faculty in writing grants" that focus on developing value-added and alternative enterprises.

At the same time, Brown is working to try to make sure that Extension agents in particular are aware of successful value-added and alternative programs across the state. That was the impetus behind the March meeting.

In early March, Brown invited agents and others to attend a two-day meeting on value-added and alternative programs at Camp Carroway in Asheboro. A steering committee of 14 extension agents and specialists helped plan and implement the event. Seventy-two agents and others attended the meeting, during which agents who have developed successful programs gave presentations on those programs. The meeting also featured a presentation by Rob Holland of the Center for Profitable Agriculture, an effort by the University of Tennessee to aid agricultural entrepreneurs in developing value-added enterprises.

Brown called the meeting "kind of a kick off" for the value-added effort.

- Dave Caldwell

The Agricultural Reinvestment Report



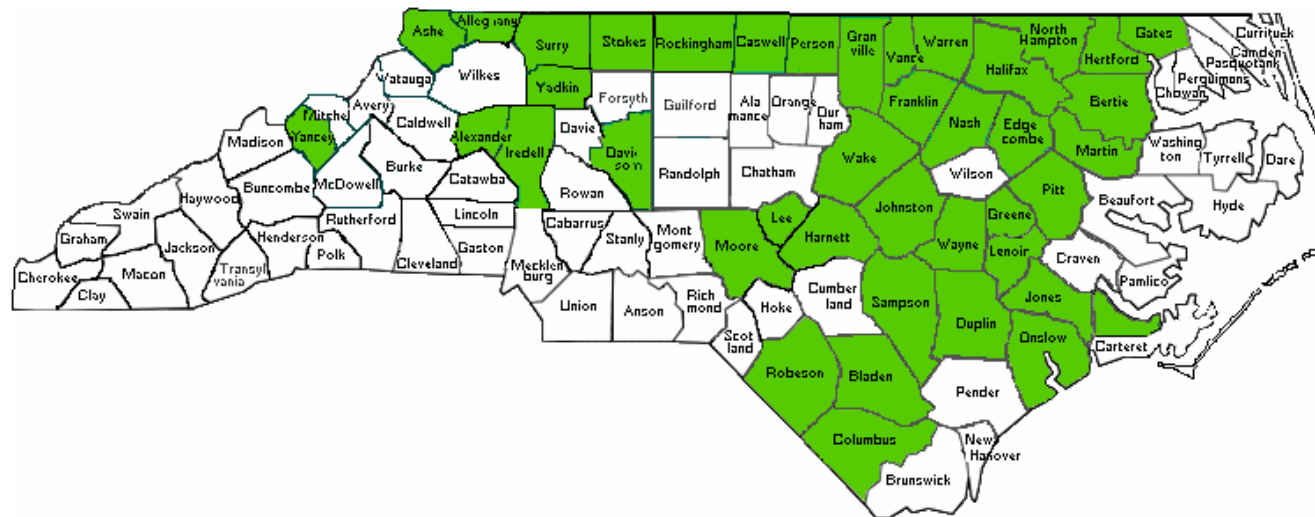
RAFI-USA
Rural Advancement Foundation International

The publication of The 2005 Agriculture Reinvestment Report and the good work described in the document has been funded in part by the North Carolina Tobacco Trust Fund Commission. RAFI-USA would like to thank the Tobacco Trust for its continuing efforts in support of North Carolina's farmers.



Any opinion, finding conclusion or recommendations expressed in this publication are those of RAFI-USA and do not necessarily reflect the view and policies of the North Carolina Tobacco Trust Fund Commission.

The Agricultural Reinvestment Report



REINVIGORATING NORTH CAROLINA'S RURAL ECONOMY THROUGH DIRECT INVESTMENT IN FARMING



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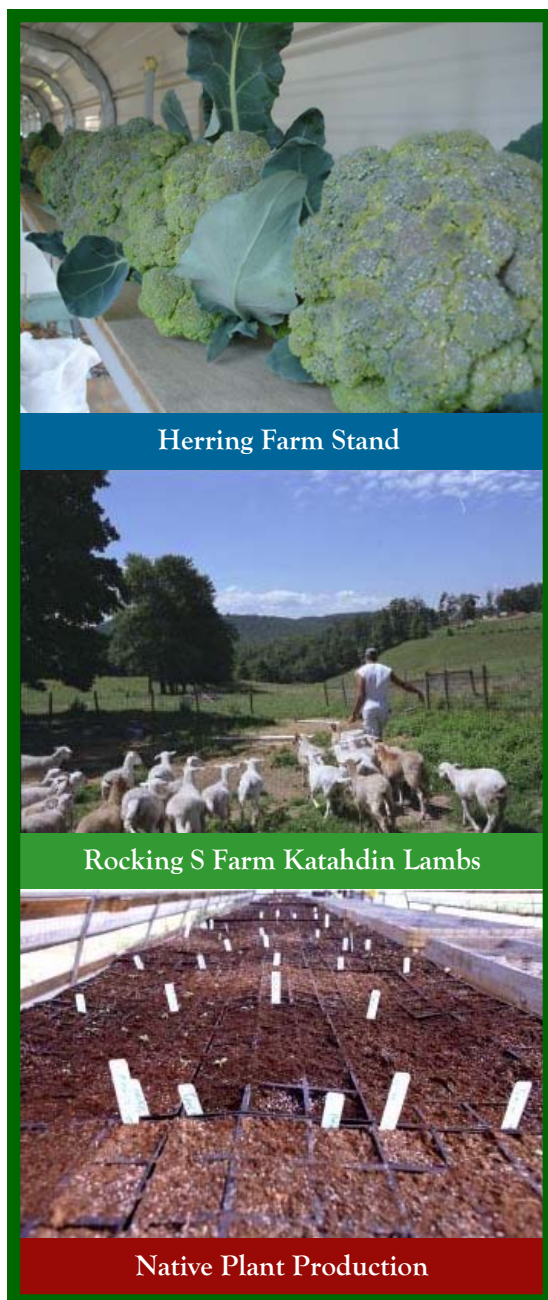
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The Agricultural Reinvestment Report

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Executive Summary

Recent changes in the tobacco industry have added a level of complexity to the challenges facing North Carolina growers. All of the state's farm families and rural communities have long been grappling with low farm commodity prices, rising costs of fuel and other inputs, globalization, and the continuing loss of rural manufacturing jobs.

Along with these common challenges, tobacco farm families were given the additional task of responding to the tobacco buyout and fundamental changes in the way tobacco is grown and sold. Gone is the decades-old commodity program that had stabilized tobacco prices and earned farm families money to plant other (less lucrative) crops, pay living expenses, send children to college and put a bit aside. Very quickly, farmers realized that only large acreage could earn a profit on tobacco in the new system. Small farmers would have to use their wits and wisdom to devise alternatives to lost tobacco income.

The tobacco buyout was created precisely to help farmers make a smooth transition. The first annual payment was made in 2005, and the last of 10 such payments will come in 2014. All told, North Carolina tobacco growers and quota holders will receive \$3.9 billion over the 10-year buyout period.

Signs of oncoming change were clear before the buyout was done and the first check mailed. In the mid-1990s RAFL-USA committed itself to a major initiative to support North Carolina growers and rural communities. We launched our Tobacco Communities Reinvestment Fund in 1997 as a resource for reinvesting in our state's farm economy.

The guiding principle behind our new program was our conviction that reinvestment is the key to long-term success in rural economic development. Our analysis identified an abundance of human resources: farmers with energy, ideas, agricultural skill, and a superb work ethic. Another great resource is the state's agricultural infrastructure of farm land, fences, pastures, and farm equipment. And the tobacco buyout payouts give farmers some reliable income to be reinvested in new farm ventures.

Our Tobacco Communities Reinvestment Fund is now in its tenth year. The program provides farmers cost-share and technical support to try innovative ideas for new farm enterprises. The reinvestment fund creates and sustains farm-based jobs, leverages new rural investment, and finds new uses for existing farm and community resources.

The program is paying dividends. Results demonstrate that adding cost-share and technical support to farmer innovation can create the new enterprises North Carolina farmers need to replace tobacco income. As of this writing, 68 new farm enterprises have been created, with 80% of participating growers reporting success and each \$1 invested by us creating \$3.31 in new local investment.

However, more is needed. The dizzying pace of change in the rural economy requires a greater commitment of resources to support development of new farm income sources if we hope to retain modest-sized farm businesses as viable contributors to the rural economy.

This report describes the logic, experience and impact of the Tobacco Communities Reinvestment Fund to date. Our analysis of this experience leads us to this conclusion: RAFL-USA's Tobacco Communities Reinvestment Fund provides a well-tested model for a statewide initiative to create profitable new farms and farm-based enterprises that will revitalize North Carolina's rural economy and serve as the mainspring of overall rural economic development for years to come.

The Tobacco Communities Reinvestment Fund is:

- ✧ Generating **new ideas** through 68 producer and community agricultural initiatives in 25 North Carolina counties that demonstrate innovative ways to replace lost tobacco income.
- ✧ Creating **rural economic development** by leveraging \$2.2 million of investment in alternative agricultural enterprises, resulting in 34 new agricultural jobs and sustaining 412 existing farm jobs.
- ✧ **Reaching out** to more than 2,000 farmers who have attended field days, farm tours, and presentations put on by reinvestment fund demonstration project participants.
- ✧ **Making efficient use of resources** by spending less than \$2,000 per job retained and only about \$22,000 per job created.

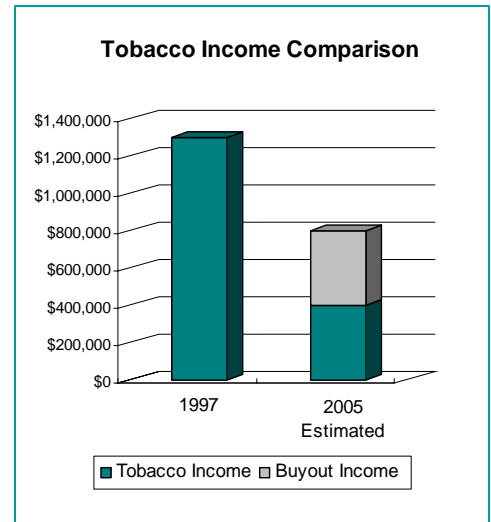
Impacts of the Buyout

Background: The Fair and Equitable Tobacco Transition Act of 2004

The Fair and Equitable Tobacco Transition Act of 2004, also called the tobacco buyout, provided much-needed relief to tobacco growers and quota holders across North Carolina. Years of quota cuts and corresponding loss of income on tobacco farms and in rural communities had left few options for farmers. Many felt the federal supply management system of marketing quotas was on the verge of collapse. While necessary, in the end the buyout is at best a mixed blessing for North Carolina. The buyout eliminated a program that had served North Carolina farmers and rural communities well for more than six decades.

North Carolina's share

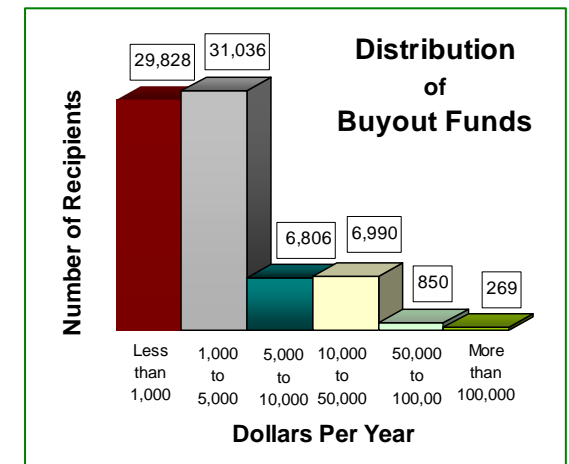
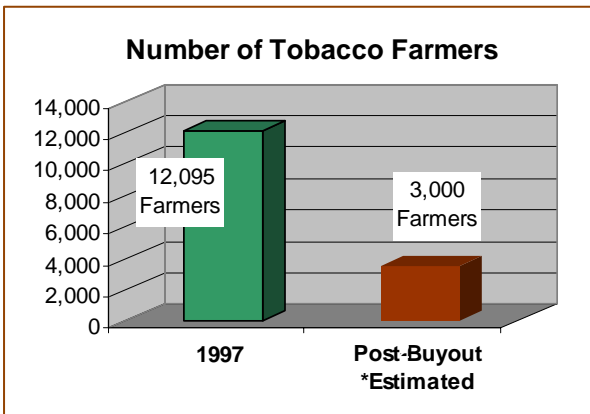
The buyout, while helpful, fails to fill the whole gap in the state's economy left by declining tobacco production and revenues. Farmer income from tobacco shrank from \$1.3 billion in 1997¹ to an estimated \$400 million in 2005. **The \$390 million per year tobacco buyout will make up less than half of the \$800 million of tobacco revenues lost to North Carolina farmers since 1997.** Revenue from the tobacco buyout is only temporary. Over the coming years, income from tobacco is expected to stabilize at about \$750 million, but it will never again be the economic driver it once was. Other income sources are needed just to return the standard of living in our rural communities to 1997 levels.



Farm-level impacts

While the decline in tobacco is a clear and immediate drain on North Carolina's rural economy at a macro scale, the impacts of the buyout will be felt most strongly on individual farms. Buyout payments will be paid in ten equal installments that began in 2005. This influx of capital into towns and rural communities will have positive effects, but the buyout is no panacea for farmers. **The reality is that while a few farmers will receive larger sums, 80% of buyout recipients will receive less than \$5,000 per year.**²

Tobacco shaped the landscape of North Carolina agriculture, giving rise to farms of a particular size and nature. The historical value of a tobacco crop meant a farmer could support a family on relatively few acres compared to other commodities. Thus North Carolina still has more operating small and moderatesized farms than non-tobacco-producing states. Tobacco allowed North Carolina farmers a reasonable standard of living and educational opportunities for their children. In the wake of the tobacco buyout, per-acre tobacco profits have decreased, so a grower needs to cut costs and raise more acres to maintain net income. Tobacco experts foresee fewer and much larger tobacco operations meeting future needs for North Carolina leaf. **By the time the buyout's initial impacts shake out, as many as five of every six farmers growing tobacco at the time of the Master Settlement Agreement will be looking for another way to earn a living,³ and the preponderance of small-scale farms that were viable under the old system, will be gone.**



¹ USDA—National Agricultural Statistics Service, Statistical Bulletin 999a: *Crop Values Final Estimates 1997-2002*, October 2004. AND NCDA&CS—Agricultural Statistics Division, *Annual Summary: Crop Estimates, North Carolina 2002-2004*.

² *News and Observer*, Leaf buyout tolls end of an era, Kristin Collins, October 12, 2004.

³ Based on 1997 estimate that put tobacco farmer numbers in North Carolina at 12,095 and Blake Brown's recent estimate that it will require between 1,256 and 2,513 growers to produce all of the flue-cured tobacco needed from North Carolina (from his USDA-ERS workshop presentation in Washington, D.C., September 20, 2005).

Why reinvestment?



Photograph by Rob Amberg

With the end of the quota and price support system in 2004, thousands of farm families must quickly develop new production and marketing skills, as well as establish needed physical infrastructure to accommodate diversified streams of farm income. Rather than new investment to recruit new businesses, the state's agricultural economy requires a reinvestment on existing farms and in farm-based communities from the mountains to the coast. **The tobacco quota system secured income opportunities for farmers, but did not require significant skills in areas of marketing, business planning, and product development.** The goal of reinvestment is to develop new production skills, post-harvest infrastructure, and marketing systems that will keep existing farms viable into the future.

Reinvestment recognizes farms as vital businesses in rural communities. It is fundamentally a strategy to support existing small businesses (farms) in rural communities that are facing an imminent challenge to re-tool their production and marketing systems. Through reinvestment, farmers are

able to move ahead in transforming their operations from a system dependent on a USDA-guaranteed commodity production program, to a free market system of production and marketing of farm-based products. **This transformation not only helps the transition to free-enterprise agriculture, but also spurs the development of farmers' latent entrepreneurial business skills.**

Reinvestment in existing farms differs from new investment or economic incentives to bring new businesses to a community. RAFL-USA invests in existing businesses that are intrinsic to their local communities, that are family-owned, and that are highly unlikely to leave the area. These businesses also enjoy an existing basic infrastructure for supporting their operations in terms of agricultural equipment and supply sources.

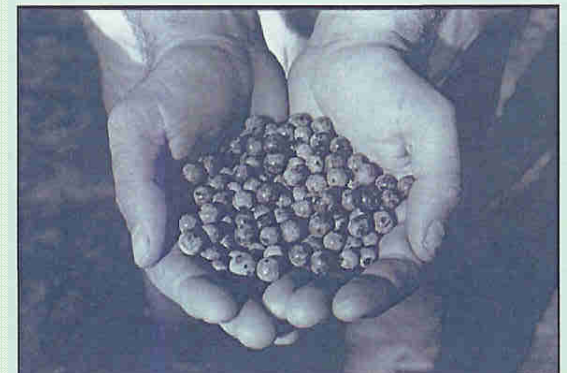
Family farming provides communities with an economic foundation that has long-term benefits, maintains land and environmental resources, and maximizes economic returns to the primary producers. Unlike most businesses, farms also require minimal government-funded infrastructure such as water, sewer, and gas lines, resulting in farms paying out more in taxes than they require in services, thus subsidizing state and local government services to others.

For too long, traditional economic development incentives have undervalued or ignored the natural economic strength and community value of farm-based agriculture.

Most economic development entities have failed to recognize farmers as legitimate business people. Likewise, farmers have not self-identified as the business people they are, especially under government-supported commodity programs. Business recruitment, long the chief strategy of economic developers in the South, has in recent years shown lower returns in terms of job creation and retention than in previous decades. International competition is a prime factor.

Businesses that can quickly relocate from one community to another can just as easily relocate again after several years when the economic climate changes.

Some well-meaning business recruitment efforts in rural communities have cost taxpayers millions of dollars with no long-term economic benefit, and in some cases real damage, to the target communities. **Reinvestment does not carry the risks of new investment and can pay dividends more quickly by building on North Carolina's existing infrastructure and resources.**



Photograph by Rob Amberg

Why a cost-share program?

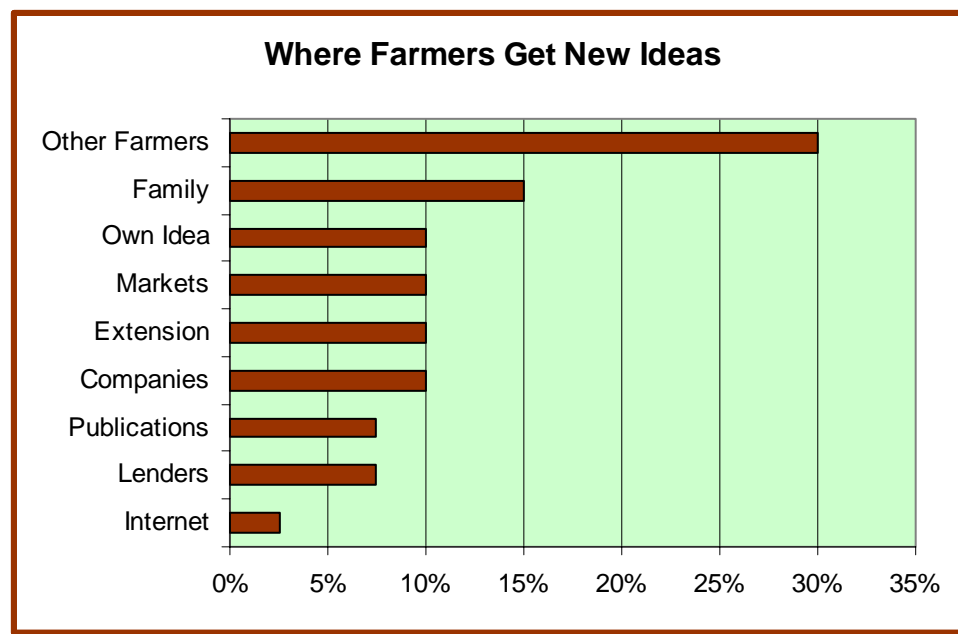
A cost-share program requires only minimal investment and greatly expands the number of acres dedicated to researching new alternatives to replace lost tobacco income. By providing the support necessary to enable farmers to take risks on new enterprise, a cost-share program accelerates the speed of transition. A cost-share program is an efficient and effective way to enhance the efforts of our existing agricultural service providers to develop new alternatives to tobacco. **By empowering farmers to take risks, cost-share support increases the pace of development and the chance for a successful transition to new sources of farm income.**

There is no silver bullet to replace lost tobacco income. It will take a multitude of diverse ideas and innovations for the thousands of North Carolina farmers who are in transition to generate new income sources for the farm. A cost-share program facilitates the transition by empowering farmers to put their own ideas to work to overcome the barriers they face in replacing tobacco income. **A cost-share program encourages innovation by spreading the risk of new enterprise development among multiple partners.**

In a longitudinal survey of North Carolina tobacco farmers⁴, farmers identified the key barriers to increasing income from other farm sources as the low profitability of other commodities, lack of processing facilities, few places to sell other products, a limited labor supply, and lack of capital. Only 10% of farmers surveyed knew of sources of loan or grant money to support development of new farm enterprises.⁵ **RAFI-USA's cost-share program takes advantage of farmer ingenuity by providing resources to test innovative production, processing, and marketing strategies that address these barriers.**

Demonstration projects developed with cost-share support are critical to the dissemination of new agricultural models. More than any other source, farmers look to other successful farmers for ideas and information. According to a survey of tobacco farmers who have found new ways to replace lost tobacco income, other farmers are the number one inspiration for undertaking new initiatives.⁶

Also in that survey, respondents listed other farmers as the primary source of technical assistance for new enterprises. On-farm demonstration of new agricultural initiatives is an effective way to encourage farmer-to-farmer transfer of ideas and knowledge. Cost-share support to develop new demonstrations is a way to put limited resources where they can be most effective.



⁴ In partnership with Wake Forest University and the Research Triangle Institute, RAFI-USA surveyed tobacco farmers in 14 North Carolina counties to get information about the changing conditions on the farm. The survey work began in 1997 and follow-up surveys were conducted in 1999, 2001 and 2004.

⁵ RAFI-USA. *Summary Report: 2001 Tobacco Farmer Survey*. 2002.

⁶ In partnership with Wake Forest University and the Research Triangle Institute, RAFI-USA has conducted surveys of North Carolina tobacco farmers since 1997. The survey area covers 14 major flue-cured tobacco producing counties in eastern North Carolina. The survey began with a sample of 1,236 tobacco farmers in 1997 and was repeated with these same farmers again in 1999, 2001, and 2004 in order to track longitudinal changes in conditions and attitudes. Also in 2004, a sub-sample of 48 farmers who had found ways to replace lost tobacco income on their farms was drawn. These 48 farmers were asked more detailed questions about their operation in face-to-face interviews.



RAFI's Tobacco Communities Reinvestment Fund was created in 1997 to address the barriers facing tobacco farmers and tobacco dependent communities. The program is designed to enable farmers and community groups to put their own ideas to work to replace lost tobacco income. The reinvestment fund provides technical and cost-share support to innovative producers and communities to help them take advantage of local resources and opportunities. The projects supported by the Tobacco Communities Reinvestment Fund are diverse, reflecting the diversity of farmers, communities, and opportunities that exists in North Carolina.

By enabling agricultural entrepreneurship, the Tobacco Communities Reinvestment Fund is imparting business and technical skills that help farmers best utilize scarce resources today and in the future. Over the long-term, assisting farmers to acquire the skills necessary to develop their farms into viable businesses will help lead to stronger, more stable rural economies and will protect family farms.

How the Program Works



Cost-share support is awarded through a competitive application process. RAFI supports farmers with proposal development through an open and inclusive application process that provides multiple opportunities for feedback and clarification. Proposals are evaluated by a review board made up of experts from all aspects of agricultural enterprise development.

The reinvestment fund supports farm and community-based agricultural projects that:

- ✧ **Demonstrate innovative ways to replace lost tobacco income;**
- ✧ **Generate employment, especially self-employment;**
- ✧ **Find new uses for tobacco equipment and facilities;**
- ✧ **Enhance and protect farm and natural resources;**
- ✧ **Benefit other farmers and communities.**

Funded projects are supported the whole way through their development. RAFI staff members ensure that proper record keeping is in place, so that project participants can make good business decisions and pass on project information to other farmers and communities. RAFI staff members work closely with project participants to address technical assistance needs and overcome barriers. RAFI staff and review board members assist project participants to access technical assistance from existing networks of agricultural service providers.



Eligible farmers are those that earned income from tobacco at the time of the Master Settlement Agreement and continue in farming today. Eligible community groups can include farmers, farmer associations, coops, churches, local businesses, civic organizations, or other groups which include qualified farmers. Cost-share support is up to \$10,000 for individuals and up to \$30,000 for community groups.

Keys to Success of the Tobacco Communities Reinvestment Fund

Leadership

The Tobacco Communities Reinvestment Fund is guided by a review board of experts comprised of farmers who have experience in diversifying farm income sources and agricultural and rural development experts from our state's land grant universities, the North Carolina Department of Agriculture, the faith community, agribusiness, and agricultural non-profits.

New Ideas

Innovation does not occur in a vacuum. Breakthroughs and innovations happen as a result of exchanges of information between individuals and groups. The reinvestment fund enables interaction among innovative farmers and the agencies and non-profits that support them and assists farmers to spread their ideas to others.

Technical Assistance

Instead of creating new bureaucracies, the reinvestment fund helps applicants and grant recipients make use of existing technical assistance networks. Working through its review board, the reinvestment fund helps farmers to access the foremost experts in every aspect of agriculture.

Collaboration

The enterprises with the best chance of success are those that take advantage of all the various resources—including human resources—available in our state. The reinvestment fund stresses collaboration between farmers, community groups, non-governmental organizations, and government agencies. The program assists farmers to succeed by helping them build a strong technical support network for their new enterprises.



Support

Project participants and potential applicants always have direct access to RAFI staff members who provide hands-on support for planning and carrying out of new enterprises. From crunching the numbers for a new start-up idea to identifying marketing opportunities, RAFI staff members are directly involved in ensuring that every new enterprise has the greatest possible chance for success.



Capital

Innovation is not often rewarded in traditional capital access routes. The reinvestment fund makes innovation possible by providing capital for farmers to test their ideas.

No Red Tape

The reinvestment fund uses a farmer-friendly process, including open channels of communication, a transparent selection process, multiple opportunities for clarification and explanation during the application process, and direct delivery of funds. Proposal evaluation includes opportunities for face-to-face interviews with applicants.



The Reinvestment Fund Projects

Nothing tells the story of the Tobacco Communities Reinvestment Fund like the projects we've supported. Since 1997, the reinvestment fund has helped to create 68 producer and community projects serving hundreds of farmers in 25 North Carolina Counties from the mountains to the coast. The variety of innovative enterprises developed with reinvestment fund support has enabled farmers to take maximum advantage of local resources and opportunities to replace lost tobacco income.

Off-season strawberry production - Marc Cox - Columbus County

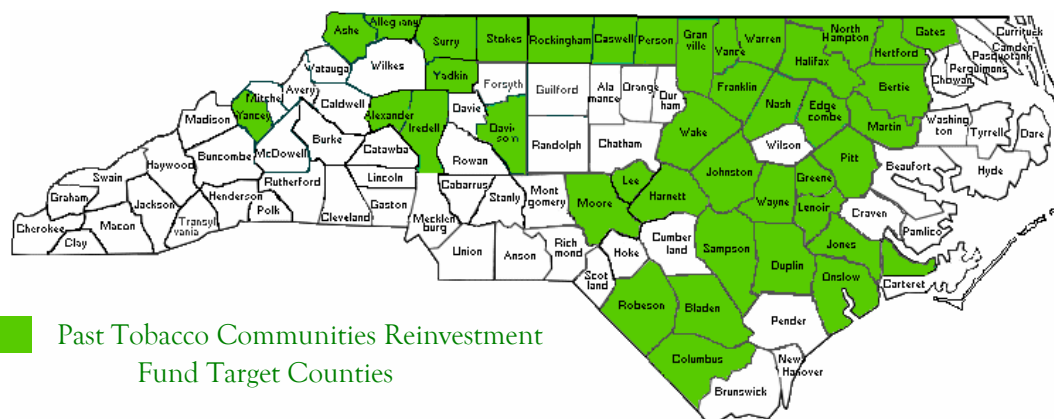
At his greenhouses on the outskirts of the Columbus County community of Tabor City, Marc Cox has been growing quality tobacco transplants for local farmers for years. He, his father, and his brother started investing in the tobacco transplant business in 1992. They are innovative growers and developed many labor and money-saving techniques to improve the efficiency of their operation. However, as quota cuts began to hit Columbus County tobacco growers in the late 1990s, demand for the Cox's transplants slowly began to taper off. By 2003, the slack in demand had resulted in a lot of empty greenhouse space.

Cox, never short of ideas, saw the empty greenhouse as an opportunity to try another product, off-season strawberries. "Who can resist a juicy, red strawberry in December?" he asked. Cox researched his idea, taking advantage of expertise on hydroponic strawberry production from around the country during his planning process. He also visited the only other off-season strawberry producer in the region, Bill Rabon of Winnabow. In the end, he settled on trying a seamless gutter system that had never before been used commercially for his first season of production. Cox saw a huge demand for fresh, local, winter strawberries in his area and was ready to get started, but he needed some help in making his vision a reality.

In 2003, Cox received a cost-share grant from RAFI's Tobacco Communities Reinvestment Fund for his project. He used the grant to prepare a vacant greenhouse for the strawberries. He built benches out of surplus float trays to support the gutter system. He also drilled a well and installed the proper irrigation system to run the hydroponic operation. Working closely with his local extension agent, Cox planted 11,000 strawberry plants in December of 2003.

That first year business was brisker than expected. Word of mouth and a few ads in the local paper resulted in a large number of drop-by customers. In addition, several local businesses offered to sell his berries for him at \$4 per quart. However, the undertaking was not without its difficulties. Cox was having some difficulty with disease pressure, and his yields were not what he had hoped. He turned to NCDA agronomist, Rick Morris, for help. As it turned out, the plants were spaced too close together, a problem that was easily rectified by removing some of the plants. Cox used that first year of production to refine his techniques. By the time the 2004 planting season rolled around, he knew what to expect.

Reinvestment Fund Target Counties—1997-2006



Muscadine grape production - Ray and David Allen - Bladen County

Since RAFL-USA started the program in 1997, the Tobacco Communities Reinvestment Fund participants have come up with some creative applications for old tobacco equipment. Farmers have used transplanters for strawberry production, bulk barns to house livestock, and tobacco greenhouses for a number of different crops in an effort to keep start-up costs low and improve the chances of success for their new enterprises. However, few of the past reinvestment fund participants have matched the enthusiasm of Ray and David Allen, a father and son farming team from Bladen County, for adapting old equipment to new uses.

The skeleton of an old tobacco harvester sits next to the Allens' shop. "We just took a torch and started cutting," said David. "We're going to move the pilot station up top, narrow the conveyors, and give it about another foot in height," he continued, explaining how he and his father are going to make this tool designed to take the leaves off of tobacco plants harvest muscadine grapes.

With RAFL support, the Allens planted 12 acres of muscadine grapes in 2004. About half of their plants will be ready for commercial harvest in 2006. That is when the harvester needs to be ready. David explains that he could buy a commercial grape harvester, but he and his father will save about \$18,000 by converting the tobacco equipment they have on hand.

The muscadines are well suited to the North Carolina coastal plain and are thriving under the Allens' care. According to North Carolina Cooperative Extension, muscadine grapes are native to the southeastern United States. Indigenous inhabitants of the region collected and dried

wild muscadines, and Spanish settlers of Florida produced muscadine wine more than 400 years ago. Even in the extreme August heat, the vines grow rapidly and appear quite healthy. For the most part, insects leave the plants alone. The real work is keeping up with the rapid growth of the vines—training and pruning the plants to get them to conform to the trellis.

Despite the suitability of muscadines to North Carolina's coastal plain, there weren't a lot of muscadines planted in North Carolina until recently. Growing consumer interest in North Carolina-produced wine and the expansion of

several local wineries created an opportunity for innovative farmers like the Allens to grow muscadines. The recent tobacco buyout has meant the end of tobacco production and a reliable source of income on the Allens' farm. They are hoping that muscadines will be part of the answer.



Wood Kiln Project - Fred Woodby—Yancey County

Fred Woodby has been farming tobacco and other crops in the mountains of Yancey County for 35 years. In 1994, he grew over 60,000 pounds of burley tobacco, which comprised the biggest part of his income. By 2005, his tobacco production was less than half of his peak in 1994, and the price per pound offered in post-buyout contracts is a significant cut from the prices he had been receiving at auction.

Woodby owns a mobile saw mill and used it for several years to supplement his declining tobacco income. In the past, he provided custom sawing for landowners wanting to use their own trees for lumber, or he hauled away downed trees as a service for little or no cost. As his business evolved, he recognized an increasing demand for high-end specialty lumber products. With a saw mill in his possession, a growing market, and experience in cutting specialty lumber, Woodby felt that investing in a dry kiln was an obvious choice. There is no other kiln-drying operation within 50 miles, and the kiln would enable him to provide consistent quality and produce the volume of product needed to develop the enterprise into a significant income source for the farm.

In the spring of 2005, Woodby received a cost-share grant from the Tobacco Communities Reinvestment Fund to assist with the construction of a wood-drying kiln and further development of his specialty lumber business. The project has progressed smoothly. Woodby has completed construction of the kiln, and he already has a waiting list of orders for his products. RAfi staff and local cooperative extension agents assisted Woodby every step of the way, helping him with facility design and connecting him with other kiln-drying operators.

The cost-share support and technical assistance has proven very important to the success of Woodby's project. The resources provided by the grant enabled Woodby to fully commit both his time and his own financial resources to proceed with the project in 2005. Without support from the reinvestment fund, it would have taken years for Woodby to implement his idea and begin generating the much-needed income. Now, with the help of RAfi's Tobacco Communities Reinvestment Fund, Woodby and other local farmers are able to take advantage of the valuable forest resources on their farms.

Grass-fed beef-Larry Harris and Patrick Robinette Edgecombe County

Larry Harris has farmed his entire life. Tobacco and peanuts were a mainstay on his Edgecombe County farm until recently, when changes in the federal programs and low commodity prices for other farm products forced him to look elsewhere for income. The end of the federal tobacco system in 2004 could have been the death blow for the family farm if Harris and his son-in-law, Patrick Robinette, hadn't been working on something new.



In 2002, Harris and Robinette bought some cows and started down the road on what some considered an unlikely enterprise for North Carolina: grass-fed beef. Most North Carolina cattle producers raise their calves to 500-600 pounds, then sell them on the livestock market or ship them to the Midwest to be finished on corn and grains in giant feedlots. This system earns producers \$100 or so profit per calf, meaning it takes a lot of calves and a lot of acreage to make a living. Harris and Robinette had a different idea to earn a decent livelihood on their modest-sized farm. To turn a profit on small acreage, they had to buck the old system and think about raising beef cattle in a different way. That led them to grass-fed beef, which in turn led them to a cost-share grant from RAfi's Tobacco Communities Reinvestment Fund.

In 2003, Harris and Robinette used the cost-share support from the reinvestment fund to convert 10 acres of crop land into permanent pasture. They installed perimeter fencing and the cross-fencing necessary to keep their animals continually moving to fresh, green pasture. The system has worked. Harris and Robinette's cows graze on grass every day of the year. The animals are healthy, happy, and require very little supplemental hay to keep them growing and contributing to the bottom line.

And the bottom-line has improved. Harris and Robinette have gone from a \$120 per head profit on their cow/calf operation to \$1,400 per head. That means that they can once again think about making a living from their modest-sized farm. Also, as demand grows for their healthier product, Harris and Robinette have brought on two other growers to help them with the supply.

Cattle Finishing Project - The Bladen County Feeders Bladen County

It is often the case that farmers can accomplish more working together than they can separately. That is why a group of cattle producers in southeastern North Carolina have come together to form the Bladen Cattle Feeders. In 2002, Isaac Singletary, a Bladen County farmer, decided he would try to raise and market his cattle in a new way. He began an experiment in on-farm finishing, and in April 2003 he sold nine head of cattle at a profit. He knew he was on to something good. Other local cattle producers noticed his success and the Bladen Cattle Feeders were formed.



Most cattle operations in North Carolina sell their calves at livestock auction or to Midwest stockyards for finishing. These markets are reliable, but most of the final value for the animal ends up in the hands of various middlemen and not with the producer. In order to earn a living from this kind of operation, a producer needs a lot of cattle and a lot of land. Due to competition for scarce land resources, getting enough land to earn a living from a conventional cattle operation is not possible for many North Carolina farmers.

Mr. Singletary and four of his neighbors started the Bladen Cattle Feeders to raise and cooperatively ship finished cattle from Bladen and surrounding

counties. The group works together to form truckload lots of finished beef for shipment to processors in Pennsylvania. For an individual producer attempting to market 10-20 animals at a time, shipping costs can be prohibitive. As a group the Bladen Cattle Feeders are able to ensure loads of finished cattle leaving Bladen County are always full, thereby keeping the per animal shipping costs low.

In 2004, RAFL-USA helped the Bladen Cattle Feeders upgrade on-farm feeding capacity and build a central loading facility that serves as a collection point for market-ready cattle. There are now nine members of the group plus another half-dozen farmers who regularly sell feeder calves to group members for finishing. Right now, the Bladen Cattle Feeders are shipping about one truckload per month, but expect that number to grow as more local producers begin finishing cattle. By cutting out the middleman, the Bladen Cattle Feeders have added \$150 per head to their bottom line.

Impacts of Supporting Innovative Farmers

RAFL-USA's Tobacco Communities Reinvestment Fund assists farmers redirect scarce resources into viable, small businesses that will continue to contribute to the rural economy long into the future. The impacts of the reinvestment fund projects to date show that farmer led initiatives really can be the economic driver needed to get rural economies headed in the right direction.

Direct financial support for innovative farmer-led enterprises is difficult to come by. All new ventures have high risks and face challenges in getting capital. Farm enterprises are no exception, and growers seeking support for innovative ventures find it hard to "sell" their ideas to lenders who are accustomed to "traditional" agricultural enterprises.



Impacts of Supporting Innovative Farmers Continued...

Since its inception in 1997, the Tobacco Communities Reinvestment Fund has provided cost-share and technical support to innovative farmers and community groups to develop 68 agricultural initiatives to demonstrate new ways to replace lost tobacco income. The reinvestment fund:



Encourages innovation by reducing risk for agricultural entrepreneurs

Cost-share and technical support provided by the reinvestment fund enables farmers to reallocate their own scarce resources into viable farm enterprises that show potential for strong returns. RAFI-USA staff and reinvestment fund review board members work in partnership with farmer participants to ensure the greatest possibility of success of new enterprises. Nationally, two-thirds of new businesses fail⁷. By contrast, 80% of past reinvestment fund participants describe their new enterprises as successful.

Leverages investment in new agricultural enterprises that work

From 2003 to 2005, the reinvestment fund awarded \$530,000 in cost-share support to innovative farmers and community groups. During that same period, reinvestment fund participants leveraged over \$1 million of additional investment in North Carolina agriculture, including:

- ✧ \$1.2 million in additional grant money from public and private entities;
- ✧ \$36,000 in donations of seed and equipment from agricultural suppliers interested in getting in on the ground floor of an innovative, new enterprise;
- ✧ More than \$80,000 of debt financing for expansion of enterprises successfully piloted with reinvestment fund support;
- ✧ Reallocation of farmers' own resources to innovative, new enterprises totaling more than \$445,000 of reinvestment in North Carolina's small farms and rural communities.

The investment in innovative farm enterprises is a good one.

For every dollar awarded for the development of new enterprises,

North Carolina's farmers and community organizations added an additional \$3.31 in investment in the future of our farms and rural communities.

⁷ According to North Carolina REAL Enterprises, Inc.

⁸ Estimate is based on farmer predictions of gross revenues in 2007 for the new enterprise developed with Tobacco Communities Reinvestment Fund support.

Generates income, creates new employment, and protects existing farm jobs

By assisting farmers to develop new income sources to replace lost tobacco income, the reinvestment fund keeps farmers in farming and reduces competition for scarce off-farm employment. Many of the communities served by the reinvestment fund have been hit hard by loss of rural manufacturing jobs. By supporting innovative farmers in transitioning their farms into viable small businesses, the reinvestment fund is creating employment opportunities that are not easily shipped overseas. Since 2003, the enterprises developed with reinvestment fund support have enabled 412 farmers and farm laborers to remain sustainably employed on the farm. The projects have also created 34 new farm jobs that would not exist without the new investment generated by the



reinvestment fund. We project that the new enterprises developed with reinvestment fund support will generate \$1.9 million of revenue annually by 2007⁸. Reinvestment fund participants are already replacing about 19% of their 1997 income from tobacco with income from the new enterprises and should greatly increase that percentage as their farm businesses continue to grow.

Demonstrates new ways to replace tobacco income

Through farm tours, field days, newspaper articles, presentations, and other strategies, reinvestment fund participants share their project experiences with other North Carolina farmers. Since 2003, efforts by reinvestment fund participants have impacted more than 2,000 people who have attended various outreach events.

Outreach by farmer participants greatly expands the impacts of the reinvestment fund and provides an opportunity for farmers to learn the way they do best: from other farmers. The on-farm agricultural initiatives provide real-world information about operations designed for one purpose: to generate additional income for farms and rural communities. Successful demonstration projects provide models for other farmers to emulate.



Makes efficient use of resources

RAFI-USA's Tobacco Communities Reinvestment Fund is an efficient and effective model for rural economic development in North Carolina. The reinvestment fund's farmer-friendly and transparent project selection process is a model for other programs. Support for projects after selection for funding is unparalleled. Administrative costs are kept low and funding for cost-share and project support is kept high to maximize project impacts with limited funding. Notably:

- ✧ Administrative costs for the program average only \$516 per proposal processed—a very favorable figure compared to similar programs.
- ✧ The reinvestment fund spends less than \$2,000 per job retained and only about \$22,000 per job created.
- ✧ If current income projections hold true, we expect a greater than 800% five-year return on RAFI's investment in innovative farm enterprises.

The impacts of the reinvestment fund show that direct investment in farmer-led initiatives really does pay. Reinvestment fund impacts compare favorably with other economic development strategies, and in the long-term, enabling North Carolina's farmers to transition their farms to viable small businesses is an important part of maintaining the vibrancy and health of rural communities.

Recommendations

Reinvigorating North Carolina's rural economy

The great and continuing changes in tobacco create a once-in-the-lifetime opportunity for North Carolina to create newly invigorated family farms and rural communities. The way state leadership responds to this opportunity will determine the future economic and social well-being of our rural people and economies.

The tobacco buyout is a major catalyst for positive changes. Until 2014, it will provide growers and quota holders with income to reinvest in new farm enterprises, as well as used to offset living expenses. The state's growers know the old ways are gone, and that they must adapt to new conditions. They know the buyout payments can help offset costs of making a transition to new modes of production and marketing. And growers know a successful transition to new conditions will not be easy or made overnight; research shows it takes about 43 months to take a new farm venture from an idea to profitable implementation. Nor will buyout payments pay the full cost of major changes on the farm.

Reinvestment in North Carolina's farm families and rural communities is essential, and the time is now. The state's growers are alerted to the challenges they face and are energetically receptive to new ideas and new resources. This state of farmer alertness, and willingness to try new things, is one of the factors making RAFI-USA's Tobacco Communities Reinvestment Fund a success from its inception in 1997 until now. We have demonstrated that small investments in agricultural entrepreneurship yield big results.

Our assessment is that RAFI-USA's model of farm-based rural economic development can be replicated statewide. We calculate that less than \$2 million a year will fund an efficient cost-share program in the state's 100 counties.



Based on our experience with the Tobacco Communities Reinvestment Fund, such a statewide program would:

- ❖ Generate about 300 applications annually, of which about 133 demonstration initiatives would be funded at \$10,300 each, a total of \$1.3 million in cost-share grants.
- ❖ Leverage about \$2.8 million in additional investment for the projects.
- ❖ Generate more than \$3.1 million in new farm income and create about 89 new jobs. RAFI-USA estimates \$550,000 would be required to fund the statewide program's administration and related costs each year.

We recommend, therefore, increased investment in cost-share support for North Carolina growers as a cost-efficient and effective means of reinvigorating and sustaining the state's rural economy.

A small investment in farmer ingenuity has been proved to yield major results, and the time is right for North Carolina to make such an investment.



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**The Western North Carolina
Agricultural Tourism & Crop Diversification
Demonstration Program**

**Economic Impact Study
Final Report**

July 2006



The Richard L. Hoffman
Center for Assessment and
Research Alliances
at Mars Hill College

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North Carolina Tobacco Trust Fund Commission

*Any opinion, finding conclusions or recommendations expressed in this publication are
those of the authors and do not necessarily reflect the view and policies of the
North Carolina Tobacco Trust Fund Commission*

The Western North Carolina
Agricultural Tourism & Crop Diversification Program

Economic Impact Study
For Grants Awarded in 2004 and 2005

Prepared for

The North Carolina Cooperative Extension Service
West District

In Partnership With

HandMade in America

And

The North Carolina Department of Agriculture & Consumer Services

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Executive Summary

In 2004 and 2005, the Western North Carolina Agricultural Tourism and Crop Diversification Demonstration Program (WNC AgOptions Program) awarded 82 grants to farmers in the 15 western-most counties of the state. Funding from the N. C. Tobacco Trust Fund Commission supported \$205,000 in grants directly to farmers diversifying their farm operations, as well as technical assistance and grants management support.

Sixty-eight percent of grant recipients were tobacco farmers who either owned or leased tobacco quotas since 1997. Fifty-three percent were full-time farmers. Grant recipients ranged in age from 19 to 71 years old, with the median age of participating farmers 49 years old. The average farm size was between 10 and 20 acres.

On-farm projects funded by grants represented a wide variety of diversification efforts. Projects include agricultural tourism, vegetable crop diversification, livestock management, and ornamental plant production. A total of 422 acres of farmland were tied to 62 grant-funded projects. In addition, two trout farms, 1,000 shiitake mushroom logs, and at least 40 greenhouse units were tied to grant-funded projects.

Grant funds appear to have been a powerful catalyst for leveraging personal investments and in-kind investments into new agricultural enterprises. Personal cash investments in grant-funded projects exceeded \$530,000, and non-monetary in-kind investments were valued in excess of \$560,000. Backing out one large capital-intensive project, total cash and in-kind investments in 62 projects was \$626,299 for an average non-grant investment of \$10,267; nearly four times the average grant amount per project.

Thirty-six farms receiving grants reported employing at least 113 persons in connection with their projects. Six farms reported employing 19 full-time employees, with 30 farms employing 94 workers part-time.

Seventy-three percent of survey respondents reported that grant-funded projects had served to increase their on-farm income. At the same time, just less than fifty percent said their projects had contributed less than 10% to overall farm income to date. This number reflects the long-term nature of many of the projects, especially those involving ornamental trees, medicinal herbs, and small fruit production. Twenty-six farms reported paying taxes on agricultural business activities in 2005 totaling more than \$97,000.

Farmers participating in the WNC AgOptions Program were asked, on a scale of 1 to 10, how they would rate the program. Fifty-two percent gave the program the highest ranking of 10. In all, 61 of 67 respondents (91%) gave the program a score of seven or higher.

From data gathered, the WNC AgOptions Program appears to be achieving its goal of providing direct financial assistance to agriculture enterprises of the mountain counties, to assist them in making new investments in either crop diversification and/or agricultural tourism.

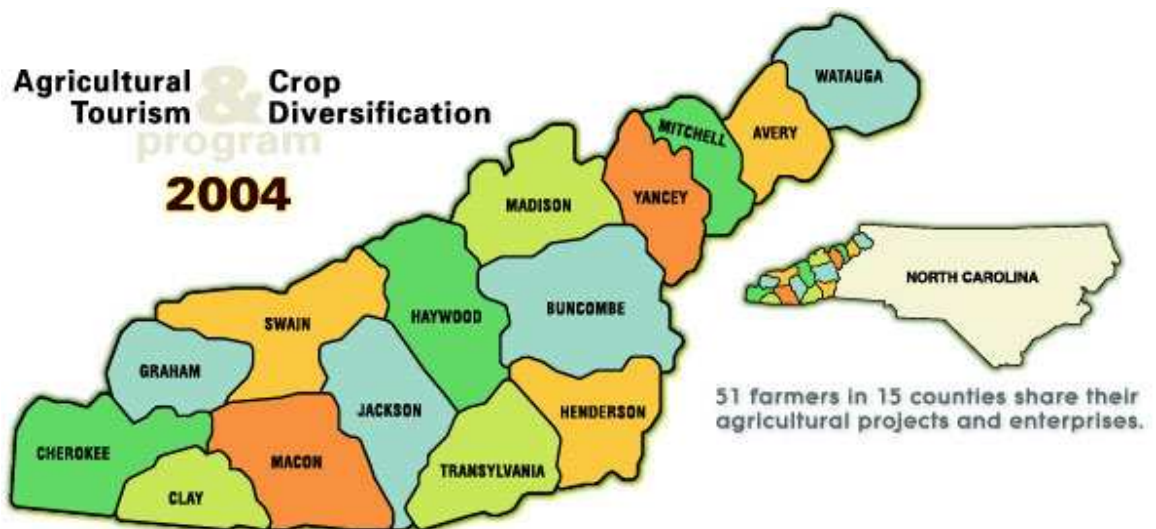


I. Introduction

In December 2005, HandMade in America contracted with the Richard L. Hoffman Center for Assessment and Research Alliances at Mars Hill College to conduct an economic impact analysis of 82 grants awarded by the Western North Carolina Agricultural Tourism and Crop Diversification Demonstration Program in 2004 and 2005. The Program, currently referred to as the WNC AgOptions Program, is a collaborative effort among Agriculture and Community Development Extension Agents, County Extension Directors, North Carolina Department of Agriculture Marketing Division Specialists and the non-profit organization HandMade in America.

The collaborators developed the program with the goal of providing limited direct financial assistance to traditional and non-traditional agriculture enterprises of the mountain counties, to assist them in making new investments in either crop diversification and/or agricultural tourism. Along with directly funding farmers with \$2,500.00 in grant awards for new projects, educational assistance was provided to assure greater business success via working knowledge. The projected outcome of the program was to assist both the traditional and non-traditional farmers that were venturing into unknown agriculture markets and needed help in taking the leap with financial aid and technical assistance, along with moral support.

In November 2003, the North Carolina Tobacco Trust Fund Commission awarded the Program \$198,210 to provide grants, education, and technical assistance to 50 farms wishing to diversify their agricultural operations. In 2004 the Commission awarded another \$104,313 to continue the Program for the 2005 calendar year. Of \$302,523 contributed by the Tobacco Trust Fund, \$205,000 was awarded directly to farmers. This report analyzes data gathered from 82 grants on 76 working farms in the 15 county target region of western North Carolina, as well as the Qualla Boundary of the Eastern Band of Cherokee Indians.



Primary Data Gathering

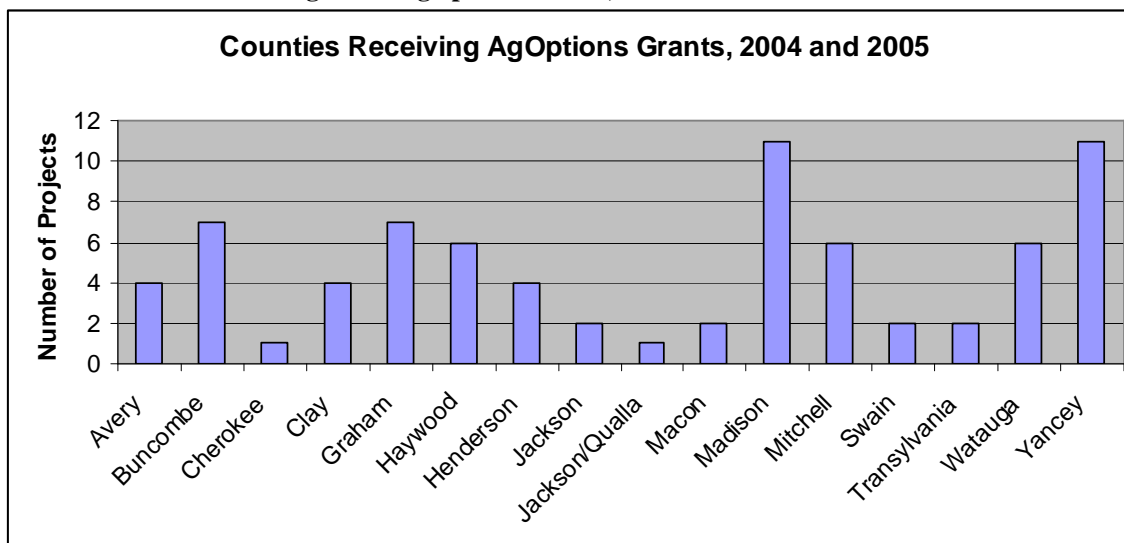
Primary data for this analysis was derived from original grant requests, site visits, telephone and email communication, and a three page survey administered in the late winter and early spring of 2006. Surveys on 68 projects and 74 grants were returned. Of the 8 grant recipients who did not respond, two had moved out of the state permanently. One grant recipient returned his grant funds when he decided not to execute his project, but still returned a survey.

Table 1. Survey Completion Rate		
	Frequency	Valid Percent
Projects with Completed Surveys	68	89.5
Surveys Not Returned	8	10.5
Total	76	100.0

II. Demographics of Grant Recipients

Farmers in all 15 counties and the Qualla Boundary received grants from the Program. Counties receiving the largest number of grants were Yancey and Madison, followed by Buncombe and Graham. All of these counties had heavy concentrations of burley tobacco production, reflecting the program's preference for projects assisting current or former tobacco farmers. No single county received grants for more than 11 projects over the two-year period.

Chart 1. Counties Receiving WNC AgOptions Grants, 2004 and 2005



A total of 76 farms received grant support, with six farms receiving grants both in 2004 and 2005. Fifty grants were awarded in 2004 and 32 more were awarded in 2005.

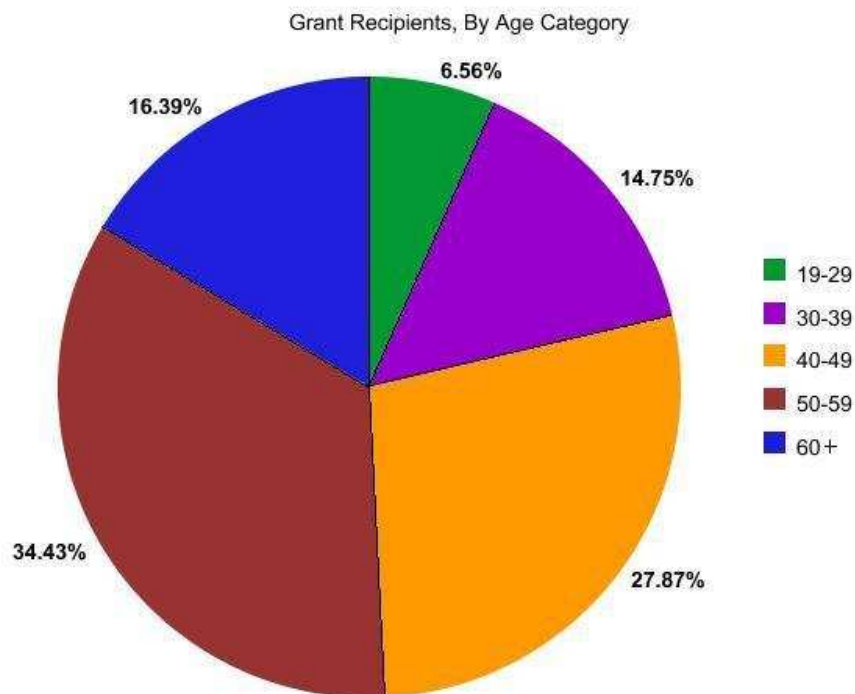
	Frequency	Valid Percent
2004	44	57.9
2005	26	34.2
Both Years	6	7.9
Total	76	100.0

Of the 76 applicants receiving grants, the majority (75%) were male, with the remaining 25% being female or couples.

	Frequency	Valid Percent
Male	57	75.0
Female	13	17.1
Couple	6	7.9
Total	76	100.0

Farmers receiving grants ranged in age from 19 years to 71 years old. Of 62 grant recipients reporting their age, the average age was 49 years old, slightly lower than the average age of farmers in the state. The median age of grant recipients was 49 years old. The average household receiving a grant had just fewer than 3 persons per household.

Chart 2. Grant Recipients by Age

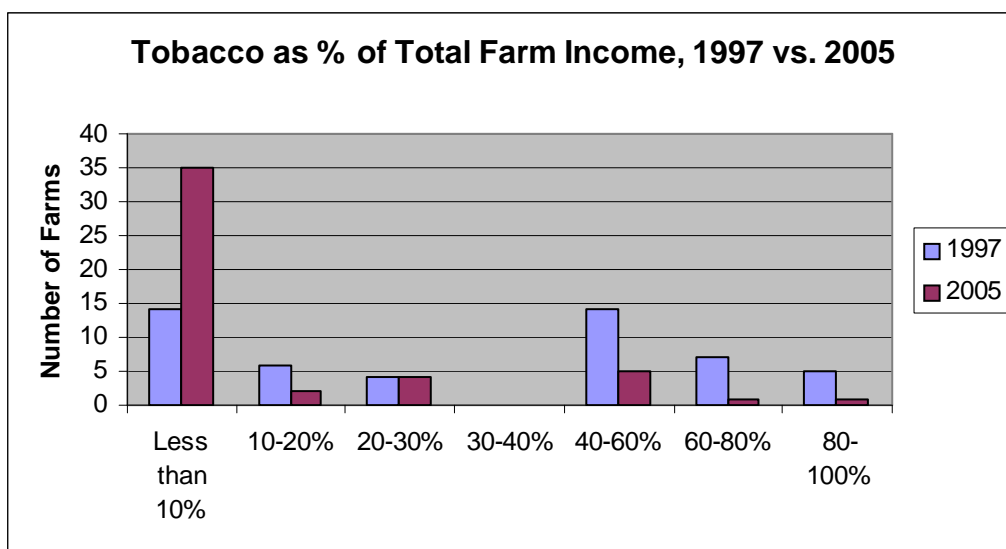


Tobacco's Decline

Sixty-eight percent of grant recipients (51 farms) grew tobacco during or after 1997, the year of the Master Settlement Agreement that resulted in the creation of the Tobacco Trust Fund Commission. Forty-eight farms that reported growing tobacco in 1997 grew a total of 469.58 acres of burley tobacco that year, with an average production per farm of 9.8 acres.

As a percent of total farm income, tobacco income steeply declined among grant recipients from 1997 to 2005. In 1997, 26 farmers reported that tobacco income accounted for more than 40% of total farm income. In 2005, only seven farmers reported tobacco income as more than 40% of total farm income. Over the same period the number of farmers deriving less than 10% of total farm income (including no income) increased from 13 to 36.

Chart 3. Tobacco as % of Total Farm Income



Of 74 grant recipients responding, 41 farmers (55.4%) had owned a tobacco quota.

Table 4. Did you own a tobacco quota?		
	Frequency	Valid Percent
Yes	41	55.4
No	33	44.6
Total	74	100.0

Thirty-nine farmers out of 73 responding said they leased tobacco quota from 1997-2004.

Table 5. From 1997 to 2004, did you lease tobacco quota?		
	Frequency	Valid Percent
Yes	39	53.4
No	34	46.6
Total	73	100.0

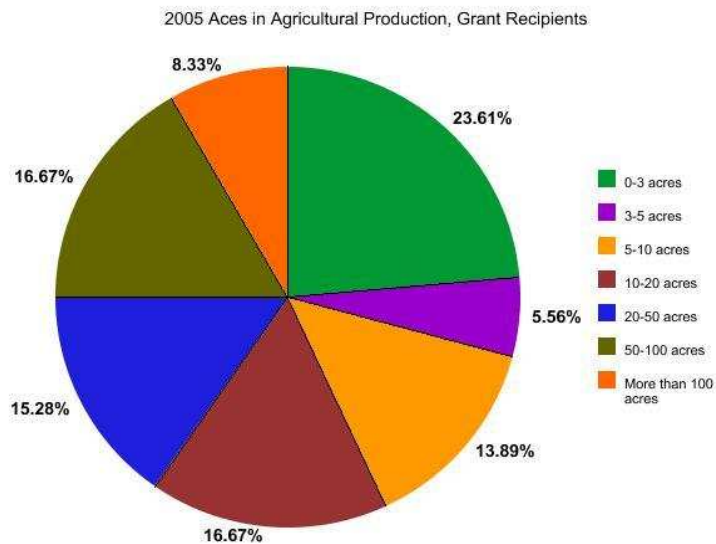
Agricultural Production among Grant Recipients

Existing data shows that the majority of farmers in western North Carolina farm part-time. However, over half (53%) of the grant recipients in the WNC AgOptions Program reported that they farm full-time.

Table 6. Do you farm part time or full time?		
	Frequency	Valid Percent
Part Time	35	47
Full Time	40	53
Total	75	100

Almost all western North Carolina farmers are small in comparison to state and national averages. Chart 4 below shows a fairly even distribution of grant funds among small, medium, and large-scale agricultural producers by western N.C. norms. In 2005, 40% of grant recipients had 20 or more acres in agricultural production, 43% had 10 or fewer acres, and the remaining 17% had from 10 to 20 acres.

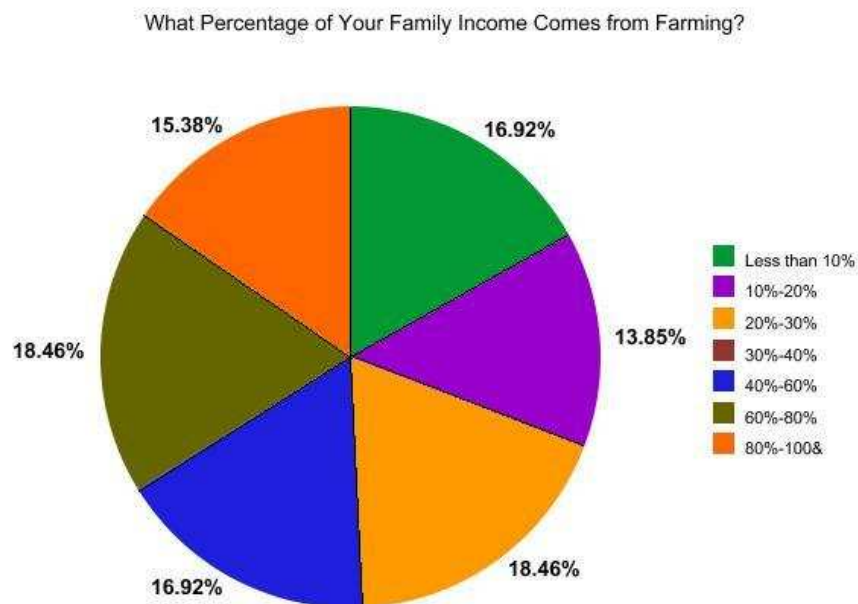
Chart 4. 2005 Acres in Production, Grant Recipients



Family Income from Farming

The chart below reflects a very even disbursement of grant funds among farmers who derive some, much, or all of their total family income from farming activities. Fifty-two percent of grant recipients derive 40% or more of their family income from farming.

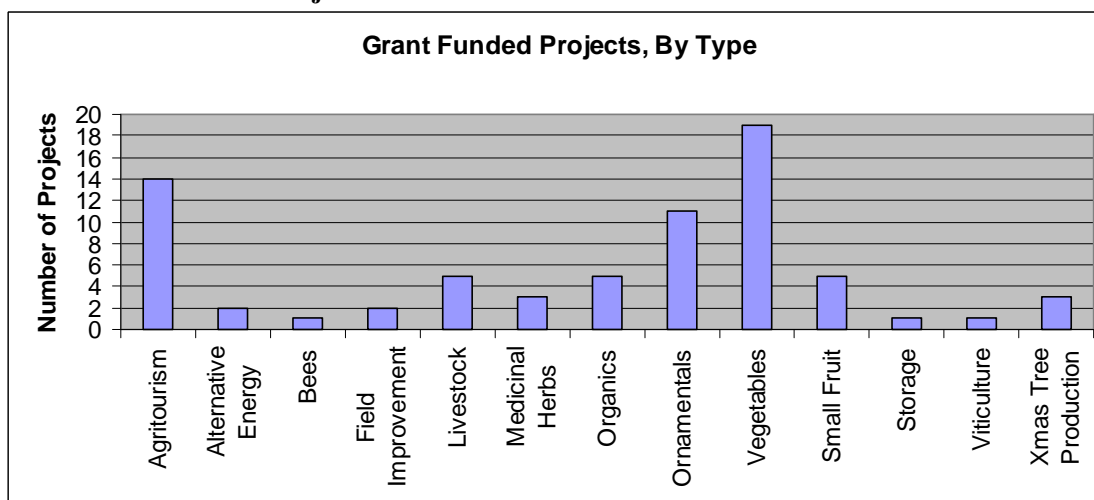
Chart 5. Family Income from Farming



III. Grant-Funded Projects

The 76 projects funded by the Program reflect the wide range of diversity in new agricultural enterprises in western North Carolina, including agricultural tourism, new crop development, ornamentals, and specialty livestock. This diversity is believed to be a direct result of the decline of monoculture tobacco production.

Chart 6. Grant Funded Projects



- Agritourism Projects include Choose-and-Cut Christmas Trees and Fee Fishing
- Livestock includes trout farming

Farmland Tied to Grant-Funded Projects

Fifty-three farms reported a total of 422 acres tied to grant funded projects, for an average of 8 acres per farm. Removing an outlier that reported 160 acres tied to one project, the average number of acres tied to a single project is 4.9 acres.

Table 7. In 2005, how many acres did you have in production that were tied to the project funded by the Ag Options Program?

# Acres	Respondents	Total Acreage
0.25	2	0.50
0.5	2	1
1	12	12
1.5	3	5
2	5	10
3	5	15
4	4	16
5	4	20
6	1	6
7	1	7
8	2	16
8.5	1	9
9	1	9
10	3	30
12	1	12
15	2	30
20	2	40
24	1	24
160	1	160
Total	53	422

Nineteen farms also reported having greenhouses tied to their grants. Some reported actual greenhouse units and some reported greenhouse square feet. Using an average greenhouse size as 1,600 square feet, approximately 40 greenhouses were tied to the project, as well as two trout farming operations and 1,000 logs of shiitake mushrooms.

Non-Grant Project Investments

The majority of grant recipients reported personal cash and in-kind investments in their projects that far exceeded the \$2,500 grants awarded under the WNC AgOptions Program. Cumulative non-grant cash and in-kind investments covering 62 farms totaled \$1,126,299. Backing out one outlier reporting cash and in-kind investments far in excess of the norms, 61 farms totaled cash and in-kind investments of \$626,299, an average investment per project of \$10,267. This personal investment was nearly four times the average grant award per project. The median non-grant cash and in-kind investment per project, where half of the projects invested more and half invested less, was \$2,000.

Leveraged Cash Investment

Sixty-three farms reported a total cumulative non-grant cash investment of \$533,649 in their projects, with average investment of \$8,607. All but one project invested less than \$40,000. Removing the lone outlier that reported an investment of \$250,000 in a single project, the average non-grant cash investment per project was \$4,650 for a cumulative investment of \$283,649.

The median size of cash investment per project, where half of the farmers invested more money and half invested less, was exactly \$2,000.

Table 8. Non-Grant Cash Investments Per Project		
\$ Category	# of Projects	% of Projects
\$0 to \$1,000	18	29
\$1,001 to \$3,000	20	32.3
\$3,001 to \$5,000	12	19.4
\$5,001 to \$10,000	6	9.7
\$10,001 to \$40,000	5	8.1
More than \$40,000	1	1.5
Total	62	100

Leveraged Non-Cash Investment

Forty-eight farms reported non-cash “in-kind” investments in their projects valued at \$563,850 with an average in-kind value of \$11,056. Types of in-kind investments included farm machinery, free labor, donated supplies, fuel, and other farm inputs. Removing a lone outlier that reported a \$250,000 in-kind investment, the average in-kind investment value per project was \$6,277 for a cumulative in-kind investment of \$313,850. As with non-grant cash investments, the median size of in-kind investment value per project was exactly \$2,000.

Table 9. In-Kind Non-Cash Investments		
\$ Category	# of Projects	% of Projects
\$200 to \$1,000	15	29.4
\$1,001 to \$2,000	11	21.6
\$2,001 to \$5,000	14	27.5
\$5,001 to \$10,000	3	5.9
\$10,001 to \$20,000	3	5.9
\$20,001 to \$55,000	4	7.8
More than \$55,000	1	1.9
Total	51	100

Employment in Grant-Funded Projects

36 Farms reported employing at least 113 persons in the course of executing their projects. Six of those farms reported employing at least 19 full-time employees, with 30 farms employing 94 workers part-time.

Table 10. Part Time and Full Time Employees				
# of Employees	Farms with Part-time	Farms with Full-time	Total Farms	Total Employees
1	9	1	10	10
2	11	1	12	24
3	1	1	2	6
4	3	2	5	20
5	0	1	1	5
6	2	0	2	12
8	2	0	2	16
10	2	0	2	20
Total	30	6	36	113

Income from Grant-Funded Projects

Forty-eight grant recipients, or 73% of grant survey respondents, said the project had served to increase their farm income.

Table 11. Has this project served to increase your farm income?		
	Frequency	Percent
Yes	48	72.7
No	18	27.3
Total	66	100

Of those recipients who responded to the question above, 10 said the grant had aided their farm operation significantly, and 31 said it has aided their operation somewhat. Nineteen respondents said the grant had not yet aided their farm operation.

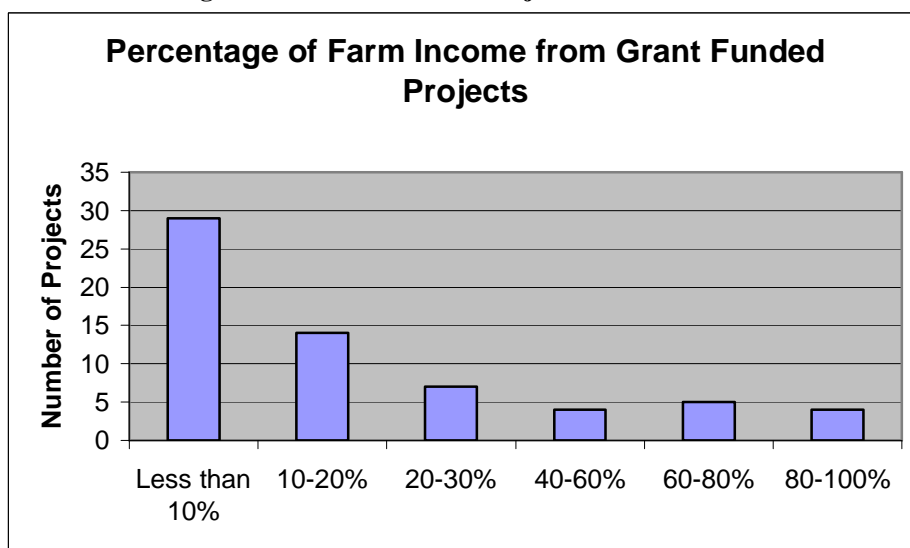
Table 12. If yes, how has the grant aided your farm operation?		
	Frequency	Percent
Significantly	10	16.7
Somewhat	31	51.7
Not Yet	19	31.7
Total	60	100

Of the 18 respondents who answered “no” in Table 11 above, 14 estimated that in coming years they would begin to earn annual income from their grant-funded project, ranging in income from \$1,000 to \$45,000 annually.

Of 64 farms responding to a survey question on farm income from grant funded projects, 29 have projects that currently contribute less than 10% of their total farm income. This reflects the long-term nature of many of the grant funded projects. Of the 29 projects contributing less than 10% of total farm income, eleven are either ornamentals such as boxwoods or Christmas Trees, medicinal herbs, mushrooms, or small fruit production, all of which require several years before income can be realized.

The 13 projects contributing 40% or more to total farm income include enhancements to existing choose-and-cut Christmas tree operations, greenhouse vegetable production, livestock management, wine grapes, fee fishing, and trout processing.

Chart 7. Percentage of Farm Income from Projects



Farm Income since Beginning the Project

Farmers were asked if they earn more, less, or about the same on their farms since beginning their grant-funded projects. Forty-eight percent (32 farmers) said they earn more now than before their project began.

Table 13. Do you earn more, less or about the same on your farm since beginning this project?		
	Frequency	Valid Percent
More	32	47.8
Less	9	13.4
About the Same	26	38.8
Total	67	100

Taxes

26 Farms reported paying taxes on their agricultural activities in 2005, a total of \$97,298.

Table 14. How much do you estimate you will pay in taxes in 2005 as a result of your agricultural business activities?		
Amount	Frequency	Total Taxes, In \$s
100.00	1	100
140.00	1	140
200.00	1	200
300.00	1	300
500.00	1	500
800.00	1	800
858.00	1	858
1,000.00	3	3000
1,200.00	2	2400
2,000.00	2	4000
2,500.00	1	2500
3,500.00	1	3500
4,000.00	3	12000
5,000.00	3	15000
7,000.00	1	7000
10,000.00	2	20000
25,000.00	1	25000
Total	26	\$97,298

Environmental Contributions

Grant recipients were asked what their projects had done to enhance or protect environmental resources of the region. Of 39 positive responses to this question, answers broke down into the following categories:

Table 15. Environmental Contribution	# of Respondents
Kept the farm viable, prevented development, or returned land to agricultural use	10
Prevented erosion, tillage, or helped land restoration	9
Contributed to proper spray or fertilizer application	4
Cultivation of local, organic or otherwise beneficial products	10
Use of culled oak for mushroom production	1
Increased pollination	1
Served to raise awareness of farms and resource conservation	3
Kept cars off the ground	1
Total	39

Increase in Knowledge of Support Services

Grant recipients from 2004 and 2005 received educational training in several aspects of “Farm Business Management” during the spring of 2004 and 2005. The training was conducted by North Carolina Cooperative Extension Agents and Specialists, as well North Carolina Department of Agriculture’s staff, Handmade in America and Blue Ridge Food Ventures. The farm visits provided an opportunity for the farmer and agents to interact one-on-one to discuss present and future business initiatives, which also provided an opportunity to share knowledge from the agent to the farmer on multiple aspects of farm business management.

Workshop trainings included the following:

2004 Workshops

1. Farm Business – Enterprise Budgets, Business Planning and Record Keeping.
2. Specialty Crops - Current Research of Specialty Crops and Available Crops.
3. Marketing - Locating available Markets.
4. Blue Ridge Food Venture.
5. Agriculture Tourism – The general concepts of Starting an Agriculture Tourism Business.

2005 Workshops

1. Marketing in Agribusiness – Target Marketing and Sales Forecasting.
2. Farm Business Management – Farm Labor, Self-Employment Tax & Retirement.
3. Blue Ridge Food Ventures – Shared Use Kitchens.
4. Agriculture Tourism – Farm Liability and Risk Management.

Training was requested on “Grantsmanship” during the summer of 2005, therefore a “Successful Grantwriting Workshop” was coordinated during November 2005 for all grant recipients in 2004 and 2005.

A majority of grant recipients indicated that their knowledge of support services had increased greatly since beginning their projects.

Table 16. Since beginning this project, how has your knowledge of support services changed?		
	Frequency	Valid Percent
Increased Greatly	41	62.1
Increased Somewhat	23	34.8
Increased None	2	2.0
Total	66	100

Other Sources of Investment

Farmers were asked where else they would have found funds to invest in their project if they had not received the grant from the WNC AgOptions Program. Sixty percent said they would have invested using personal savings, while 25.0% said they would have taken out a farm loan. Among 23 indicating other resources for the grant, 11 said they probably could not have done the project without grant support.

Table 17. Where else would you have found funds for your project if you did not receive the grant?			
	Farm Loan	Personal Savings	Other
Number	19	37	23
Percent	25.0	60.1	30.3

Problems Encountered

Grant recipients were asked what problems they might have encountered in doing their project. A total of 43 grant recipients named one or more specific problems they encountered. Not surprisingly, especially in light of devastating floods in late 2004, the weather was the most often-cited problem. Six complaints were directed at delays in

receiving grant funds from the WNC AgOptions Program. Other problems included under-estimating project costs, proper time management, and insects.

At least two of the 76 projects were unable to achieve their desired results. One project, with the goal of establishing a small on-farm hydroelectric generator from a stream, proved far more expensive than original estimates, and the grant funds were returned. One greenhouse winter vegetable project suffered an entire loss when a heat pump failed and the crop was frozen. In that case, the farmer intends to attempt ornamental tree production in coming years.

Table 18. What problems, if any, have you encountered in doing this project?	
Problem	# of Respondents
Weather, including floods, freezes, crop failure	10
Delay in receiving grant funds	6
Costs/Lack of Funds	6
Electrical Problems	2
Time Management	5
Marketing	2
Insects	3
Management Skill	2
Labor	1
Personal Health	1
Equipment	1
Overproduction	3
Insurance	2

Grant Recipient Rating of the Project

Farmers participating in the WNC AgOptions Program were asked, on a scale of 1 to 10, how they would rate the program. Of 67 respondents, 35 (52.2%) gave the program the highest ranking of 10. In all, 61 of 67 respondents (91%) gave the program a score of seven or higher.

Table 19. On a scale of 1 to 10, how would you rate this program?		
	Frequency	Valid Percent
1	1	1.5
5	2	3.0
6	3	4.5
7	5	7.5
8	12	17.9
9	9	13.4
10	35	52.2
Total	67	100

Grant Recipient Comments about the Program

Several survey respondents provided written comments on their experiences with the WNC AgOptions Program. Some of the more representative comments are as follows:

“Erin (WNC AgOptions Program Manager 2004-2005) is awesome as a person, helper, and supporter. We greatly appreciate her efforts and spirit.”

“Our project got us started raising our own boxwoods. Since then we added Leyland Cypress. Although it does not produce current income, we expect it to in the future... I am not sure where this will all lead but it was started with applying for and receiving a grant for this project. It expanded in 2005, will expand again in 2006, and I believe for years to come. Thanks for your assistance.”

“This is one of the few grant programs I have seen actually help people to try new ag ventures who actually do the work at the ground level vs. funding administrators primarily.”

“This project is ever so needed. Farm income doesn’t allow for capital improvements and trials- that is why this program is awesome.”

“Good program if perhaps the transfer of funds was not such an issue. Extension has done an extremely good job over the years.”

“The help with marketing was excellent! The grant money is always welcome but the greatest benefits come from getting to know the people that were involved with the program. Thanks for all the help we received through the 2005 WNC AgOptions Program!”

IV. Conclusion

The WNC Agricultural Tourism and Crop Diversification Demonstration Project has had a clear positive economic impact for most of its grant recipients. The majority of program recipients report that their projects are showing positive economic returns, resulting in increased farm viability and prospects for long-term success beyond dependence on burley tobacco. A minority of grant recipients report earning less from farming than when they first began their new agricultural enterprises, despite the rapid decline in burley tobacco production.

The investment in this Program of just over \$300,000 by the North Carolina Tobacco Trust Fund Commission appears to have been a successful venture in providing direct support to farmers in the region seeking to diversify their operations. Every dollar of Commission funds has been more than doubled in the form of personal cash investments and in-kind contributions, resulting in new on-farm infrastructure, production, and marketing channels that will assist the participating farms in remaining economically viable for years to come.

Appendix A

WNC Agricultural Options Program Grant Recipient Survey

Demographic Data

Name:_____ County:_____

Sex: M or F Year Grant Was Received:

Age:_____ Number of people living in your household:_____

Name of project funded by Ag Options:

Amount of Grant:

1. Were you a tobacco farmer during or after 1997? Yes_____ No_____

2. How many acres of tobacco did you farm in 1997?

3. What percentage of your farm income came from tobacco in 1997(circle one)?

Less than 10% 10%-20% 20%-30% 40%-60% 60%-80% 80%-
100%

4. What percentage of your farm income came from tobacco in 2005 (circle one)?

Less than 10% 10%-20% 20%-30% 40%-60% 60%-80% 80%-
100%

5. Did you own a tobacco quota? Yes_____ No_____

6. From 1997 to 2004, did you lease tobacco quota? Yes____ No_____

7. How many acres of total agricultural production do you now manage (circle one)?

0-3 acres 3-5 acres 5-10 acres 10-20 acres 20-50 acres 50-100 acres
More than 100 acres

8. In 2005, how many acres did you have in production that were tied to the project funded by the Ag Options Program?_____

or, In 2005, how many greenhouse units or other units of measurement did you have in production that were tied to the project funded by the Ag Options Program?

9. Do you farm part time or full time?

10. What percentage of your family income comes from farming?

Less than 10% 10%-20% 20%-30% 40%-60% 60%-80% 80%-100%

11. What percentage of your farm income comes from this project?

Less than 10% 10%-20% 20%-30% 40%-60% 60%-80% 80%-100%

12. Do you earn more, less or about the same on your farm since beginning this project?

More Less About the Same

13. Did you **employ** anyone during the year to assist you with this project?

- a. # of persons _____
- b. Were the individuals part-time _____ or full-time _____

14. How much personal money did you invest in your project? \$ _____

15. What other non-cash resources did you invest in this project (free labor, machinery, agricultural inputs)?

16. What is the estimated dollar value of these non-cash resources?

17. Since beginning this project, has your knowledge of support services

- a. _____ Increased greatly
- b. _____ Increased somewhat
- c. _____ Increased none

18. How has the grant aided your farm operation? Increased income Yes _____ No _____

If yes, has income increased

- a. _____ Significantly
- b. _____ Somewhat
- c. _____ Not Yet

**IF NO, Please estimate the dollars you predict to generate and year \$ _____

19. How much do you estimate you will pay in taxes in 2005 as a result of your agricultural business activities?

\$ _____

20. What is the current value of land per acre in your community? _____

21. What has your project done to enhance or protect the environmental resources of our region?

22. What problems, if any, have you encountered in doing this project?

23. How else can Cooperative Extension assist you in the future?

- a. _____Resources
- b. _____Educationally, i.e., workshops, one-on-one technical assistance
- c. _____Financially
- d. Other _____

24. Where else would you have found funds for your project if you did not receive the grant?

- a. _____Farm Loan
- b. _____Personal Savings
- c. Other _____

25. Do you expect to be farming 10 years from now? Yes No

26. If no, why?

27. Do you have relatives that you expect will farm your land after you? Yes No

28. Do you expect to sell any of your farm land in the next five years? Yes No

29. On a scale of 1 to 10, 1 how would you rate this program? _____
(1=poor, 10=excellent)

Appendix B: WNC AgOptions Program Survey Results Frequencies and Percentages

***Note – The Frequency Tables have been deleted to conserve both page and electronic space for the Tobacco Trust Fund Commission’s report to the Joint Legislative Commission on Government Operations and the Chairs of the House and Senate Appropriations Committees. A copy of the Frequency Tables can be provided upon request.*

Appendix C

Grant Survey Open-Ended Responses/Researcher Comments

Scott Burson: Erin is awesome as a person, helper, and supporter. We greatly appreciate her efforts and spirit.

We hope to have so many projects completed here that it will be a wonderful destination for tourists from around the country.

Charles Conley: I expect to make \$45,000 in 2009. Researcher Comment: In 2004 and again in 2005, Yancey County tobacco farmers Donald Woodby and Charles Conley received \$2,500 grants from the program to begin greenhouse propagation of boxwood cuttings. Today, the partners, along with Charles' brother, have approximately 21,000 boxwoods in the ground. In three to five years the partners expect to sell \$45,000 worth of boxwoods annually.

Bruce DeGroot: Our project was agri-tourism based. We are working to increase retail sales on the farm and have fewer wholesale accounts. All farm income is from cheese sales and the production of the cheese is most directly related to the project. Customer care is related to the project.

Jacqueline Hooper: Our project got us started raising our own boxwoods. Since then we added Leyland Cypress. Although it does not produce current income, we expect it to in the future. We are also raising some holly. All of these are longer term projects, but as a result of the people we met (in this project) and our interest in farming increasing, we also began raising chickens and selling organic eggs. Although it is small we are making a profit on that portion of our farm business and expect to increase farm production this year. Due to the success we are experiencing in the egg business we are looking at selling some specialized organically grown fruit (blueberries) and vegetables this year (asparagus). I am not sure where this will all lead but it was started with applying for and receiving a grant for this project. It expanded in 2005, will expand again in 2006, and I believe for years to come. Thanks for your assistance.

Karen Hurtubise: We are building our income potential. Blueberries are still coming on and this year the raspberries will have more production. I am now researching muscadine grapes and cut flowers. Recommendation: Make it easier to produce value-added production. My health inspector was totally discouraging.

This is one of the few grant programs I have seen actually help people to try new ag ventures who actually do the work at the ground level (vs. funding administrators primarily).

Harold Jenkins: Expect to sell and re-stock fish in March 2006.

Harold Long: Growing wild simulated ginseng and goldenseal will hopefully protect the wild populations. Income will be \$10,000 or more in 2010 or 2012.

Julie Mansfield: This project is ever so needed. Farm income doesn't allow for capital improvements and trials- that is why this program is awesome.

Nathaniel Maram: In January 2005 at -5 temperature the main pump on the greenhouse heating system failed and everything froze and was destroyed. An injury, decline and eventual death of my father in the spring consumed time that would have been allocated to the project. Therefore only a minimum of product was produced, all of which was planted or consumed on the farm.

This coming spring (2006) we intend to initiate a trial on fraser fir seedlings.

Lesson learned: Set up low temp warning systems and keep critical spare parts on the farm.

Robert Pierce: Good program if perhaps the transfer of funds was not such an issue. Extension has done an extremely good job over the years.

Joe Tuttle: We need an assigned local small farms expert.

Beverly Whitehead: The grant allowed us to manifest our dream of farming medicinal plants as a replacement for lost tobacco revenues. Our hope is that eventually the mature and reproducing medicinal plants will bring in enough revenue so we can retire in 10-15 years.

Pam Zimmerman: The help with marketing was excellent! The grant money is always welcome but the greatest benefits come from getting to know..the people that were involved with the program. Thanks for all the help we received through the 2005 WNC AgOptions Program!



**THE FARMER'S
GUIDE
TO
AGRICULTURAL
CREDIT**

THE FARMER'S GUIDE TO AGRICULTURAL CREDIT

ACKNOWLEDGEMENTS

This publication was developed by the Rural Advancement Foundation International – USA (RAFI-USA), under contract to the Self-Help Credit Union. The project was funded by the North Carolina Tobacco Trust Fund Commission.

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THE FARMER'S GUIDE TO AGRICULTURAL CREDIT

Rural Advancement Foundation International – USA (RAFI-USA)

September 2006

FOREWORD

RAFI-USA started the Tobacco Communities Reinvestment Fund in 1997 to assist farmers and rural communities to find new ways to replace lost tobacco income. The reinvestment fund provides a limited number of \$10,000 cost-share awards and technical assistance to farmers in tobacco-dependent North Carolina counties for pilot tests of innovative agricultural enterprises. RAFI-USA started the program hoping that farmers whose new pilot projects succeeded would find additional capital to grow their new business. That is, we hoped farmers could take their experiences of the reinvestment fund to the bank—literally. This happened in some cases: Some project growers did secure financing to expand successful enterprises. However, in too many cases, very successful farmers went to their lenders and were denied financing. What went wrong? Why were these farmers turned down?

The reasons have to do with both farmers and lenders. On the one hand, many farmers have years of success getting annual operating loans to grow raw commodities. Yet when these same farmers apply for loans for new production ideas, they can be turned down. The same thing applies from the lender's side: Many lenders are skilled in assessing the risk/rewards of a traditional operating loan. But when presented with plans for new agricultural enterprises, lenders can find themselves lacking the means to do an accurate evaluation.

In many cases, farmers who are accustomed to annual operating loans for production of raw, commodity crops — corn, soybeans, tobacco — are not ready for the burden of research and documentation that a lender expects for a non-traditional farm product. It is also true that lenders who are familiar with the production and profitability of farm commodities do not have the expertise necessary to accurately evaluate the risk of an agricultural enterprise that he or she has never seen before.

Overcoming these financing barriers is the aim of a new partnership between the Self-Help Credit Union, Durham, and the Rural Advancement Foundation International-USA (RAFI-USA), Pittsboro. The project builds on work done for *Funding the Harvest*. That 2004 study by the Self-Help Credit Union described and analyzed financing barriers small-scale and organic farmers face in North Carolina. The two partners are building on *Funding the Harvest* in the new Farmer and Lender Project, which receives support from the North Carolina Tobacco Trust Fund Commission.

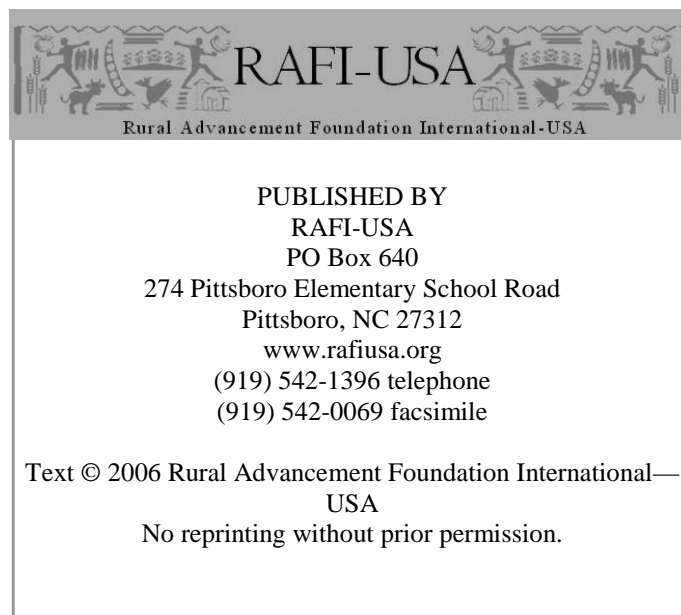
The new project is bringing together farmers, farm lenders, and other business and agricultural leadership, to develop solutions to the financial challenges farmers find when making a transition to new farm and farm-related enterprises.

This Guide is a product of the Farmer and Lender project's work to date. The Guide is aimed at helping farmers get ready to ask a lender for the financing needed in new and innovative ventures. Used as part of an overall strategy, the Guide can help lenders and farmers get mutually helpful results when they sit down to do business.

Note: Many of the financing issues this Guide discusses apply to innovators in other kinds of businesses. The same is true of recommendations — many apply to non-farm enterprises. However, the farmer is the chief intended user of this Guide. For one thing, farm financing has some wrinkles peculiar to it alone. Just as important, resources for farm entrepreneurs are lacking, and this Guide is intended to address this deficit.

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EXECUTIVE SUMMARY

Accessing capital is one of the many challenges facing farmers. Agricultural financing is crucial for maintaining production, expanding operations, or trying different enterprises. To maximize profits, more and more farmers and farm entrepreneurs are turning away from simple commodity crops in favor of more complicated or diversified enterprises. This can create a problem. New business models may be unfamiliar to agricultural lenders. So the farmer may need to take some extra steps in preparing and presenting his or her business plans. This Guide is a tool to help transitioning farmers and farm entrepreneurs to take those useful steps.

In the **INTRODUCTION**, a few stories are given as examples of financing barriers that farmers often face when transitioning to something new.

HOW LENDERS EVALUATE LOAN APPLICATIONS goes into detail on how lenders make decisions on farmers' loan applications. The idea is to let the farmer see the lending process through the lender's eyes. This section is organized around "The Five Cs," a tool lenders often use to evaluate an application. This section helps the farmer understand the lender's reasoning and know what information the farmer will be expected to provide on cash flow, capital, collateral, conditions, and character. Tips are given on developing a farm loan application that is honest and accurate and complete and which highlights the farmer-applicant's strengths.

COMMUNICATING YOUR IDEA TO A LENDER is the second major section. Once the farmer has a well-thought-out idea, the job is to convince a lender that the idea is solid enough to justify a loan. Communicating the idea becomes the key. This is communication of a different kind. Before the farmer meets with the lender, the idea must be put into forms that the lender can work with. This section fully describes the contents of a farmer's checklist: balance sheet, income statement, production record, cash flow projections, and a business plan. Samples of key documents are included.

In the **CONCLUSION**, the authors comment on credit and finance as a central concern of modern, complex agriculture — especially farm operations that are highly diversified and/or featuring new crops — and on the usefulness of this Guide and other resources to prepare farmers and farm entrepreneurs to succeed in obtaining the capital they need.

THE FIVE APPENDICES CONTAIN INFORMATION THAT IS VITAL TO USE ALONG WITH THE GUIDE.

APPENDIX 1 is a glossary of lending and finance words farmers need to be familiar with.

APPENDIX 2 is a guide to seven different types of farm lenders active in North Carolina; the farmer can read and decide which lenders best suit his or her situation.

APPENDIX 3 adds depth to "The Five Cs" by discussing "The Sweet 16" measurements that lenders use.

APPENDIX 4 is "Where to Go for Help," which lists a directory of resources for farmers seeking help with financing or business planning, and urges farmers to be persistent in using it.

APPENDIX 5 cites major sources used in producing the guide.

The bulk of the concepts and tools we describe are familiar in small business. The authors have combined them and written them in this new Guide for farmers. Our hope is that by doing so, we are giving farmers a leg-up in their efforts to get capital needed for their maximum success in farming.



Ronald Bennett guides a tour group through the construction of a new retreat facility on his farm in Vance County.

INTRODUCTION

Joe farmed soybeans, corn, wheat, and cotton, and he had been borrowing from the same bank for the past 12 years. The process was simple and it worked: Joe always made his payments on time and his lender didn't ask a lot of questions. Every year he went to his lender for the money he needed to get through the season. Every year he received the loan based on a short conversation and a few short forms. It felt like a real personal relationship. One year Joe decided he wanted to expand his landscape-nursery, a little sideline wholesale business he had been working for a few years. Profits on his row crops were heading south, and he felt he'd have more control over his income by focusing on the nursery. Learning of this for the first time, his lender was skeptical. The lender asked Joe all kinds of questions, doubted he could sell that many shrubs, and said he would need to see a five-year cash flow projection and proof that Joe could actually sell the plants. After such a long lending relationship, Joe was surprised at his lender's response.

A tobacco farmer named Lemuel raised broilers under contract in the 1990s. He hadn't made as much money with broilers as he had hoped. Instead of building new poultry houses as the company had asked, he quit raising contract broilers as soon as his houses were paid off. When in 2005 he took the buyout and quit tobacco, he really didn't want to give up farming, nor did he want to sell the land. He was interested in trying to grow birds on his own, to sell to fancy restaurants like the one his daughter worked for in Durham. He knew of a processing plant where he could have his birds killed, cleaned, and packed. But he would have a lot to learn about marketing, packaging, delivery, and billing. Also, he knew there would be risk in growing birds without antibiotics and hormones, as the customers preferred. Who could help him think through all the details? Could he live on credit cards until he worked out his plan? What kind of insurance was available? He knew in his gut that it would be profitable, but he barely knew what questions to ask, let alone who to ask.

R.B. and his wife had run a 400-cow dairy for many years. His son Junior wanted to come back to the farm with his wife and children and take over the business. R.B. was grateful he could begin to retire, because the dairy business was getting tougher and tougher. Junior knew the old ways of dairying wouldn't pay the bills, so he wanted to convert the operation to grass-fed organic production. He did a lot of research, visited with experienced grass-fed dairymen, found a buyer for the milk, and wrote a business plan. None of the other dairymen in the county had ever considered grass-fed dairying, and the one lender he spoke to was not familiar with grass-fed dairy production. R.B. knew his son could manage the operation, but they both worried about financing the three-year organic transition period. Should they harvest the timber? Should they sell the back acreage? And could they finance this major change and still ensure money for R.B.'s retirement?

These are fictional stories. But they are examples of the many challenges out there facing farmers. As a farmer you probably can tell similar stories of bigger and smaller challenges farmers find when looking for credit or financing.

The challenges facing you as you strive to improve your farm's profitability are special challenges. The information you need to make good decisions about new enterprises can be hard to locate. It can be difficult to obtain the financing needed to continue or expand operations, or to change to a different kind of production or marketing.

This Guide was written to

- Improve your understanding of agricultural finance;
- Help you get ready to apply for financing for your agricultural or farm-related venture;
- Give you planning tools to increase your opportunities for accessing capital;
- Connect you with other resources where you can learn more.

A NOTE ON SUCCESS:

All good lenders want to see you succeed and build equity; their profession is to invest in your success. But your challenge in seeking financing is to find the right lender for you. This Guide can help you seek experienced agricultural lenders to help you solve problems--and avoid them in the first place! Also, you want to find a lender who is knowledgeable *and* open to learning about new, profitable crops, innovations in farm production, and new ways to market farm goods.

This Guide will help you understand how lenders look at all kinds of financing requests. The Guide will also help you see where the different opportunities for financing may be found, and help you prepare to succeed.

UNDERSTANDING AGRICULTURAL LENDING

Farmers want to farm, and agricultural financing is just another tool in the farmer's toolkit. But if you aren't having an easy time obtaining the financing you need, it might be helpful to look at things differently. For the next few pages, let's look at how lenders look at financial proposals.

Understanding agricultural lending allows you to use your time wisely and communicate clearly with your lender, while minimizing false starts, disappointments and frustration. It's up to you to make the case that your loan is a good investment for the lender. Lenders avoid taking risks: They have to be certain that the money they "rent" to you will be repaid. They need to know your plan is sound and that you will do what you say you will do. They need to see a clear path to repayment of the loan. This means the lender will ask you questions. Any good lender will ask you a lot of questions. Be wary of lenders who do *not* ask questions.

LENDERS GAIN CONFIDENCE IN YOUR CAPABILITIES BY LOOKING AT

- your prior production history,
- your personal and business credit history,
- your financial records (including balance sheets, inventories, income statements or tax returns),
- your farm plan or business and marketing plan.

LENDERS NEED TO SEE YOUR PATH TO REPAYMENT OF THE LOAN, SHOWN IN

- your production or management plan,
- your marketing plan,
- your projected cash flows,
- your collateral, equity, or other off-farm income streams (for the worst case scenario).

By learning how lenders look at loan applications, you can avoid wasting time during the application process. The more questions you anticipate, the more time you can save.



Farmers attending a RAFI-USA enterprise workshop

UNDERSTANDING AGRICULTURAL LENDING

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HOW LENDERS EVALUATE LOAN APPLICATIONS

While this section is about common concerns of lenders, every loan officer is different, and different lending institutions make different loan approval or denial decisions. This Guide is *not* a blueprint for getting a loan. But knowing these ideas and themes will help improve your chances of getting a loan. Appendix 2 goes into more detail about different lenders in North Carolina.

All lenders share certain expectations. In our conversations with lenders, there were common themes that all our lenders agreed were important in dealing with loan applicants. The “Five C’s” are one way of looking at these common themes.

The Five C’s are:

1. **CASH FLOW** (Capacity to Repay the Loan.)
2. **CAPITAL** (Equity Investment in the Enterprise.)
3. **COLLATERAL** (Security for the Loan.)
4. **CONDITIONS** (Considering the Big Picture.)
5. **CHARACTER** (Capacity to Execute the Enterprise Successfully.)

CASH FLOW

(Capacity to Repay the Loan)

Cash Flow tells you how much of the cash you generate remains after expenses and repayment of debt. A Cash Flow Projection shows your income and expenses looking forward into the future. Cash Flow is looked at as a measure of your capacity to repay a loan. While you can look at cash flow for a period as short as a month, a quarter, or a year, most lenders want to see cash flows projected three to five years into the future.

Cash flow is used to determine whether a business is able to meet monthly loan payments. Lenders use your cash-flow statement to derive a ratio often called a minimum-debt-service-coverage (DSC) ratio requirement. A lender will want to see that you have more cash coming in each month from income than you have going out from expenses and loan repayment. Lenders use different ways of figuring DSC ratios, but a good rule of thumb is to shoot for a DSC ratio of 1.2 to 1.25. That means that for every \$1,000 of debt repayment you have to make each month, you should have \$1,200 to \$1,250 of cash after expenses. By having more income than you need to pay expenses, you create a buffer that protects you (and your lender) from the unexpected, such as rising costs or falling prices.

Cash flow is sometimes measured by earnings before interest, depreciation and amortization (EBIDA). Some businesses call it a pro forma projection.

CAPITAL

(Equity Investment in the Enterprise)

Capital is the money you have personally invested in the business and is an indication of how much you have at risk should the business fail. Lenders and investors will need to know what you have put “on the line” before asking them to commit any funding. They will expect you to have undertaken personal financial risk to establish the business. You could say that capital is the measure of your equity investment in the project.

What percent of the total cost of your project will be covered by your own equity? Some community lenders may agree to some amount of “sweat equity” investment in the business. However, most lenders want to see some capital investment as well. Lenders typically look for a significant investment by the individual applying for the loan, seeing this as a measure of your commitment to your business plan.

Capital can go beyond the question of the money *you* plan to invest:

What other equity sources are invested? Are you getting friends and family (or others) to invest in shares of the business? Consumer Supported Agriculture (CSA) is an alternative way of raising short-term capital by selling shares of your production, in advance of harvest, directly to your customers. (Learn more about these alternative sources of financing at the end of Appendix 2.)



Caswell County farmer Ricky Smith gets more out of his harvest through on-farm processing.



COLLATERAL

(Security for the Loan)

Lenders have to consider all possibilities, and must plan for the worst-case scenario. In the case of a loan, what can the lender turn to in the event the business fails? If the borrower is unable to repay the loan, how does the lender get back his money? Collateral is land, equipment, houses, cars, and other things of value that a lender can hold as security for a loan, and repossess if the loan is not repaid.

The value of the property being held as security is an important factor: Lenders will likely require their own appraisal of the property or other assets. Often, assets are not valued according to market-value, but at what a lender can get for the item if they have to foreclose or liquidate. That often means the lowest-commodity price for crops and livestock and a severe discount on equipment. Remember lenders are not in the business of operating the farm business and/or buying and selling farm products, so the lender may not get the best price on live animals, crops in the field, perishable, or repossessed goods.

Also, most lenders have policies regarding loan to value ratios. For example, lenders might only loan 80% of the value of a parcel of property, or 25% to 50% of the value of a particular piece of equipment. Other lenders require 150% collateral because of the costs and losses incurred in a liquidation of the collateral.

WHY IS COLLATERAL DISCOUNTED?

Why is it that lenders discount collateral so deeply? While a lender is investing in the potential for your success, he or she must prepare for your failure. This is how financial institutions are successfully run. If you run into trouble with your loan, and the lender is unable to help you get back on track with loan payments, the lender must recover the money through your collateral. In these cases, lenders often cannot sell the property, equipment, etc. at market for the same value it might bring under different circumstances. Sometimes the collateral must be sold for pennies on the dollar. This is why so many lenders require 150% or more collateral to loan value.

The kind of collateral is important, too: Lenders may ask that you secure the loan with your house. While some say this is based on the theory that you will be less likely to default if your home is at risk, there is another reason. In comparison to land or equipment, houses make good collateral because their value is relatively constant. Land values go up and down based on weather, crops, Federal programs, and development; equipment values are determined by the relatively small number of potential buyers; but the potential market for a house is broader, so the values are more constant.

CONDITIONS

(Considering the Big Picture)

Conditions: This is where the lender looks at your loan proposal in the big picture. What are the current economic conditions, and where does your farm fit in? The lender looks at the intended purpose of the loan: Will the money be used for seasonal production costs, livestock, or equipment? The lender also thinks about the impact of the local and national economy on your plans. He may look at larger trends in your business, and in related industries, and considers how this big picture could impact your own plans.

CHARACTER

(Capacity to Start & Finish the Project Successfully)

Character is about your personal, professional capacity to execute your plan successfully. Different people, including lenders, evaluate character differently. For some, a firm handshake is a sign of strong character. Others will want to see a steady employment history and a good credit record. Your credit history is a record of your past borrowing performance. Lenders look at past performance carefully and evaluate the borrower on his or her potential for future bankruptcy. Depending on your business plan and the loan you request, the lender may look at the credit history of the business, the individual borrower, and any co-signors, guarantors, or investors.



Kenny Wilson uses a hydroponic gutter system to grow lettuce on his farm in Yancey County.

YOUR CREDIT RECORD:

The three credit bureaus offer one free copy of your credit report, once a year. Each of the three bureaus keep separate records. Call 1-877-322-8228 or use this simple website to request all three reports at once: www.annualcreditreport.com/ This is also the place where you learn how to dispute errors on your credit record.

There are three major credit rating institutions in the United States — Equifax, Experian, and TransUnion. All lenders use one or more of these institutions when examining your credit history. It is important that you know what is on your credit record prior to applying for a loan. A bad mark on your credit record does not necessarily keep you from getting a loan. However, it is important that you have taken steps to address any negative marks on your credit record and that you can explain to your lender why you received those marks in the first place.

Before you apply for a loan, get a copy of your credit reports from each of the three credit rating institutions. The credit rating institutions normally charge a fee for a copy of your credit report. However, by law you are entitled to one free copy of your credit reports from each of the institutions once a year. Take advantage of this to keep up with your credit record.

MANAGEMENT EXPERIENCE:

Your personal agricultural management experience is very important to agricultural lenders. If you are venturing into something brand new to you, you are not likely to get financing to start new enterprise. Instead, consider a business plan that allows you at least three years of self-financed operations, to build experience and prove your capabilities.

Your lender looks at your vision for the business and whether or not you have the leadership capacity or experience to execute your plan. Your production history, or your success or failure with past enterprises is key. With a new venture, the lender will need to see any experience you or your partners have to indicate chances of success with this new venture. With more complex business proposals, such as value-added enterprises, lenders typically analyze the experience and leadership of any consultants hired to help with the development process (for example, architects, contractors, lawyers, marketing agents). If you have such partners, you may need to write these people into your business plan.

A QUALITY BUSINESS PLAN WILL BUILD YOUR LENDER'S CONFIDENCE IN YOUR CHARACTER.

In some ways, communicating your character to your lender is like applying for a job. Your proposal to your lender should list all of your relevant educational and work experience. When you meet your lender face-to-face, you should be prepared to explain the details of your business plan so that the lender gains confidence in your knowledge of the proposal.

WORKING WITH YOUR LENDER:¹

- Arrange credit in advance. Do not make major financial decisions without informing your lender. Letting them know after the fact will damage your credibility and your lender's trust in you.
- Give your lender plenty of time to review your plans. By explaining your goals and plans, you build trust and confidence, and you strengthen your relationship with your lender. It also allows your lender the time to offer sound advice to you. Because they are in the business of evaluating business ideas, your lender's suggestions or comments could be very valuable. They may help you avoid mistakes others have made.
- Let your lender know about problems and changes. Many businesses encounter financial problems, and by letting your lender know, adjustments can be made and solutions can be found. Communication is key, not just with the first loan request, but throughout the whole credit process.
- Maintain a high level of integrity. You expect your lender to be honest and straightforward with you, and your lender is entitled to the same. That means letting your lender know if and when problems occur, so that you can work together to come up with a solution.

¹Adapted from *Weighing the Variables: A Guide to Ag Credit Management*, by David Kohl and Vern Pierce, American Bankers Association, 2002.

In thinking about the Five C's of lending it is important to note that if everything is not perfect, it does not mean that a lender will automatically turn down the application. It does, however, mean that if you are weak in one area other categories need to be strong enough to outweigh the weaknesses. For example, if the loan applicant had weak credit in the past, but has been able to rebuild his credit in recent years and has good collateral, sufficient capital investment, strong positive cash flow (or well-researched projected cash flow), and a clear and detailed plan for the project, then a lender may be likely to consider the application.

The "Five C's" are important, but they don't cover all cases. Farmers with more complicated business plans might find the "Sweet Sixteen" to be more helpful. The "Sweet Sixteen" are calculations and descriptions used by bankers and lenders to measure business performance. These 16 ratios and calculations define Liquidity, Solvency, Profitability, Repayment Capacity, and Efficiency. Appendix 3 describes the "Sweet Sixteen" in detail.

COMMUNICATING YOUR IDEA TO A LENDER

Suppose you know what you are going to grow, what equipment to use, and so on. You know what you need to do to make your new idea succeed. The next step is to communicate your idea to someone whose job is to loan money and manage risk—your lender. Presenting your idea in a format that a lender can understand is the key to successfully convincing a lender to loan you money.

It is also helpful to bear in mind what you are asking for when you ask for a loan. Lending is a complex deal where the lender takes on a lot of risk. When you receive a loan, the lender fulfills its end of the deal the moment the loan is advanced. You fulfill your end of the deal with every payment you make. Your lender is relying upon you to keep up that end of the bargain—in some cases far into the future. This is why lenders need to see a well-thought-out plan, financial strength, and a strong sense of commitment in order to develop confidence in your idea.

"CHECKLIST" OF WHAT YOU NEED BEFORE APPROACHING A LENDER:

- *Balance Sheet*
- *Income Statement*
- *Production Records*
- *Cash Flow Projections (AKA Pro Forma Projections)*
- *A Plan*

Putting together this checklist is part of a good business planning process. This section explains the items as part of good business planning and communicating your idea to a lender.

BALANCE SHEET

A balance sheet lists all business assets and liabilities, showing what is owned and what is owed.² A completed balance sheet will help you and your lender to determine your net worth and equity. A balance sheet is only a snapshot of your financial situation at a specific date and time. It does not indicate whether you or your business are making or losing money.

There are different ways to construct a balance sheet, and your financial institution may have a preference as to the method they want you to use. The simplest way to construct a balance sheet is to list all your farm and non-farm assets and their values in one column and all your farm and non-farm liabilities in another column. Total the columns. Then subtract liabilities from assets. This result (positive or negative) will give you your net worth and is an indication of how much equity and capital you might have available to put towards your project.



Marc Cox surveys his winter strawberry production in his greenhouse in Columbus County.

²*Building A Sustainable Business: A Guide to Developing A Business Plan for Farms and Rural Businesses, Minnesota Institute for Sustainable Agriculture and The Sustainable Agriculture Network, 2003.*

INCOME STATEMENT

While a balance sheet is a snapshot of your business at a given instant in time, an income statement tells how much money you have earned over a period of time—usually a year, sometimes longer or shorter. Often, lenders will want to use tax records as a record of income. (For many farmers this is Schedule F.) We have enclosed a sample income statement below. But you should note that there are different types of Income Statements. Make sure to get help in creating your own. Turn to an accountant, a good software program, or someone with experience in providing assistance to farmers in financial planning and recordkeeping. Refer to Appendix 4 for a list of providers of technical assistance and business planning.

SAMPLE INCOME STATEMENT			JOE'S FARM, INC	
FOR THE PERIOD BEGINNING: 1/1/2005 AND ENDING: 12/31/2005				
Gross farm income				\$322,145
Total cash operating expenses			-	265,715
Inventory changes				
Crops and feed (ending-beginning)	+/-	23,980		
Market livestock (ending-beginning)	+/-	9,321		
Accounts receivable (ending-beginning)	+/-	1,185		
Prepaid expenses and supplies (ending-beginning)	+/-	-4,325		
Accounts payable (beginning-ending)	+/-	-113		
Accrued interest (beginning-ending)	+/-	--		
Total inventory change			+/-	30,048
Depreciation			-	17,280
Total			=	\$69,198

*This “accrual” income statement format was adapted from *Building A Sustainable Business: A Guide to Developing A Business Plan for Farms and Rural Businesses*, Minnesota Institute for Sustainable Agriculture and The Sustainable Agriculture Network, 2003.

PRODUCTION RECORDS

Production history is a critical component of how a lender evaluates a lending proposal. Past performance is an indicator of future success. Preferably, lenders will want to see documented evidence of your success for the enterprise for which you are seeking capital. If the enterprise is new to you, you may not have production records. In that case, a lender will want to see documentation of success with other enterprises and crops. The key point is that keeping records is important. You must keep the records in the first place in order to use them as part of a loan application package.

CASH-FLOW PROJECTIONS

A major part of planning a new enterprise is looking to the future, and testing how your ideas will fair in realistic scenarios. Cash flow projections allow you to analyze the future viability of an enterprise by determining the timing of expenses and income and whether you will have enough cash on hand when it is needed. Cash flow management is a critical component of operating a successful business. Many profitable businesses have failed because they did not cash flow.

While cash flow projections should be included as part of a written business plan (which we will describe in greater detail later), cash flow is important enough to discuss separately here.

There are almost as many different forms and methods for evaluating cash flow as there are entrepreneurs. What is most important in constructing a cash flow projection is that you develop a method that makes sense to you. In order for a cash flow projection to be useful, the information in it must be as realistic as possible. Do not cut corners when constructing a cash flow document. Even a small error early on can make a big difference when projected out over a period of years.

AS A FARM-BUSINESS MANAGER, YOU CAN USE CASH FLOW ANALYSIS TO ENSURE THAT YOU WILL HAVE ENOUGH CASH TO PAY EXPENSES, LOANS, AND TO GET A SENSE OF YOUR FUTURE PROFITS.

Cash flow projections look at sources and uses of cash or incoming cash and outgoing cash. When you create yours, you will take into consideration your current cash position, receivables or sales, other cash sources, and you will compare them against all uses of cash, such as the cost of seed and other inputs, operating expenses, income taxes, and other cash uses. Finally, a cash flow projection ends with “net change in cash position,” a figure derived by subtracting the estimated cash uses from the estimated cash sources. By adding the net change figure to the starting cash figure, you learn how much cash you will have for the next month, quarter or year.

IT IS WORTH NOTING THE DIFFERENCE BETWEEN A CASH FLOW PROJECTION AND AN INCOME STATEMENT:

The cash flow projection measures the actual cash coming in and going out of the enterprise. Whereas an income statement does not always account for timing of revenues or expenses, such as accounts receivable or accounts payable.



Larry Harris and Patrick Robinette have figured out how to earn more money by raising cattle on grass.



While a good plan is necessary to prove to your lenders or investors that your enterprise is viable, a good plan will also help increase your own confidence, and give you a map to refer back to during times of uncertainty. Nationally, 60% of new ventures fail. However, when entrepreneurs take the time to do a business planning process the odds are reversed. Three-out-of-five new businesses that complete a business planning process succeed.

The example below is a simple cash flow projection for a typical Direct-Market Vegetable operation. This is a monthly cash flow analysis for one year (or one season) of production. Cash on hand is indicated by “Total Beginning Cash.” In this example the cash on hand is always a positive number, meaning that if these projections reflect reality, then the business will have enough money to cover all expenses throughout the year.

Sample Cash Flow Projection for a Typical North Carolina Market Vegetable Operation														
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOT	
TOTAL BEGINNING CASH:	29765	31665	39480	32705	30530	31875	33995	36855	39465	42085	46405	36655		
CASH-IN:														
Farmers Market					3520	4320	4560	4560	4320	3520			24800	
Restaurant				3000	3000	3000	3500	3500	3500	3000			22500	
Grocery				1600	1600	1600	1600	1600	1600	1600			11200	
Subscription	11875	11875											23750	
TOTAL CASH-IN:	11875	11875	0	4600	8120	8920	9660	9660	9420	8120	0	0	82250	
CASH-OUT:														
Irrigation Expansion	500												500	
Farmer's Draw	1700	1700	1700	1700	1700	1700	1700	1700	1700	1700	1700	1700	20400	
Hired Labor (\$10/hour)			3000	3000	3000	3000	3000	3000	3000				21000	
Seed, Fertilizer, Potting Soil, Etc	2800							250			3600	2800	9450	
Mulch, Landscape Fabric	500										2000		2500	
Utilities	200	200	200	200	200	200	200	200	200	200	200	200	2400	
Layers/Feed	175	75	75	75	75	100	100	100	100	100	100	100	1175	
Equipment maintenance	700	100	100	100	100	100	100	100	100	100	100	100	1800	
Marketing/Internet/Certification	130	315	30	30	30	30	30	30	30	30	30	845	1560	
Insurance, farm & vehicle	1000												1000	
Vehicle (\$.20/mile)	250	250	250	250	250	250	250	250	250	250	250	250	3000	
Conferences, Workshops, etc.	500										350		850	
Taxes/ Preparer	300											800	1100	
Miscellaneous	100	100	100	100	100	100	100	100	100	100	100	100	1200	
Interest and Principal on Bank Debt	900	900	900	900	900	900	900	900	900	900	900	900	10800	
Stock Buyback/ Dividend Payments	420	420	420	420	420	420	420	420	420	420	420	3420	8040	
TOTAL CASH-OUT:	9975	4060	6775	6775	6775	6800	6800	7050	6800	3800	9750	11215	86575	
TOTAL END CASH:	31665	39480	32705	30530	31875	33995	36855	39465	42085	46405	36655	25440		

You can use cash flow projections to test your plan under the worst-case scenarios simply by changing some of the numbers around. Use them to see how your business will weather hard times. Always clearly state your assumptions, then project how these assumptions effect your cash flow in the future. This exercise will help you determine in advance what actions you may need to take to avoid problems. Many farmers have a gut-level understanding of this, but a cash flow projection helps your lender quickly understand this aspect of your business.

GOOD BUSINESS PLANNING

Why should you spend time planning? The more unusual your farm-business is, the harder you have to work to bring your lender up to speed. You may have spent years considering your new venture and talked with lots of folks before deciding to move forward, but your lender is playing catch-up. Financial and business planning are keys to communicating clearly with a lender, and will open the door to success.

TWO SCENARIOS:

*How do interest rates and terms affect my
bottom line?*

There are a lot of different products available for financing a new venture: credit cards, home mortgages, commercial loans, etc. When you make decisions about how to raise capital for your business, it is important to consider the total costs of the money.

EQUIPMENT PURCHASE: CREDIT CARD OR BANK LOAN?

	Credit Card	Equipment Loan
Amount Borrowed:	\$10,000.00	\$10,000.00
Interest:	18%	8%
Loan Term:	32 months	32 months
Payment Frequency:	Monthly	Monthly
Payment Amount:	\$395.77	\$348.05
Total interest paid over the life of the loan:	\$2,664.64	\$1,137.60
TOTAL COST OF LOAN:	\$12,664.64	\$11,137.60

WHAT DOES IT COST TO DEFER A LOAN?

	Immediate Repayment	18 Month Interest Only Deferral
Amount Borrowed:	\$100,000.00	\$100,000.00
Interest:	8.25%	8.25%
Loan Term:	15 years	15 years
Number of Payments:	180, monthly	162, monthly, after 18 interest payments
Payment Amount:	\$970.40	\$987.00
Total interest paid over the life of the loan:	\$74,670.81	\$84,142.86
TOTAL COST OF LOAN:	\$174,670.81	\$184,142.86

Amortization is the division of a debt into periodic payments over a certain period of time. Amortization calculators can help you to calculate the effects of changing interest rates, terms, principal, balloon payments, and other factors on the total cost of a loan. A good amortization calculator is located online at <http://bretwhissel.net/amortization/>.

BUSINESS PLAN OUTLINE

North Carolina REAL Enterprises has put together a business plan outline that is useful in organizing a written business plan. A modified version of the REAL outline is below. While business plans take many different forms, all good plans should contain the following elements:

EXECUTIVE SUMMARY

- A one page summary of the plan: purpose, who prepared it, brief description of the business, its products and owners, form of organization. If you are seeking a loan, include the amount requested, over what period you wish to repay it, the use of the loan proceeds, collateral you are prepared to offer, and your equity investment.

PRODUCT OR SERVICE

- Detailed description of the product or service (include an example or photo if possible).

MARKETING

- Target market/ customer profile:
 - Specify age, gender, income, preferences, location, etc.
- Industry analysis
 - What are the trends in your industry.
- Market analysis
 - Total market size and the share you will capture, seasonality, unique aspects.
- Describe the “Five P’s of Marketing” for your business:
 - Product: How will you design and package your product? Where does your product fit in the marketplace?
 - Price: How will you price your product/ service?
 - Placement: Where will customers learn about your product? In the grocery store, by mail-order, or through a broker?
 - Promotion: What media and marketing methods will you use to generate awareness and interest about your product/service? Include examples of your promotional materials.
 - People: Who will be responsible for marketing your product/service?
 - Competition: List your competitors by name, location, and their strengths and weaknesses; explain how you will succeed against them; how will they react to your entry into the market?

OPERATIONS

- Legal structure and why you chose it; include legal/governing documents (articles of incorporation, by-laws, etc.).
- Management and personnel: Who the key managers/owners/employees/consultants are and what relevant experience and background they bring to the business.
- Customer Service: Procedures and policies regarding your work.
- Location and operations:
 - Describe your production practices: Production schedule, major suppliers, production methods, equipment, etc.
 - Operations Plan: How will you deliver your product/service to the customer, from start to finish (Who does what? How long does it take?)

FINANCIALS

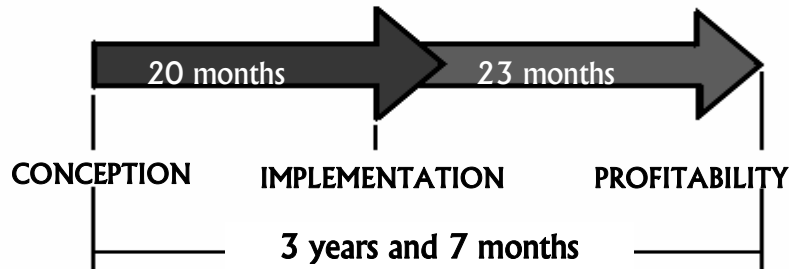
- Cash flow projections for three to five years
 - Loan amortization schedule.
 - Detailed description of the assumptions you made in constructing the cash flow.
- Breakeven analysis
- Risk management: Identify the major risks and how you plan to overcome them.

BUSINESS PLAN OUTLINE CONTINUED

As you may imagine from looking over the business plan outline, it will take some time to collect all the information necessary to complete a good business plan. You should allow at least a few months to complete the process. Many entrepreneurs spend years collecting information and refining their plans before moving forward.



Timeline to Profitability



In a survey of tobacco farmers who had tried new enterprises to replace lost tobacco income, farmers told us that they planned for an average of 20 months prior to implementing their new enterprises.

Additionally as you look over the business plan outline, you may see places where you will need some assistance to find information or understand how to put together certain pieces of information. Good business planning requires that you take advantage of others' expertise. It is highly unlikely that any one person could successfully put all of this information together on his or her own. There are a number of places you can go to for help, but none of these possible sources of assistance have the resources or expertise to do a business plan for you. Your success in the business planning process is completely dependent on your own initiative. Appendix 4 lists technical service providers and other resources that may be helpful to you with your business planning process.



MARKETING PLANNING

How are you going to sell your produce? If your enterprise involves anything other than conventional commodity markets, you will need to spend time writing a marketing plan. You are not alone if you find you have a lot to learn about marketing. Organizations listed in Appendix 4 can help.



INDIVIDUAL INITIATIVE IS THE KEY TO SUCCESS.

A great example is Rainbow Meadow Farms' plan to expand into direct-marketing of pasture-raised poultry. After years of success with lamb production and conventional contract broiler production, Genell Pridgen began raising broilers on pasture. After some success, and seeing great demand from her customers for this premium product, she developed a plan to expand her production and her market. After some research, she recruited the assistance of business school students at East Carolina University. Under the guidance of their professor, they developed a detailed marketing plan for the business. The professor tapped the knowledge and expertise of a volunteer from SCORE, the Service Corps of Retired Executives. Genell had to do lots of research herself, but by doing her homework, and finding the right people to help her, she and her support team produced an excellent plan.



Many lenders have limits as to the loan amounts they can underwrite. Some lenders who specialize in agricultural or commercial lending try not to make loans under \$250,000. Others generally agreed that loans under \$50,000 are hard to justify because of the costs of approving, underwriting, and managing the loan. Government sponsored lenders will have more flexibility, although they may be constrained by the availability of funds. Appendix 2 has more information on North Carolina's agricultural lenders and their specific constraints.

PUTTING IT ALL TOGETHER

In this section we worked through the "checklist" of materials that you will need to put together prior to approaching a lender for funding. Once you have all the materials from the checklist complete, it is time to start shopping your proposal around to lenders. Approach multiple lending institutions with your proposal. Finding the right lending partner for your project is important and may not happen on the first try. Information in Appendix 2 might help you to identify a lender that can meet your needs.

Even the very best planning does not guarantee that you will find financing for your project right away. Rejections happen. Do not let a rejection discourage you. Listen to the concerns of the financial institution. Understand what led to the initial rejection, make necessary adjustments to your plan, and try again. If you have confidence in your ability to succeed with your enterprise, then persistence is important in your efforts to obtain funding.

Bladen County farmers are earning more from their animals through on-farm finishing.



BORROWERS HAVE RIGHTS

Lenders are prohibited from discriminating based on race, ethnicity, sex, disability, and religious affiliation. If you are rejected for a loan, you have the right to request written documentation of the reasons why you were rejected. Most institutions also have an appeal process that you can use to ask for reconsideration of a decision that you feel was unwarranted. You may make adjustments to your proposal and reapply for a loan.

CONCLUSION

No one ever said farming is easy. Farming in the 21st century is possibly more complex than ever before. Those agricultural businesses that are diversified, or involve anything more complicated than commodities, may have a harder time finding financing. Yet credit and finance remain essential tools to farm-based businesses.

We hope this Guide helps all farmers in this regard: We've shown you how lenders look at applications. We've highlighted some lenders' concerns. We've introduced some concepts of agricultural finance, described some tools for effective business planning, and shown you some examples of financial recordkeeping that will make it easier to apply for financing. We have also provided you with rich information and resources in the Appendices.

If any of this is new to you, don't let it put you off. You need to know certain things, and know how to find out the rest, but business planning is not rocket science. It may be new to you, but farmers are in the habit of learning new things and adjusting over time. If you ever find yourself stumped, get help from folks listed in Appendix 4.

With a deeper understanding of agricultural lending, knowing how to communicate your plans to lenders, and knowing when and how to ask for help, you are more likely to succeed in getting the financing your business needs to grow and prosper.



The North Carolina Meat Goat Producers Cooperative built this collection facility for meat goats in Robeson County.



Columbus County farmer James Worley shows off his newly refurbished 1880's grits sorter.



Harold and Ann Wright raise hogs on pasture on their Bladen County farm.

APPENDIX 1

GLOSSARY OF AGRICULTURAL LENDING

The following glossary is derived from several sources, including the Minnesota Business Planning Guide, “Building a Sustainable Business;” the University of Illinois at Urbana-Champaign’s Center for Farm and Rural Business Finance’s “Glossary of Agricultural Credit Terms;” and the Comptroller of the Currency’s Handbook on Agricultural Lending. Definitions for the glossary terms were drawn from a number of sources including: “Business Plan: A State of the Art Guide,” FINPACK Manual, OCIA International’s 2001 International Certification Standards, Marketing Dictionary, A Guide to Starting a Business in Minnesota, and USDA 2000 Fact Book.

Additional useful information may be found at: agglossary.uaex.edu/viewFGlossary1.asp#2298
www.farmdoc.uiuc.edu/finance/FarmersGuidetoCreditGlossary.htm

Abstract: A written, chronological summary of all deeds, mortgages, foreclosures and other transactions affecting the title to a tract of land. Also called abstract of title.

Acceleration clause: A common provision of a mortgage or note providing the lender with the right to demand that the entire outstanding balance be immediately due and payable in the event of default.

Account receivable: A current asset representing money due for services performed or merchandise sold on credit.

Accrual accounting: Revenue and expenses are recorded in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period. This is the accounting basis that is generally required to be used to conform with generally accepted accounting principles (GAAP) in preparing financial statements for external users.

Accrual income: See net income.

Adjustable-rate loan: An adjustable rate loan has provisions to change the interest rate at pre-specified points in time based on changes in a market index, a lender’s cost of funds or other factors as determined by the lender.

Administrative costs: A lender’s operating and fixed costs charged for completing and servicing a loan.

Annual percentage rate (APR): The term used to represent the total financing cost of credit expressed as a percent per year. The annual percentage rate (APR) is calculated similarly across different institutions.

Appraisal: The written summary by a qualified individual setting forth an estimated value of a specific asset or group of assets, usually used in reference to real estate.

Appreciation: The increase in value of an asset over time.

Asset: Anything owned by an individual or a business, that has commercial or exchange value. Assets may consist of specific property or claims against others, in contrast to obligations due others. All assets are reported on a balance sheet at market or cost value less accumulated depreciation.

Assignment: The transfer of title, property, rights or other interests from one person or entity to another.

Average cost of funds: A method of determining the cost of funds at a lending institution. This method uses an average cost of existing funds. In contrast, the marginal cost of funds uses cost of new funds only.

Balance sheet: An itemized list of assets and liabilities for the business to portray its net worth at a given moment in time—usually at the beginning of each year.

Balloon payment: A lump-sum final payment of a loan. It reflects the entire remaining balance of a shorter term loan (e.g., 5 years) which is amortized over a longer term (e.g., 10 to 20 years).

Bankruptcy: The federal court proceeding by which a debtor (individual or corporation) may obtain protection from creditors. The two general types of bankruptcy are voluntary and involuntary. A voluntary bankruptcy is initiated when the debtor voluntarily files a petition. In an involuntary bankruptcy, the creditor forces the debtor into bankruptcy. Debtors qualifying as “farmers” may not be involuntarily forced into bankruptcy. Bankruptcy proceedings involving farmers are declared under one of the several chapters of the federal bankruptcy code: Chapter 7 - liquidation; Chapters 11 and 12 - reorganizations; Chapter 13 - adjustment and workouts of debt.

Base rate: An interest rate used as a basis to price loans. A margin reflecting the riskiness of the individual or operation is added to or subtracted from the base rate to determine the loan rate. The bank’s funding, operating cost and required return are reflected in the base rate.

Basis point: Usually used in describing interest rate movements or interest costs. One basis point is 1/100th of 1%. For example, 50 basis points is 0.5%.

Blanket mortgage: A lien on more than one parcel of real estate.

Blanket security agreement: A security interest in favor of the lender covering all chattels.

Break-even point: The volume point at which revenues and costs are equal; a combination of sales and costs that will yield a no profit/no loss operation.

Bridge loan: A temporary, single-payment loan used by creditors to “bridge” the time period between the retirement of one loan and the issuance of another. An example is a loan used for the down payment on a new real estate purchase.

Budget: An itemized list of all estimated revenue that a given business anticipates receiving along with a list of all estimated costs and expenses that will be incurred in obtaining the above mentioned income during a given period of time. A budget is typically for one business cycle, such as a year, or for several cycles.

Cap: Used with variable- or adjustable-rate loans. Refers to the maximum allowable adjustment in interest rate.

Capital debt repayment capacity (CDRC): Capital debt repayment capacity is a borrower's projected amount of funds available to repay principal and interest on intermediate- and long-term loans. Capital debt repayment capacity adjusts for non-cash depreciation and accounts for net income, commitments for capital items and withdrawals.

Capital: The total amount of money or other resources owned or used to acquire future income or benefits.

Carryover: Any amount of short-term operating debt left unpaid due to inability of borrower's operation to generate sufficient income. This amount is "carried over" and restructured into longer term debt.

Cash accounting: An accounting basis in which revenue and expenses are recorded in the period they are actually received or expended in cash. Use of the cash basis generally is not considered to be in conformity with generally accepted accounting principles (GAAP) and is therefore used only in selected situations, such as for very small businesses and (when permitted) for income tax reporting.

Cash flow budget: A financial statement. Items on the statement are usually categorized as business or non-business with subdivisions for funds from business operations and funds from financing.

Cash flow projection: A written statement measuring the business' ability to meet its obligations with internally generated cash. Cash flow projections reflect the current and future sources and uses of cash, or income and expenses. See also EBIDA and Pro Forma.

Chattel: Tangible personal property (e.g., tractors, grain, livestock, vehicles).

Closing: Process by which all fees and documents required by a lender prior to disbursing loan proceeds are executed and filed. Usually used in reference to the completion of a real estate transaction that transfers rights of ownership in exchange for monetary considerations.

Closing costs: The costs incurred by borrowers and sellers in completing a loan transaction. Included are origination fees, inspections, title insurance, appraisals, attorney's and realtor's fees, and other costs of closing a loan.

Collateral: Property pledged to assure repayment of debt.

Commitment: A formal agreement between a lender and borrower to lend up to a specified amount of money at a specified future date subject to specific performance criteria and repayment terms.

Commitment fee: The fee associated with the establishment of a loan commitment. The fee is usually expressed as a percentage of the loan commitment.

Compound interest: Compound interest means that each time interest is paid, it is added to or compounded into the principal and thereafter also earns interest. For example, a new deposit balance is estimated each day for daily compounding. Common compounding periods are daily, monthly, quarterly, annually and continuously. The more frequent the compounding, the higher the effective rate of interest.

Co-signer: An individual in addition to the borrower who signs a note and thus assumes responsibility and liability for repayment.

Cost of funds: Refers to the interest and non-interest cost of obtaining equity and debt funds.

Covenant: A legal promise in a note, loan agreement, security agreement or mortgage to do or not to do specific acts; or a promise that certain conditions do or do not exist. A breach of a covenant can lead to the "injured party" pursuing legal remedies and can be a basis for foreclosure.

Credit: A means of borrowing money from a person or company and returning it at a later date, usually with accrued interest charged on top of the initial sum borrowed.

Credit Limit: The maximum amount of credit that is available on a credit card, loan account, or other line of credit account.

Credit Report: A report outlining the credit history of an individual which includes current and previous debts, payment amounts, late payments and past due amounts and other related information on every credit source the individual has used. Used by lenders to help determine creditworthiness.

Credit scoring: A quantitative approach used to measure and evaluate the creditworthiness of a loan applicant. A measure of profitability, solvency, management ability and liquidity are commonly included in a credit scoring model.

Credit verification: The process involved in confirming the creditworthiness of a borrower.

Creditor: A person, business, or institution from whom you borrow, or to whom you owe money.

Creditworthiness: The ability, willingness and financial capability of a borrower to repay debt.

Current assets: The cash and other assets that will be received, converted to cash, or consumed in production during the next 12 months. This generally includes cash and checking balances, crops held for sale or feed, livestock held for sale, prepaid expenses and supplies, the value of growing crops, accounts receivable, hedging account balances, and any other assets that can quickly be turned into cash.

Current liabilities: Debts due and payable within one year from the date of the balance sheet. In addition to short term operating loans, this usually includes accounts payable, accrued interest and other accrued expenses, and government crop loans. By definition, the amount of principal due within 12 months on intermediate and long-term debts is also considered a current liability.

Current ratio: A liquidity ratio calculated as current assets divided by current liabilities.

Debt-to-asset ratio: A solvency ratio calculated as total liabilities divided by total assets.

Deed of trust: A written instrument that conveys or transfers property to a trustee. Property is transferred by the borrower to a trustee, who holds it as security for the payment of debt, and upon full payment of the debt is re-conveyed to the borrower. In some states, a deed of trust is used in place of a mortgage.

Default: The failure of a borrower to meet the financial obligations of a loan or a breach of any of the other terms or covenants of a loan.

Delinquency: The status of principal and/or interest payments on a loan that are overdue.

Demand loan: A loan with no specific maturity date. The lender may demand payment on the loan at any time.

Depreciation: A decrease in value of real property caused by age, use, obsolescence and physical deterioration. A non-cash accounting expense that reflects the allowable deduction in book value of assets such as machinery, buildings or breeding livestock. Depreciation charges, in effect, reflect the funds that need to be set aside in order to replace the depreciating asset.

Disclosure Statement: A statement issued to the borrower by the lender that provides information about the actual cost of the loan, including the interest rate, origination, insurance, loan fees and any finance charges.

Down payment: The equity amount invested in an asset purchase. The down payment plus the amount borrowed generally equals the total value of the asset purchased.

Draft: An order for the payment of money drawn by one person or bank on another. Often used in the dispersal of an operating loan to a borrower for payment of bills.

Earned net worth change: Represents income that either contributed to or depleted the farm's net worth. The earned net worth change is calculated by adding nonfarm income to net farm income and then subtracting family living expenses, partner withdrawals, and taxes.

Earnest money: Upon negotiation of the terms of sale, the portion of a down payment given to the seller (or escrow agent) as evidence of good faith in following through with the transaction.

EBIDA: An abbreviation for earnings before interest, depreciation, and amortization. Mainly used as a measure of larger businesses' profitability in comparison to other companies of the same size in the same industry who may have different levels of debt. See also Cash Flow and Pro Forma.

Effective interest rate: The calculated interest rate that may take account of stock, fees and compounding, in contrast to a quoted rate of interest.

Encumbrance: A claim or interest that limits the right of property. Examples include liens, mortgages, leases, dower rights of easements.

Equity: Equity equals farm assets minus farm debts, assuming assets exceed debts. Represents ownership or percentage of ownership in a business or items of value.

Equity capital: See net worth.

Escrow: The process of an agent providing safe keeping of cash, securities and documents and handling the paperwork and transfer of funds for the borrower and seller.

Fees: A fixed charge or payment for services associated with a loan transaction.

Filing: Giving public disclosure of a lender's security interest or assignment in collateral. In many cases this includes notice to certain government agencies.

Financial feasibility: The ability of a business plan or investment to satisfy the financing terms and performance criteria agreed to by a borrower and a lender.

Financial risk: The risk associated with the use of borrowing and leasing; uncertainties about the ability to meet financial obligations.

Financial statement: A written report of the financial condition of a firm. Financial statements include balance sheet, income statement, statement of changes in net worth and statement of cash flow.

First mortgage: A real estate mortgage that has priority over all other mortgages on a specified piece of real estate.

Fiscal year: An accounting period of 12 months.

Fixed costs: Operating expenses that generally do not vary with business volume. Examples include rent, property taxes, and interest expense.

Fixed-rate loan: A loan that bears the same interest rate until loan maturity.

Floating-rate loan: See variable-rate loan.

Foreclosure: The legal process by which a lien against property is enforced through the taking and selling of the property.

Graduated payment mortgage: A type of delayed payment mortgage where the payments increase over time.

Grantor: A person or entity conveying an interest in real property.

Guarantor: A person or entity that takes the financial responsibility of another person's debt or other obligations in the case of default.

Home Loan: A loan secured by equity value in the borrower's home.

Identity preserved product: A product that meets production, packaging, storage, and transportation requirements designed to preserve the genetic or physical identity of the product.

Income statement: Summary of the revenue (receipts or income) and expenses (costs) of a business over a period of time to determine its profit position. The income statement is also referred to as a profit and loss statement, earnings statement or an operating statement.

Interest Rate: An interest rate is the "rental" price of money. When a resource or asset is borrowed, the borrower pays interest to the lender for the use of it. The interest rate is the price paid for the use of money for a period of time.

Intermediate assets: Assets with a useful life of ten years or less, such as breeding livestock, machinery and equipment.

Intermediate liabilities: Debt obligations for loans on equipment, machinery, and breeding livestock with an expected term of five to seven years.

Intermediate-term loan: A loan to be repaid (or amortized) over a period of 18 months to 10 years, with 3 to 5 years being most common. Intermediate-term loans typically are used to finance machinery, equipment, automobiles, trucks, breeding livestock, improvements, and other durable, yet depreciable, assets.

Legal lending limit: A legal limit on the total amount of loans and commitments a financial institution can have outstanding to any one borrower. The limit usually is determined as a specified percentage of the financial institution's own net worth or equity capital. Its purpose is to avoid excessive exposure to credit risk of an individual borrower.

Liability: A loan, expense or any other form of claim on the assets of a business that must be paid or otherwise honored by the business.

Lien: A claim by a creditor on property or assets of a debtor in which the property may be held as security or sold in satisfaction (full or partial) of a debt. Liens may arise through borrowing transactions where the lender is granted a lien on the borrower's property. Other examples of liens include tax liens against real estate with delinquent taxes, a mechanic's lien against property on which work has been performed, and a landlord's lien against crops grown by a tenant.

Line-of-credit: An arrangement by a lender to make an amount of credit available to a borrower for use over a specified period of time. It is generally characterized by a master note, cash flow budgets, and periodic and partial disbursements and repayments of loan funds. A formal agreement of similar characteristics is a credit commitment.

Liquidation: The sale of assets to generate cash needed to meet financial obligations, transactions or investment opportunities.

Liquidity: The ability of a business to generate cash, with little risk of loss of principal value, to meet financial obligations, transactions or investment opportunities.

Loan agreement: Typically refers to a written agreement between a lender and borrower stipulating terms and conditions associated with a financing transaction and in addition to those included to accompanying note, security agreement and other loan documents. The agreement may indicate the obligations of each party, reporting requirements, possible sanctions for lack of borrower performance, and any restrictions placed on a borrower.

Loan commitment: A formal agreement to lend up to a specified dollar amount during a specified period.

Loan committee: A committee of loan officers, executive personnel and/or directors of a financial institution who establish lending policies and/or approve loan requests that exceed the lending authority of individual loan officers.

Loan conversion provision: An option provided by a lender to a borrower to change loan terms at a future date. For example, at loan origination a lender may provide a borrower with an option to convert from a variable- to a fixed-rate loan. Usually, the lender charges the borrower a fee for this option.

Loan guarantee: An agreement by an individual, a unit of government, insurance firm, or other party to repay all or part of a loan made by a lender in the event that the borrower is unable to repay.

An example is the loan guarantee program available to agricultural lenders from the Farm Service Agency in which up to 90% of a qualified loan may be covered by the guarantee.

Loan participation: A loan in which two or more lenders share in providing loan funds to a borrower. An example is a loan participation between a local bank and a correspondent bank in which the loan request exceeds the local bank's legal lending limit. Generally, one of the participating lenders originates, services, and documents the loan.

Loan-to-asset value: The ratio of loan balance to the value of assets pledged as collateral to secure a loan.

Long-term assets: Assets with a useful life of more than ten years, such as farm land and buildings.

Long-term liabilities: Debt obligations for buildings and equipment with a term of eight years or more.

Long-term loan: A loan to be repaid (or amortized) over a period of time exceeding 10 years, with 20- to 30-year loans being common when financing real estate.

Marginal cost of funds: A loan pricing policy by a financial institution in which interest rates on new loans are based on the cost of new funds acquired in financial markets to fund the loans. This pricing policy contrasts with loan pricing based on the average cost of funds already acquired by the lending institution.

Master note: A note (promise to repay) often used in combination with line-of-credit financing to cover present and future borrowing needs through periodic disbursements and repayments of loan funds.

Maturity: Amount of time until the loan is fully due and payable. For example, a 5-year intermediate-term loan has a maturity of 5 years.

Mediation: Resolution of problem loans, disagreements, or conflicts between borrowers and lenders by means of a third party serving as a mediator.

Mortgage: A legal instrument that conveys a security interest in real estate property to the mortgagee (i.e., a lender) as an assurance that a loan secured by the real estate mortgage will be repaid.

Net farm income: Represents the returns to labor, management and equity capital invested in the business; what the farm will contribute to net worth growth over time.

Net income: A measurement of the net return to unpaid labor, management and equity capital. Also called accrual net income. The primary difference between cash and accrual net income is that accrual income includes adjustments for changes in inventory and changes in accrual items like prepaid expenses, accounts payable and accounts receivable. Accrual net income more accurately reflects the profitability of a business over an accounting period.

Net worth: the financial claim by owners on the total assets of a business, calculated as total assets minus total liabilities. Also called equity capital and owner's equity.

Non-revolving line-of-credit: A line-of-credit in which the maximum amount of a loan is the total of loan disbursements. Repayments do not make loan funds available again as in a revolving line-of-credit.

Note: A written document in which a borrower promises to repay a loan to a lender at a stipulated interest rate within a specified time period or upon demand. Also called a promissory note.

Operating expenses: The outlays incurred or paid by a business for all inputs purchased or hired that are used up in production during the accounting period.

Operating loan: A short-term loan (less than one year) to finance crop production, livestock production, inventories, accounts receivable, and other operating or short-term liquidity needs of a business.

Origination fee: A fee charged by a lender to a borrower at the time a loan is originated to cover the costs of administering the loan, evaluating credit, checking legal records, verifying collateral and other administrative activities.

Overline loan: A loan in excess of a financial institution's legal lending limit to any one borrower in which the institution has enlisted the services of another lender to participate in the loan.

Ownership equity: See net worth.

Partial release: Release of a portion of collateral to the borrower.

Participation loan: See loan participation.

Payday Loan: A payday loan or cash advance is a small, short-term loan (typically up to \$500) without a credit check that is intended to bridge the borrower's cash-flow gap between pay days.

Personal property: Any tangible or intangible property that is not designated by law as real property. Personal property is not fixed or immovable.

Points: A form of loan fee generally charged by long-term lenders at loan origination to cover a portion of the lender's administrative and funding costs. Points typically are expressed as a percentage of the total loan. For example, 3 points equals 3% of the loan amount.

Prepayment penalty: An amount charged by a lender on a loan paid prior to its maturity.

Prime rate: A nationally quoted rate believed to represent the interest rate charged by U.S. money-center banks to their most creditworthy corporate borrowers. Prime rate may also refer to an individual lender's interest rate charged to its most creditworthy borrowers, although the term base rate is more commonly used.

Principal: The dollar amount of a loan outstanding at a point in time, or the portion of a payment that represents a reduction in loan balance. Principal is distinguished from interest due on a loan or the interest portion of a loan payment.

Pro Forma: The presentation of financial information such as forecasted cash flows where the amounts are hypothetical. These are typically presentations of future expected results based on assumptions and actions to be taken. See also Cash Flow Projection, EBIDA.

Profit and loss statement (P&L): See income statement.

Profitability: The relative profit performance of a business, enterprise or other operating unit. Profitability comparisons often occur over time, across peer groups, relative to projections, and relative to norms or standards.

Rate adjustment: A change in interest rate on an existing loan. Rate adjustments may occur on variable- or adjustable-rate loans.

Rate of return on assets (ROA): A profitability measure representing the rate of return on business assets during an accounting period. ROA is calculated by dividing the dollar return to assets during the accounting period by the value of assets at the beginning of the period or the average value of assets over the period.

Rate of return on equity (ROE): A profitability measure representing the rate of return on the equity capital which owners have invested in a business. ROE is calculated by dividing the dollar return to equity capital during an accounting period by the value of equity capital at the beginning of the period or the average value of equity capital over the period.

Real property: Land, buildings, minerals and other kinds of property that are legally classified as real.

Refinancing: A change in an existing loan designed to extend and/or restructure the repayment obligation or to achieve more favorable loan terms by transferring the financing arrangement to another lender or loan type.

Renewal: A form of extending an unpaid loan in which the borrower's remaining unpaid loan balance is carried over (renewed) into a new loan at the beginning of the next financing period.

Repayment ability: The anticipated ability of a borrower to generate sufficient cash to repay a loan plus interest according to the terms established in the loan contract.

Retained earnings: The portion of net income that is retained within a business and added to net worth.

Revolving line-of-credit: A line-of-credit made available to a borrower in which the borrower can usually borrow, repay and re-borrow funds at any time and in any amounts up to the credit limit, but not above, during a specified period of time.

Right of rescision: A provision of the Truth in Lending Act which gives a borrower the right to rescind a borrowing transaction (that is, change his or her mind) within three business days on any transaction in which the principal residence is used to secure the loan.

Risk assessment: The procedures a lender follows in evaluating a borrower's creditworthiness, repayment ability, and collateral position relative to the borrower's intended use of the loan proceeds. Risk assessment is similar to credit scoring and risk rating.

Risk premium: The adjustment of a lender's base interest rate in response to the anticipated level of a borrower's credit risk in a loan transaction. Higher risk loans may carry higher interest rates, with the rate differential representing the risk premium.

Risk rating: The relative amount of credit risk associated with a loan transaction. The lender may use credit scoring or risk assessment procedures to evaluate loan requests and group borrowers into various risk classes for purposes of loan acceptance or rejection, loan pricing, loan control, degree of monitoring and level of loan documentation.

Risk tolerance: The degree of safety an investor wished to have. Also called risk aversion or risk attitude.

Risk: the possibility of adversity or loss; refers to uncertainty that matters.

Schedule F: The Internal Revenue Service form used to report farm income and expenses as a part of filing federal income tax returns.

Second mortgage: The use of two lenders in a real estate mortgage in which one lender holds a first mortgage on the real estate and another lender holds a second mortgage. The first mortgage holder has first claim on the borrower's mortgaged property and assets in the event of loan default and foreclosure or bankruptcy.

Secondary market: An organized market in which existing financial assets are bought and sold. Examples are the New York Stock Exchange, bond markets, over-the-counter markets, residential mortgage loans, governmental guaranteed loans, and the more recently formed secondary market for buying and selling farm mortgage loans (called Farmer Mac).

Secured loans: Loans in which specific assets have been pledged by the borrower as collateral to secure the loan. Security agreements and mortgages serve as evidence of security in secured loans.

Security agreement: A legal instrument signed by a debtor granting a security interest to a lender in specified personal property pledged as collateral to secure a loan.

Seller financing: A loan provided by the seller of property to its buyer.

Set-Aside: Taking a portion of farmland out of production under a government program.

Shared appreciation mortgage: A financing arrangement for real estate in which the lender reduces the interest rate on the loan in return for a stipulated share of the appreciated value of the land being financed at a designated time in the future. The risk of land value appreciation is shared between lender and borrower, and the lender's compensation from value appreciation generally occurs through refinancing in which the loan balance is increased by the amount of the shared appreciation.

Simple interest: A method of calculating interest obligations in which no compounding of interest occurs. Interest charges are the product of the loan principal times the annual rate of interest, times the number of years or proportion of a year the principal has been outstanding.

Solvency: the business condition of financial viability in which net worth is positive; value of assets exceeds debts.

Split line-of-credit: A financing situation in which a borrower obtains operating credit from two or more lenders.

Surety: Person or entity that has been requested by another (principal) and agrees to be responsible for the performance of some act if the principal fails to perform as promised.

Sweet Sixteen: The Farm Financial Standards Council "Sweet Sixteen" are calculations and descriptions used by bankers and lenders to measure business performance. These 16 ratios and calculations define Liquidity, Solvency, Profitability, Repayment Capacity, and Efficiency.

Tiered loans: Loans grouped according to the risk characteristics of borrowers. Higher risk classes generally are charged higher interest rates to compensate the lender for carrying the credit risk.

Title insurance: Insurance which protects a purchaser or mortgage lender against losses arising from a defect in title to real estate, other than defects that have been specifically excluded. A clear title is free of any claims, mortgages, liens and other encumbrances and has no ownership interest other than that of the owner of record.

Title search: The process of tracing all events and transactions affecting the title to a tract of real estate. Title search is essential to the preparation of an abstract.

Truth in Lending: The federal Truth in Lending Act is intended to assure a meaningful disclosure of credit terms to borrowers, especially on consumer loans. Lenders are required to inform borrowers precisely and explicitly of the total amount of the finance charge which they must pay and the annual percentage interest rate to the nearest .01%. Excluded transactions include loans for commercial or business purposes, including agricultural loans; loans to partnerships, corporation, cooperatives and organization; and loans greater than \$25,000 except for owner-occupied, residential real estate mortgages where compliance is required regardless of amount.

Unsecured loans: Loans for which there are no guarantors or co-signors and no specific assets have been pledged by the borrower as collateral to secure the loan.

Usury laws: Laws which establish legal ceilings on the interest rates charged for various types of loans. In states where usury laws exist, most usury limits are above market interest rates and often are indexed to change with changes in market interest rates or other leading rate indicators.

Variable-rate loan: A loan transaction in which the interest rate may be changed within the period of the loan contract. Generally, rate changes occur in response to changes in the lender's cost of funds of a specified index. The frequency and level of rate adjustments may or may not be established in the loan contract.

Working capital: The differences between current assets and current liabilities. Often used as a measurement of liquidity of a business.

APPENDIX 2

TYPES OF AG LENDERS AND THEIR UNIQUE PERSPECTIVES

There are a number of different types of agricultural lenders active in North Carolina. This Appendix describes them, their loan products, who they serve, their lending eligibility requirements, and their unique perspectives. It should be helpful to know all your options before seeking financing.

They are grouped as follows:

1. Farm Credit Institutions, including Cape Fear Farm Credit, Carolina Farm Credit, and East Carolina Farm Credit.
2. Commercial Banks, which refers to more than 100 community, regional and national banking institutions lending in North Carolina.
3. Farm Service Agency (FSA).
4. Credit Unions & Community Development Financial Institutions (CDFIs).
5. Federal & state subsidized or government authorized lending, including USDA Rural Development (RD), Small Business Administration (SBA), North Carolina Agricultural Finance Authority (NCAFA), North Carolina Rural Economic Development Center, and Dogwood Equity.
6. Miscellaneous sources of agricultural finance, such as Insurance Companies, Merchants, Feed & Seed Dealers, & Equipment Dealers or Manufacturers.

1. **FARM CREDIT INSTITUTIONS:**

Farm Credit Institutions can lend to any agriculture related venture. They offer a variety of loans including financing for land and improvements, production or processing facilities, vehicles and equipment, and operating and living expenses. Loans are also made to finance producer-owned supply, marketing, and processing cooperatives. Short, intermediate, and long term loans can be extended. Farm Credit Institutions are limited by the purpose of the loan being requested, as in the following five categories:

- 1) Agricultural Loans: Loans are made for any agricultural or agriculture related purpose, and tailored to the cash flow of the operation.
- 2) Equipment Loans: Flexible terms and interest rates are available for any type of vehicle or equipment loan.
- 3) Operating Loans: Multi year revolving and annual lines of credit are available with flexible payment schedules tailored to cash flow.
- 4) YBS loans: Loans to Young, Beginning, and Small farmers with terms that recognize the special circumstances of Y, B, & S farmers.
- 5) Country Mortgages: Residential mortgage lending, primarily in rural areas.

Typical Clients & Eligibility:

Individual full-time and part-time farmers or ranchers, agribusinesses, and agricultural cooperatives may be eligible for financing from Farm Credit Institutions. Eligibility restrictions are as follows:

YBS: For Farm Credit's purposes, a young borrower is defined as being age 35 or younger; a beginning borrower has 3 to 10 years of experience; and a small borrower normally generates less than \$250,000 in annual gross sales of agricultural products.

For Country Homeowners: Farm Credit can lend money for the purchase, construction, improvement or refinancing of single family dwellings located in the country. You may also borrow for the purchase or refinancing of unimproved residential lots, including construction of the home.

For Full-Time Farmers: For individuals whose primary business (over 50% of assets and income) is the production of agricultural products, Farm Credit can lend for all agricultural and family needs as well as non-agricultural needs. This could include, but is not limited to, automobiles and trucks, educational expenses, home improvements, vacation expenses, and much more.

For Part-Time Farmers: For individuals who own agricultural land or produce agricultural products and whose income from agricultural products is less than 50% of their total income, Farm Credit can lend for all agricultural and family needs. Non-agricultural needs are limited relative to the agricultural income.

For Businesses: Farm Credit can lend money to businesses which process and/or market agricultural products provided that more than 50% of the business is owned by farmers who provide at least some of the "throughput." Farm Credit can also lend money to businesses that provide services to farmers, such as crop spraying, seed cleaning, cotton ginning, and more. The extent to which financing can be provided is based on the amount of the business's total income from farm-related services.

Particular Concerns: As a Government Sponsored Enterprise (GSE), Farm Credit Institutions have a unique charge to finance the rural sector. This provides farmers with a lender who is committed and dedicated to financing agriculture, farm housing, and related businesses in the rural sector.

Carolina Farm Credit
(Serving piedmont and western North Carolina.)
Administrative Office
P.O. Box 1827
Statesville, NC 28687
800-521-9952
www.carolinafarmcredit.com
Branch locator:
www.carolinafarmcredit.com/credit-branch.asp

East Carolina Farm Credit (Serving eastern North Carolina.)
Administrative and Agribusiness Division
4000 Poole Road
PO Box 14789
Raleigh, NC 27620-4789
919-250-9500 or 1-800-951-3271
www.farmcredit.org
Branch locator: www.farmcredit.org/index1.asp?p=branch_locations.html

Cape Fear Farm Credit
(Serving southeast North Carolina.)
333 East Russell Street
Fayetteville, NC 28302
910-323-9188
www.capefearfarmcredit.com
Branch locator: www.capefearfarmcredit.com/locations.htm

2. COMMERCIAL BANKS

Community, Regional and National Banks offer a complete range of products and services for individuals and businesses. Typically, Banks engaged in agricultural lending are full service providers with many of the following products and services: loans; checking and savings accounts; investment services; insurance services (life and property & casualty coverage); estate and retirement planning.

Additionally, Banks often offer helpful combinations of loan products and services. Busy farmers may appreciate tools such as automated money-management, overdraft protection, “sweep” lines of credit, declining revolving loans, and capital leases, etc.

Typical Loan Types:

Most banks involved in lending to the agricultural community understand the uniqueness of agricultural business and seasonality of cash flow. Flexible terms are typically available with loan payments generally scheduled to coincide with crop sales.

- Annual and revolving lines of credit for seasonal working capital needs.
- Term loans – short, intermediate and long-term loans to assist with capital purchases including vehicles, equipment and facilities.
- Mortgages – including farm improvement loans, conventional mortgages and equity loans.
- Leasing – flexible financing for most kinds of equipment (including pickup trucks).

Clients and Eligibility:

Usually Banks are not limited by an individual's or business's activities in agricultural business. Banks can provide loans and other services for entities engaged in any segment of agriculture at any level. These may include, but are not limited to: Full-time, part-time, “life style” and tenant farmers, landlords, processing and storage facilities and transporting enterprises.

Particular Concerns:

Most bankers generally attempt to apply sound lending judgment when considering loan requests, as described in the “Five C's”. In addition to determining the viability, or likelihood of success for the farm business (or the proposed enterprise), each bank usually has a set of general financial ratios that are evaluated. For more on these ratios, refer to Appendix 3, The “Sweet Sixteen” Ratios & Calculations.

3. FARM SERVICE AGENCY (FSA):

Loan Types : A helpful overview of FSA loan types can be found in one table at:

<http://www.fsa.usda.gov/pas/publications/facts/html/farmloaninfo05.htm>

- 1) Loan Guarantees: FSA provides conventional agricultural lenders with up to a 95% guarantee of the principal loan amount. The lender is responsible for servicing a borrower's account for the life of the loan. All loans must meet certain qualifying criteria to be eligible for guarantees, and FSA has the right and responsibility to monitor the lender's servicing activities. Farmers apply for loans through commercial lenders and lenders request guarantees on loans that are outside their normal lending parameters.
- 2) Direct Loans: FSA offers direct loans, serviced by FSA officials, to farmers who meet specific eligibility requirements. Direct supervision and credit counseling is offered to Direct Loan Program borrowers. Funding for this program is limited, so a farmer may be required to wait for funds to become available. FSA also has funds targeted toward certain groups so immediate funding may be available for certain groups and not others. For more detailed information on the types of direct loans, refer to <http://www.fsa.usda.gov/dafi/directloans.htm>
 - a) Farm Ownership (FO) loans are available for the purchase of farmland, construction or repair of buildings and facilities, and for the implementation of soil and water conservation practices. The loan terms may be as long as 40 years, depending on the life of the security with a maximum loan amount of \$200,000, at interest rates that are slightly lower than commercial rates, depending on the cost of money to the government. A Joint Financing Plan is also available, allowing FSA to lend 50% of the total amount financed with the remaining amount being obtained from a second credit source.
 - b) Operating Loans (OL): FSA can also help finance operating capital for the purchase of livestock, farm equipment, feed, seed, fuel, farm chemicals, insurance, minor improvements to buildings, land and water development, family subsistence, and - under certain conditions - for refinancing. The terms for operating loans are 1 to 7 years depending on the life of the security and loan purpose, with a maximum loan amount of \$200,000, and interest rates based on FSA's borrowing costs.
 - c) Emergency and Disaster Loans: In cases when an Emergency has been officially declared by the President, the Secretary of Agriculture, or the FSA administrator, FSA emergency loans are made available to farmers in the affected area. If the suffering farmer meets eligibility requirements, funds can be used to restore or replace property, pay production costs associated with the disaster, pay family living ex-

penses, reorganize the farming operation, or refinance debts. Terms vary from 1 to 7 years for production losses and up to 40 years for physical losses depending on loan purpose and life of security. Loan amounts are capped at \$500,000.

- d) **Beginning Farmer Loans:** Both FO and OL loans are available for beginning farmers who are unable to obtain financing from commercial credit sources. In addition to FSA's general eligibility requirements, applicants must meet other constraints regarding management experience, number years farming, farm size, and eligibility of partners.
 - e) **FSA offers Down Payment Farm Ownership (FO) Loans** to help beginning farmers get established. The program requires 10% down, and is limited to 30% of the purchase price or appraised value, whichever is less (not to exceed \$250,000). The term of the loan is for 10 years at a fixed interest rate of 4 percent. Youth Loans are also available to rural young people starting income-producing ventures associated with 4-H, FFA, and similar organizations. Youth loans are limited to \$5000 and must have the guidance and support of the organization advisor.
 - f) **Loans to Socially Disadvantaged Farmers.** FSA has special programs for farmers who have been subjected to racial, ethnic, or gender prejudice because of their identity as members of a group without regard to their individual qualities. More information can be found here or by contacting your local FSA office: <http://www.fsa.usda.gov/pas/publications/facts/html/sdloan05.htm>
- 3) **Price Support Loan Services:**
- a) **Commodity Loans:** Designed to offer subsidized interest rate loans as price supports to certain designated commodity crops.
 - b) **Farm Storage Facility Loans:** Provides low-interest financing for producers to build or upgrade farm grain and silage storage and handling facilities. <http://www.fsa.usda.gov/pas/publications/facts/fsfl05.pdf>

Clients & Eligibility:

FSA helps established farmers who have suffered financial setbacks from natural disasters, or whose resources are too limited to maintain profitable farming operations. FSA financing may also be available to farmers who have been unable to get financing from other sources. Beginning farmers must have a minimum of 3 years experience to qualify for FSA assistance, with a maximum of five years experience for Direct Loans, and 10 years maximum for loan guarantees. Before FSA can consider your application, loan applicants must have received two rejections from commercial lenders. Because of limited funds within the agency, and federal regulations or rules, other restrictions will likely apply. These restrictions include, but are not limited to, borrower eligibility as well as loan purposes.

Particular concerns:

FSA's approval process has two major steps, eligibility and feasibility. Eligibility is determined by various government regulations and guidelines; feasibility is determined by standard lending practices regarding cash flow, security, etc. Being eligible does not mean you get financing. Having a business plan that cash flows does not mean you are eligible. Both steps are required for FSA approvals. Generally speaking FSA acts as "the lender of last resort," meaning that the Agency strives to serve farmers who have tried and failed to acquire financing from conventional sources. However, FSA has also been referred to as "the lender of first opportunity," highlighting the fact that many farmers would not otherwise be given the chance to farm or improve their farm operation. In fulfilling this mission, FSA must also work within legal and financial constraints: There are unique challenges posed by limited availability of funds, the need to leverage existing funds, and the management of risks posed by the pooling of so many below-market loans and loan-guarantees. As a result, while FSA may view your particular loan application more sympathetically than other lenders, their ability to help may be constrained by larger forces. Nevertheless, if you have sought financing from other sources and been turned down, you should certainly contact your local FSA office. We have heard of some rare occasions where farmers with good business plans have been turned down by FSA, perhaps because the enterprise was unfamiliar to the loan officer: If you do not feel you've been given reasonable consideration, then ask the loan officer to reconsider your application. Afterward, if you still believe your request hasn't received careful consideration, then go to the farm loan chief, or the state director's office. Your ability to "educate" the loan officer on realistic expectations, pitfalls, and marketing strategies will help to insure that the application is given thorough consideration, but it does not insure approval.

4) CREDIT UNIONS & COMMUNITY

DEVELOPMENT FINANCIAL INSTITUTIONS:

These institutions are too numerous to list. However, it is worth noting that both Credit Unions and Community Development Financial Institutions (CDFIs) are typically chartered to serve goals and purposes beyond profitability for their owners or investors.

If someone in your family is a member of a credit union, you may be able to obtain helpful advice or financing there.

CDFIs work mainly in urban areas, but some are beginning to explore rural lending. Self Help Credit Union and Mountain Micro-Enterprise Fund are examples of CDFIs. Self Help Credit Union is not currently lending to agricultural ventures, but has financed some value-added enterprises. Mountain Micro-Enterprise Fund offers financing linked with technical assistance and small business training, and targets the Appalachian mountain region.

Self Help Credit Union

P.O. Box 3619,

Durham, NC 27702

(919) 956-4400, (800) 476-7428

<http://www.self-help.org/commercialending/sbx5.asp>

Mountain Micro-Enterprise Fund
29 1/2 Page Avenue,
Asheville, NC 28801
828-253-2834 x17, 888-389-3089 (toll free)
<http://www.mtnmicro.org/>

5. FEDERAL & STATE SUBSIDIZED OR GOVERNMENT AUTHORIZED LENDERS:

The category of federal & state subsidized or government authorized lenders includes USDA Rural Development (RD), the Small Business Administration (SBA), the North Carolina Agricultural Finance Authority (NCAFA), and the North Carolina Rural Economic Development Center. (While FSA is a federally chartered government lender, it is described separately due to its importance and its larger share of the agricultural lending market.)

A) USDA Rural Development (RD). This lender supports rural communities by targeting assistance to communities in need. Of most interest to farmers is the Business and Cooperative Services. The way to approach these folks is through the Farm Services Agency. FSA referrals account for most loans that the Business and Cooperative Services (BCS) makes. So go first to your FSA office. But be aware of this important fact: BCS does not make loans for commodity production; it leaves commodity production loans to the FSA. However, the BCS can and does make loans for processing commodities and using value-added production practices.

The flagship program for Rural Development (RD) is its Business & Industry Guaranteed Loan Program. Let's look at it before listing other grant and loan programs of the BCS.

The Business & Industry (B&I) loan program works by guaranteeing up to 80% of a commercial lender's loans. Guarantees typically range from \$350,000 to \$25 million for agri-business projects. Once again, though, there are important facts to keep in mind:

- The program's main purpose is to improve the economies of rural communities, including creating and maintaining jobs. B&I does this by expanding the lending capability of private lenders in rural areas.
- Many agriculture-related businesses are eligible for B&I-guaranteed loans.
- Loans may be obtained for working capital, machinery and equipment, buildings and real estate, and certain types of debt re-financing.
- Typically, "pure" agricultural production loans are not available.
- The B&I program is open to virtually any legally organized entity. This includes cooperatives, corporations, partnerships, Indian tribes, local government, and others.
- B&I does not emphasize family and/or small farms. You don't have to have been denied credit to apply for this program.

For detailed information as to eligible and ineligible farm-related ventures, please refer to

<http://www.rurdev.usda.gov/or/BIagbiz.pdf>

USDA RD offers many more programs, too. The following programs may also be helpful to farmers, farm-entrepreneurs, farm-related ventures and coops: Value-Added Producer Grants (VAPG), Small Minority Producer Grants (SMPG), Rural Cooperative Development Grants (RCDG), Appropriate Technology Transfer for Rural Areas (ATTRA), Section 9006: Renewable Energy and Energy Efficiency Investments Program (Section 9006), and the Intermediary Relending Program (IRP). For more information on these programs, please consult your local FSA officer, the Internet (<http://www.rurdev.usda.gov/>), or the North Carolina offices of USDA- Business and Cooperative Services: (919) 873-2040.

B) Small Business Administration (SBA):

The SBA no longer provides any direct lending relating to farmers. They do offer financial services to small businesses, and farm-related businesses can apply through participating lending institutions. SBA Lenders cannot finance loans for crops, production, farming equipment, or anything else that might duplicate services offered by USDA, FSA, or other federal agencies. SBA services offered through participating lending institutions includes loan guarantees, microloans, and fixed asset financing.

Farm-related businesses are those enterprises which supply goods and services primarily used in connection with farming. Farm-related businesses are eligible to apply for SBA assistance through a participating lender, but agricultural enterprises must first apply to FSA. If the application to FSA is declined or found to be ineligible, the agricultural enterprise can apply to SBA providing a written explanation of the outcome of the contact with FSA. It is not clear whether or not value-added agricultural enterprises are eligible.

Eligible farms or farm-related businesses can apply for any of three types of financing assistance: a) loan guarantees b) microloans, or c) fixed asset financing ("504 Loans").

Loan guarantees are made through any participating lender. Seasonal lines of credit are possible with SBA loan guarantees. Contact SBA to learn of participating lenders.

Microloans are currently made through Innovative Bank, BLX – Business Loan Express, and Superior Financial Group. Microloans are capped at \$50,000. Application to these lenders must be made through the Internet, as they do not maintain offices in North Carolina.

Innovative Bank
<https://www.innovativebank.com/>

BLX – Business Loan Express
<http://www.blxonline.com/>

Superior Financial Group
<http://www.superiorfg.com/main/>

504 Loans are made through Certified Development Companies, for long term financing of fixed assets like fencing, diking, barns, and silos. Contact SBA to learn of participating community development lenders who have been certified as Development Companies.

C) North Carolina Agricultural Finance Authority (NCAFA): NCAFA operates a farm real estate loan program (Series I), a beginning farmer loan program (Series II), a joint beginning farmer loan program with Farm Credit Services (Series III or “Ag Start”), and a tax-exempt bond finance program for agricultural processing. Eligibility requirements vary with each of the different financial products offered by NCAFA.

NCAFA
P.O. Box 27908
Raleigh, NC 27611-7908
Phone (919) 733-0635 Fax (919) 733-1460
Contact: Dr. Frank Bordeaux
<http://stateagfinance.com/northcarolina.html>

D) North Carolina Rural Economic Development Center (Rural Center):

The Rural Center runs two programs that provide capital for rural business start-ups and expansions. The Microenterprise Loan Program serves the smallest rural businesses through a combination of loans, business planning, and technical assistance. The Capital Access Program serves small-to-medium sized businesses, through local lending institutions.

The Microenterprise Loan Program’s eligibility requirements include anyone starting or expanding a small business in the 85 rural counties of North Carolina. Applicants must meet the following minimum criteria: 18 years of age; business has fewer than 10 full-time employees; is a U.S. citizen or permanent resident and a resident of North Carolina. Special emphasis is placed on serving rural, low-income, female and minority borrowers.

The Capital Access Program is designed for solid rural business ideas that are otherwise unable to obtain financing. The program offers participating banks a special loan loss reserve to facilitate loans that carry a higher level of risk than allowed by conventional bank guidelines. Funds for this program were provided by the Golden LEAF Foundation and the Appalachian Regional Commission. The average loan size is just over \$50,000, and most loans have been made to ventures with fewer than ten employees.

North Carolina Rural Center
4021 Cary Drive
Raleigh, NC 27610
919-250-4314
www.ncruralcenter.org/loans/micro.htm
www.ncruralcenter.org/loans/capital.htm

6. MISCELLANEOUS SOURCES OF AGRICULTURAL FINANCE:

It should be noted that there are a number of other sources of financing for agriculture and farm-related businesses. Insurance companies (e.g., Metropolitan Life), merchants, feed & seed dealers, and equipment dealers or manufacturers have been offering loans for many years. In many cases the loans are very small, short-term, only for the purpose of paying for the supplies or machinery necessary for agricultural production. In a few cases, especially with the insurance companies, large loans (\$250,000 and larger) are made for purchase of land or other rural business ventures.

7. UNCONVENTIONAL SOURCES OF FINANCING:

Another alternative for an enterprising farmer is to seek financing from “unconventional” sources. Many small businesses get their start with personal loans, cooperative ownership, and venture capital. Personal loans from friends or family members can be organized formally or informally. Circle Lending is a company that offers Internet-based services to formalize, manage, and repay “person to person” loans between relatives, friends and other private parties.

Another form of personal lending is the Community Supported Agriculture (CSA) structure. Also called Customer Supported Agriculture, CSA’s receive payments from their “members” in advance of harvest, for the promise of an equal share of the harvest. A CSA is like a collection of production loans directly from the customers, repaid on delivery of the harvest to the customers. A few innovative farmers are even organizing Restaurant Supported Agriculture (RSA). This tool is applicable only to producers who are direct-marketing their goods.

Cooperative ownership is the model of business organized by producers who share common goals or needs. These cooperating producers collectively pool their investments to market, process, store, or otherwise handle their products.

Venture capital is the method of unconventional financing in which investments are made in high-risk ventures by investors who seek a high rate of return on their investment. Few farming enterprises would qualify, but larger-scale, high-profit, value-added enterprises may be of interest to venture capital firms.

These are just a few ideas of how – with care, planning, and effort – your venture can be financed using alternative sources.

CircleLending
69 Hickory Drive
Waltham, MA 02451
781-419-7701
1-800-805-2472
www.circlelending.com

CSA

Contact your local Cooperative Extension Agent for help in organizing a CSA, or refer to
www.agmrc.org/agmrc/business/operatingbusiness/understandingcsa.htm

Cooperative Ownership

For help in organizing a coop, contact your local Cooperative Extension Agent, or Farm Credit Institution, or refer to
www.rurdev.usda.gov/rbs/pub/cir7/cir7rpt.htm

APPENDIX 3

THE “SWEET SIXTEEN” RATIOS & CALCULATIONS BUSINESS PERFORMANCE MEASURES

The “Sweet Sixteen” are calculations and descriptions used by bankers and lenders to measure business performance. These 16 ratios and calculations define Liquidity, Solvency, Profitability, Repayment Capacity, and Financial Efficiency. These business performance measures were developed by the Farm Financial Standards Council (FFSC). For more information on FFSC, visit www.ffsc.org

Additionally, this Appendix is supplemented with a flowchart which explains how lenders evaluate small loan applications – using Balance Sheet, W-2 Wage Forms, Schedule F tax forms, and your Credit Report.

Liquidity

Current Ratio: Calculated as (total current farm assets) ÷ (total current farm liabilities).

This measure of liquidity reflects the extent to which current farm assets, if sold tomorrow, would pay off current farm liabilities.

Working Capital: Calculated as (total current farm assets) – (total current farm liabilities). This measure represents the short-term operating capital available from within the business.

Solvency

Debt-to-Asset Ratio: Calculated as (total farm liabilities) ÷ (total farm assets). This represents the bank’s share of your business. A higher ratio is an indicator of greater financial risk and lower borrowing capacity.

Equity-to-Asset Ratio: Calculated as (farm net worth) ÷ (total farm assets). This measure of solvency compares farm equity to total farm assets.

Debt-to-Equity Ratio: Calculated as (total farm liabilities) ÷ (farm net worth). This measure compares the bank’s ownership to your ownership of the business.

Profitability

Rate of Return on Assets: Calculated as [(net farm income) + (farm interest) – (value of operator labor and management)] ÷ (average value of farm assets). This measure represents the average “interest” rate being earned on all investments in the business (your investment and that of your creditors).

Rate of Return on Equity: Calculated as [(net farm income) – (value of operator labor and management)] ÷ (average farm net worth). This measure represents the “interest” rate being earned by your investment in the farm. This return can be compared to the return on your investments if equity were invested somewhere else, outside the business.

Operating Profit Margin: Calculated as (return on farm assets) ÷ (value of farm production), where return on farm assets equals (net farm income from operation) + (farm interest expense) – (opportunity return to labor and management). This measure of profitability shows the operating efficiency of the business. Low expenses relative to the value of farm production result in a healthy operating profit margin.

Net Farm Income: Calculated as (gross cash farm revenue) – (total cash farm expense) + (inventory changes) + (depreciation and other capital adjustments, including gains÷losses from the sale of capital assets). This measure

represents profitability or the farm’s return to labor, management and equity.

Repayment Capacity

Term Debt Coverage Ratio: Calculated as [(net farm operating income) + (net nonfarm income) + (depreciation) + (scheduled interest on term debt and capital leases) – (family living and taxes paid)] ÷ (scheduled principal and interest payments on term debt and capital leases). This measure of repayment capacity tells whether the business produced enough cash to cover all intermediate and long-term debt payments. [NOTE: Some commercial lenders use a variation on this ratio called the “Funds Flow Coverage Ratio.” Funds Flow Coverage Ratio is the sum of net profit, depreciation, amortization plus interest minus all dividends, withdrawals and non-cash income divided by the sum of all current maturities of long term debt, capital lease obligations and interest.]

Capital Replacement Margin: Calculated as the value of (net farm income) + (net nonfarm income) + depreciation – (family living expenses, taxes paid, scheduled payments on term debt). This measure describes the amount of money left over after all operating expenses, taxes, family living costs, and scheduled debt payments have been made.

Financial Efficiency

Asset Turnover Rate: Calculated as the (gross farm revenue) ÷ (average farm assets). This measures the efficiency of using capital. A high level of production in proportion to the level of capital investment yields a high (or efficient) asset turnover rate.

Operating Expense Ratio: Calculated as the value of [(total farm operating expenses)– (depreciation) – (farm interest)] ÷ (gross farm revenue). This measure reflects the proportion of farm revenues used to pay operating expenses, not including principal or interest.

Interest Expense Ratio: Calculated as (farm interest) ÷ (gross farm revenue). This measure of financial efficiency shows how much of gross farm revenue is used to pay for borrowed capital.

Depreciation Expense Ratio: Calculated as (depreciation and other capital adjustments) ÷ (gross farm revenue). This measure indicates what proportion of farm revenue is needed to maintain the capital used by your business.

Net Farm Income from Operations Ratio: Calculated as (net farm income from operations) ÷ (gross farm revenue). This measure of financial efficiency compares profit to

“HOW AGRILENDERS ANALYZE SMALLER LOANS,” BY DAVID KOHL.

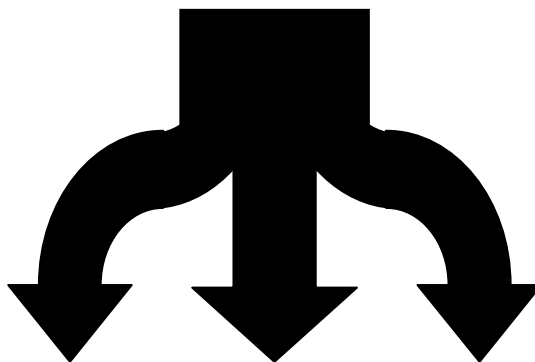
David Kohl, a professor emeritus at Virginia Tech, has taught and written for several decades on agricultural finance and small business management. In 1997 he published a helpful paper explaining how agricultural lenders analyze smaller loans. Here is a summary.

In the past 15 years, computer technology and increased competitive pressures have changed the ways lenders analyze smaller loans. Agricultural lenders have streamlined the process, particularly on smaller loans. (In this illustration, small loans are considered to be those loans made to farmers who rely on off-farm income, and whose farm-business revenues are less than \$100,000 per year.)

In analyzing smaller loans, lenders tend to focus on three key areas. First, they analyze the farmer's ability to repay the debt on a timely basis. Second, they look at how the bank loan is to be collateralized (or secured in the case of loan default). Third, they examine the farmer's historical track record of repayment, by looking at his credit history and credit card use.

How Lenders Analyze Smaller Ag Loans

Balance Sheet
W-2 Wage Forms
Schedule F Tax Form
Credit Report



REPAYMENT ABILITY

Debt Payment Ratio
($\text{Debt} \div \text{Income}$)
< 25% = Low Risk
25% - 50% = Mod. Risk
> 50% = High Risk

TRACK RECORD

Credit History
Credit Card Balances
Courthouse Files
Supplier References

LEVERAGE & COLLAT- ERAL

Debt to Asset Ratio
< 50% = Low Risk
50% - 75% = Mod. Risk
> 75% = High Risk

Collateral Coverage Ratio
($\text{Pledged Collateral} \div \text{Amount of Loan}$)
> 2.00 = Low Risk
Close to 1.00 = High Risk

APPENDIX 4

WHERE TO GO FOR HELP

As governmental farm supports go away, farm-enterprises are starting to rely more and more on the same infrastructure that is out there to support other small businesses. However, the world of small business assistance and training is still adapting to the changing needs of farmers and small agri-business professionals. While there is no single place you can go to for all your assistance needs, there are many resources available to a determined farm-entrepreneur. Remember, persistence is the key to getting the resources you need to be successful.

FOR GENERAL ASSISTANCE IN ENTERPRISE DEVELOPMENT:

North Carolina Cooperative Extension—Early in your planning, check with your local Cooperative Extension office. Sometimes Cooperative Extension offers extraordinarily valuable training opportunities. Your local agents may also be familiar with other local resources that may be of use to you. Every county is served by a Cooperative Extension office. Listings can be found in your local phonebook or by searching the Internet.

North Carolina Department of Agriculture and Consumer Services (NCDA)—NCDA may be able to help you with new enterprise development in a number of ways. They may be able to provide information and consultation on agricultural production, processing (including regulatory requirements), and marketing. NCDA is a large organization with many different responsibilities. Finding the person who can answer your specific question requires persistence.

Contact: NC Department of Agriculture & Consumer Services, 1001 Mail Service Center, Raleigh, NC 27699-1001. (919) 733-7125

Information is available online at www.ncagr.com.

The Small Business Administration (SBA) is also a good source for information on business planning. There are interactive tools there, and free on-line courses to help you learn small business planning. SBA may also refer you to other service providers who can better assist you. Here in North Carolina SBA works with three groups (described below): SBTDC, SCORE, and the Small Business Center Network at the state's community colleges.

Contact: North Carolina District Office, 6302 Fairview Road, Suite 300, Charlotte, NC 28210-2227. (704) 344-6563

Information is available online at www.sba.gov.

The North Carolina Small Business and Technology Development Center (SBTDC) is designed for small business owners and those interested in starting a small business. SBTDC's goal is to help entrepreneurs meet the challenges of the modern business environment, successfully manage fast-paced changes, and plan for the future of their business. SBTDC provides management counseling and educational services through 17 offices located at colleges or universities across NC. All services are confidential and most are free of charge.

Contact: Small Business and Technology Development Center, 5 West Hargett Street, Suite 600, Raleigh, NC 27601-1348. (919) 715-7272 or 800-258-0862 (*in North Carolina only*)

E-mail questions to: info@sbtcd.org

Information is available online at www.sbtcd.org.

The Service Corps of Retired Executives (SCORE) is a national nonprofit volunteer association of skilled and talented retirees. Volunteers share their wisdom and lessons learned in business. In this way they encourage the formation, growth, and success of small business. The national organizations website, www.score.org, has useful information and you can locate your local SCORE chapter through the following weblink: www.sba.gov/gopher/Local-Information/Service-Corps-Of-Retired-Executives/sconc.txt

NC Community Colleges' Small Business Center Network (SBCN) —The objective of the Small Business Center Network is to increase the success rate and the number of viable small businesses in North Carolina by providing high quality, readily accessible assistance to planned and existing small business owners and their employees. Each Small Business Center (SBC) is a community based provider of education and training, counseling, information and referral. There is a SBCN office located at all 58 of the state's community colleges. Services include business seminars and workshops, free confidential business counseling, and access to vital resources and information. They can put you in touch with business and community leaders, as well as local, state and federal agencies who share the goal of making your business a success. You can find more information at www.ncccs.cc.nc.us/Business_and_Industry/sbcnmainpage.htm

Creating Business Opportunities (CBO) is a partnership between North Carolina State University, the North Carolina Department of Agriculture and Consumer Services, the North Carolina Farm Bureau, and the Rural Center. The partnership is to support the development of an array of agricultural business opportunities in North Carolina. The project has developed a website with links to a variety of useful information sources on the topic of business development at www.ces.ncsu.edu/cbo.

Economic Development Commissions (EDC)—EDCs are state, regional, and local organizations that attempt to stimulate business growth and development through business recruitment and technical assistance. EDC staff members are generally knowledgeable about many aspects of business development including business plan development and financing. Many farmers have found their local EDC staff to be helpful in project development. The best place to look for your local EDC is in the phone book or through your chamber of commerce. Some of North Carolina's EDCs are listed on this website: www.ecodevdirectory.com/north_carolina.htm.

Farmers Adopting Computer Training (FACT) Project

This program was developed by the Cooperative Extension Program at N.C. A&T State University, and offers special training in computers, as well as a limited number of free computers. Free computers and training are limited by available funding. The classes have been offered to small and limited resource farmers at community colleges throughout the state, including Sampson (Clinton), Roanoke-Chowan (Ahoskie), James Sprunt (Kenansville), South Piedmont (on both Wadesboro and Monroe campuses) and Vance-Granville (on Louisburg, Warrenton, Creedmoor and Henderson campuses).

CONTACT: Marcie Joyner, Extension Associate and/or Francis Walson, Extension Associate
Cooperative Extension Program,
North Carolina A&T State University,
P.O. Box 21928, Greensboro, NC 27420.
(336) 334-7956

joynerm@ncat.edu and/or walson@ncat.edu
www.ag.ncat.edu/extension/programs/fact.htm
cfcc.edu/sbc/fact

The North Carolina Rural Entrepreneurship through Action Learning (NC REAL) program

offers training and other assistance to small businesses, including farmers. NC REAL hopes to soon offer business educational modules through their internet website, www.ncreal.org, or through participating community colleges. These self-guided audio-visual training modules require a small fee, and include; Managing a Home Based Business (tax implications), Financials: The Basics, Financials: Beyond the Basics.

For farmers needing the option of a distance learning course in entrepreneurship & small business planning, five community colleges offer eREAL online, which is a 12 week course developed by NC REAL. Participants can contact the Small Business Centers at the following community colleges who offer eREAL online in 2006-2007: Central Carolina Community College, Durham Technical Community College, Guilford Technical Community College, Haywood Community College, Rowan Cabarrus Community College, and Sampson Community College.

The North Carolina Farm Transition Network (NCFTN) provides information about farm asset and business transition from one operator to the next. NCFTN assists farmers with planning for the future that eases the hardship involved with changes in personnel.

North Carolina Farm Transition Network (NCFTN),
P.O. Box 27766, Raleigh, NC 27611.
(919) 782-1705
abranan@ncfb.net www.ncftn.org

The North Carolina Rural Economic Development Center (Rural Center) has a searchable online database that is useful in gathering demographic data for market analysis, which could be helpful in writing a loan application. Additionally, the Rural Center offers a micro-enterprise loan fund that is specifically intended to assist North Carolina entrepreneurs to overcome capital access barriers.

North Carolina Rural Economic Development Center,
4021 Carya Drive, Raleigh, NC 27610.
(919) 250-4314
info@ncruralcenter.org www.ncruralcenter.org

North Carolina Business Resources Directory: Business assistance available in North Carolina's 100 counties, produced by The Rural Center, October 2003.

www.ncruralcenter.org (232 pages, hard-copy, or searchable online at www.ncruralcenter.org/entrepreneurship/brd.asp) Provides entrepreneurs with current information on resources for financial and technical assistance.

North Carolina Institute of Minority Economic Development is a statewide nonprofit organization representing the interest of underdeveloped and underutilized sectors of the state's economic base. The Institute's business development resources, to include its Education & Training Division, the NC Statewide Minority Business Enterprise Center™, and the Women's Business Resource Center of North Carolina, work to assist historically underutilized businesses in accessing affordable capital, expanded market opportunities, and stable internal management and control systems. Through direct one-on-one technical assistance and small group education and training, businesses are positioned for growth and expansion.

Andrea Harris, President
114 W. Parrish St., Durham, NC 27701. (919) 956-8889
info@ncimed.com www.ncimed.com

North Carolina Community Development Initiative, Inc.

is a model public-private community economic development intermediary dedicated to increasing assets and creating wealth in low-resource communities. They provide grants and loans to Community Development Corporations (CDCs) and other non-profit organizations.

Abdul Rasheed, CEO
2209 Century Drive 2nd Floor, Raleigh, NC 27612.
(919) 828-5655
info@ncinitiative.org www.ncinitiative.org

Farm Service Agency (FSA)—While commonly known as the "lender of last resort," FSA is also a source of many opportunities. Because of its work in overseeing their loan programs, disaster assistance & conservation programs, price supports and commodities programs, the FSA can be a great help to you in shaping your farm enterprise. Every county has an FSA office, and they can be found through your local cooperative extension service.

Central Carolina Community College (CCCC) offers hands on training in small-scale, sustainable vegetable production and sustainable business development. Many community colleges around the state are adapting the CCCC curriculum to meet local needs. It is a good idea to contact your local community college to find out what is offered. To find out more about the CCCC programs you can contact Robin Kohanowich

CCCC, Sustainable Agriculture Program
764 West Street, Pittsboro, NC 27312.
(919) 542-6495 ext. 229
Email questions to: rkohanowich@cccc.edu.

The North Carolina Department of Commerce offers consultations to new businesses, identifying all the licenses, permits, regulations, and/or other approvals required for the planned business activity. Farm enterprises which aspire to

do on-farm processing or other value-added activities may require such assistance. Meat processing, dairy, and agri-tourism activities are examples of businesses that may require such assistance.

Contact: NC Department of Commerce,
4301 Mail Service Center, Raleigh, NC 27699-4301.
(919) 715-2864
www.nccommerce.com/servicenter/blilo

Additional resources we'd like to highlight:

The single best source we've found to guide you through writing a business plan for your farm is ***"Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses."*** This highly detailed guide takes you through all steps in the process, in work-book fashion. It is available in print-edition, or downloadable through the USDA's SARE website:

www.sare.org/publications/business.htm

To order the print-edition, call 301-374-9696, or write to the following:

Sustainable Agriculture Publications, PO Box 753, Waldorf, MD 20604-0753

Email: sanpubs@sare.org

BizPathways is a service provided by Minnesota Rural Partners. This site contains much free information helpful to new farm ventures. A modest annual fee allows access to customized information, business plan templates, and other services.

www.bizpathways.org/Bizpathways/Index.aspx

Center For Agricultural and Rural Banking at the American Bankers Association (ABA)

ABA offers helpful Tip Sheets for farmers and ranchers.

Tip Sheet for Young and Beginning Farmers:

How to Build Successful Financial Relationships

<http://www.aba.com/NR/rdonlyres/E1577452-246C-11D5-AB7C-00508B95258D/31065/>

[TipsheetforyoungandBeginningFarmers9996.pdf](#)

Surviving Tough Financial Times on the Farm

<http://www.aba.com/NR/rdonlyres/E1577452-246C-11D5-AB7C-00508B95258D/31077/>

[TenTipsForToughTimes503tipsheet9993.pdf](#)

Work With Your Banker to Manage Rising Interest Rates

<http://www.aba.com/NR/rdonlyres/E1577452-246C-11D5-AB7C-00508B95258D/40029/>

[TipSheetRisingInterestRates.pdf](#)

FAST (Farm Analysis Solution Tools) University of Illinois offers free tools to help you make better decisions with user-friendly computer programs. **FAST** tools are very easy to use, and would be helpful to North Carolina farmers in financial statement preparation, cash flow budgeting, assessing the financial performance of a farm operation, understanding various loan decisions and products, and helping with decisions to manage risk exposure. Go to www.farmdoc.uiuc.edu and click on FAST Tools. There is also good information at the "Finance" link.

Greater Hickory Metro Business Development Network put together an informative website for small businesses. www.growyourownbiz.com.

How Agrilenders Analyze Smaller Loans—This is a paper written by Dave Kohl, Ph.D. It gives some general guidelines regarding repayment ability, solvency, collateral, & credit history. Available on the web at www.ext.vt.edu/news/periodicals/fmu/1997-04/loans.html.

Local Colleges and Universities

A few enterprising farmers have received valuable assistance with business planning, market research, brand development, etc., by contacting their local Schools of Business, Marketing, or other academic departments at colleges and universities in their area. Students often need hands-on experience in these areas, and faculty often have talents and expertise to share.

Rural Advancement Foundation International – USA (RAFI-USA)

RAFI-USA offers two programs of special interest to farmers seeking financing. Our Tobacco Communities Grants Program gives small grants to tobacco farmers who are transitioning away from tobacco towards innovative crops, production methods, or other business models. Also, our Farm Sustainability Program offers financial counseling services to farmers to increase the economic survival and sustainability of farm families in financial and disaster related crises. RAFI-USA does not provide financial relief to farmers, but provides expert knowledge in complex lending regulations and two decades of experience in fighting to keep farmers on the land.

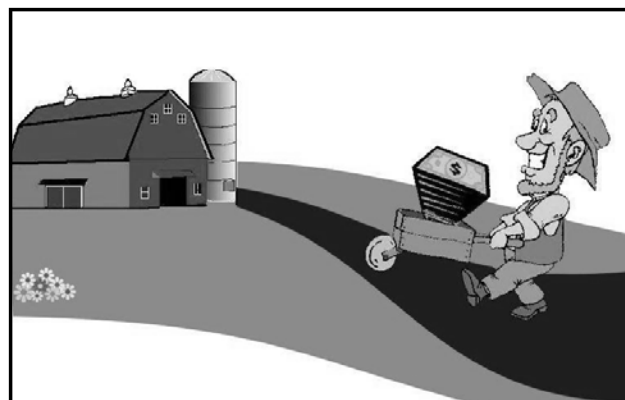
RAFI-USA,

PO Box 640, Pittsboro, NC 27312. (919) 542-1396

www.rafiusa.org

Other Farmers!

Sometimes the best information and help comes from talking with other farmers.



APPENDIX 5

SOURCES

Agriculture: A Glossary of Terms, Programs, and Laws, 2005 Edition, CRS Report for Congress, Jasper Womach, Agricultural Policy Specialist, CRS Resources, Science, and Industry Division, 1997. (282 pages, PDF, 1277 KB)
<http://www.cnie.org/NLE/CRSreports/05jun/97-905.pdf>

Agricultural Financial Reporting and Analysis, Dr. Arnold W. Oltmans (NCSU), Dr. Danny A. Klinefelter (Texas A & M University), and Dr. Thomas L. Frey (University of Illinois). This book was based on recommendations of the Farm Financial Standards Task Force to standardize the methodology for acquiring and recording financial information for the agricultural industry. http://www.doanebookstore.com/shop.php?show_prod_detail=9

Agricultural Lending: Comptroller's Handbook, Comptroller of the Currency, Administrator of National Banks, December 1998. www.occ.treas.gov/handbook/aglend.pdf (50 pages, PDF, 148 KB)

Building A Sustainable Business: A Guide to Developing A Business Plan for Farms and Rural Businesses, Minnesota Institute for Sustainable Agriculture and The Sustainable Agriculture Network, 2003. <http://www.sare.org/publications/business.htm>
(280 pages, PDF, 3446 KB)

Funding the New Harvest: Overcoming Credit Barriers for North Carolina's Sustainable Farming Enterprises, Curtis Consulting and Self-Help Credit Union, December 2004.
<http://www.self-help.org/PDFs/Funding%20the%20New%20Harvest%20Oct.%202004.pdf> (52 pages, PDF, 526 KB)

How Agrilenders Analyze Smaller Loans, Dave Kohl, Ph.D., (1997 self-published paper). <http://www.ext.vt.edu/news/periodicals/fmu/1997-04/loans.html>

North Carolina Business Resources Directory: Business assistance available in North Carolina's 100 counties, The N.C. Rural Economic Development Center, October 2003. <http://www.ncruralcenter.org> (232 pages, hard-copy, or available in searchable format at <http://www.ncruralcenter.org/entrepreneurship/brd.asp>)

Weighing the Variables: A Guide to Ag Credit Management, by David Kohl and Vern Pierce, American Bankers Association, 2002. <http://www.aba.com/> Catalog: # 3001689
(192 pages, hard-copy, \$60 Members / \$80 Non-Members)

*Additional information can be
obtained from contacting the staff:*

William Upchurch
Executive Director

Amy Bissette
Administrative Officer

1080 Mail Service Center
Raleigh, NC 27699-1080

919.733.2160
Fax 919.733.2510

tobaccotrustfund@ncmail.net

www.tobaccotrustfund.org