

ORGANIZING TO REBUILD AGRICULTURE OF THE MIDDLE:

A needs assessment of Agriculture of the Middle (AOTM)
producers supplying Oregon's foodshed

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For the purpose of confidentiality, these producers and their businesses are not named in this document.

Executive Summary

Lay of the Land

Regional wholesale is one of the most efficient means of supplying Oregon's foodshed with local agricultural products. Yet, not only do existing processors and distributors lack the capacity to meet local demand, but many Oregon producers lack resources to grow to a scale where they can supply this demand.

Summary of Need

We believe that in order to increase regional resilience, our food system should rely more heavily on a distributed network of socially responsible, family-scale farmers, ranchers, and processors. In opposition to current trends towards increasing consolidation and industrialization, these mid-scale producers would help diversify food production, providing the redundancy and geographic diversity to increase resilience.

Project Background

The purpose of this whitepaper is to inform Ecotrust's Food and Farms Program on the needs of Agriculture Of The Middle (AOTM) producers supplying Oregon. Ecotrust identified the needs of Oregon's processors and distributors in their Oregon Food Infrastructure Gap Analysis,¹ in June, 2015. Both of these reports will inform Ecotrust's strategic plan to help increase the supply of local food to Oregon's foodshed.

General Findings by Topic

Business Structure & Succession

- Pre-AOTM producers tend to do their own books to reduce costs, but a tipping point comes when some degree of impartial, expert financial oversight seems essential to the business's expansion and viability.
- Producers were interested in collaboration, either through formal cooperatives or shared equipment and services, but few had organized a critical mass of producers in their locality with similar interests. Some collaborated by growing crops for each other, and one producer was building a full-service cooperative.
- Many AOTM producers are searching for qualified and dedicated successors or, alternatively, ways to create cooperative "families" that will carry on the operation. Producers with the strongest succession plans not only deeded the operation's assets to the next generation, but also trained them and gave them increasing management roles and responsibilities under the older generation's supervision.
- Producers agreed that working on a profit-driven farm was the best way learn to farm, but many viewed training unskilled employees as a cost they could not afford. Many producers were interested in business and financing courses, but

¹ Osborne, Amanda, Mike Mertens, and Matthew Buck. Oregon Food Infrastructure Gap Analysis. Portland, Oregon: Ecotrust, funded by Meyer Memorial Trust, 2015.

did not have the time to attend. They wanted one-on-one guidance from experts and peers, and valued farmer-focused conferences with unscheduled time for networking.

Growing Practices

- All producers, certified organic or not, used practices they considered “sustainable,” which they would use regardless of certification. They, therefore, became certified organic only when that brand increased their profit margin, such as when wholesale customers demanded it, when the demand and premium for organic was significant (e.g. hay), or when organic techniques did not differ much from conventional (e.g. alfalfa). Producers are less likely to certify when the cost of transition is compounded because numerous steps of production require certification (e.g. poultry or value-added), or when the grower is knowledgeable about commodity markets and has the volume to sell to them (e.g. big grain).
- Producers suffered profit losses during the three years of transition from conventional to organic and appreciated financial assistance during transition. Diversified producers in particular felt burdened by the time and cost of organic inspection, but many felt that record keeping made them “better farmers.”
- Producers extend their season primarily through crop and market selection or double cropping rather than infrastructure e.g. hothouses. “Season” extension depends on what one’s direct competitors grow.
- Many producers are making changes in anticipation of new food safety rules, e.g. water purification and well-drilling. But many will not GAP certify or make major changes until required to do so. They fear new rules will prevent small operators from getting started and price out many mid-scale operators.

Operations Management

Producers stated that, with labor, “you get what you pay for;” producers who pay above minimum wage and offer benefits do not have great difficulty finding and retaining quality employees. Mechanization reduces labor, but is a big up-front cost and is contrary to some producers’ social or community values.

Sales & Marketing

- Not having a marketing plan was one producer’s “greatest non-cost cost.” In general, the more that the producer was personally responsible for all farm finances (e.g. not just a manager or sharing responsibilities with another farm), the more likely that they had a comprehensive business and marketing plan.
- If there are few competitors in a producer’s niche, there is less of an incentive for them to diversify.

- AOTM producers feel competition from small farms that do not necessarily comply with rules, national operations that poach niches that they trailblazed, and California farms flooding the market in season.
- “Getting it to the customer is money,” including paperwork, fuel, and infrastructure for distribution. The cost per unit for distribution increases as the amount of product decreases. Producers are interested in co-distribution, but reluctant to plan and pay for it.

Land-Based Issues

- Many producers found their properties through luck, family, and community. But expansion is not necessarily a good idea if the operation’s business plan does not account for additional expenses.
- Most producers did not understand working lands easements or had only had temporary easements. Some producers felt “forever was too long” and did not want to limit their or their successors’ options.
- Most producers built or converted infrastructure as they grew. They stated that “profit on a small scale requires mechanization” and “specialized infrastructure pays for itself.” Yet producers need up-front capital to afford new infrastructure and they find it difficult to finance used or modified equipment.
- Water rights often comprise the bulk of the land lease or purchase price. Many producers are switching from surface to groundwater because of cost, food safety, and conservation.

Financial Issues

- Labor was every producer’s primary cost, followed by fertilizer, chemicals, land, equipment purchases and repairs, and fuel. Seed and animal feed prices were increasing, due in part to seller consolidation.
- No primary AOTM producers had second jobs aside from minor side ventures. This seemed essential.
- Most producers bought their land and infrastructure piece-by-piece with cash; they preferred having as little debt as possible and “growing at an appropriate rate.” They live frugally to be able to reinvest.
- The most difficult lending criteria to prove was a track record, or the ability to repay. This is in part due to agriculture’s inherent volatility - the “ups and downs” of agricultural costs, prices, and crop yields.

Primary Conclusion

Small producers must make multiple “quantum leaps” to become AOTM; in other words, to be profitable, they must often expand their land base, infrastructure, labor force, and/or market before all the elements of their business can accommodate expansion, or before they have the ability to capitalize growth. Self-financing slows the rate of growth, but a measured pace of growth might be wise for longterm viability.

Recommendations

Recommendations are organized according to whether they could be led by Ecotrust, partners, or both. They include: 1) matchmaking between producers and investors, purchasers and processors, 2) protecting farmland and making it accessible to beginning producers, 3) providing access to expert and peer assistance for marketing, business planning, and succession planning, 4) supporting beginning farmer and specialized labor training opportunities, 5) financing programs that target difficult growth stages for producers, and 6) policy and research to help accomplish these goals.

Purpose and Foundation

Project Background

The goal of Ecotrust’s Food and Farms Program is to build resilience in Oregon’s food system. To help accomplish this goal, this program cultivates connections between Oregon’s agricultural producers and wholesale purchasers.

The purpose of this whitepaper is to inform Ecotrust’s Food and Farms Program on the needs of Agriculture of the Middle (AOTM) producers in Oregon. Ecotrust described opportunities for improving infrastructure and connectivity within Oregon’s agricultural processing and food distribution system in their Oregon Food Infrastructure Gap Analysis,² released in June, 2015. Program staff will use the information and findings in both of these reports to craft a strategic plan to rebuild AOTM in Oregon.

Working Hypothesis

Our initial working hypothesis was informed by observations and conversations with partner organizations. It read:

The primary barriers to AOTM producer viability are:

- 1. access to capital,*
- 2. access to land, and*
- 3. business management expertise and support. This category includes, but is not limited to, market development, insurance, compliance with wholesale requirements, and compliance with regulations (including food safety regulations).*

² Osborne, Oregon Food Infrastructure Gap Analysis, 2015.

In the course of this research, we modified the first point slightly to read “understanding when and how to capitalize expansion.” This refinement is intended to reflect that, while many financing tools are available, a prerequisite to financing should be a well thought-out financial and business strategy. A producer may explore financing options that support their strategy, but understanding how to wisely grow and prosper is as important as understanding how to finance or capitalize any identified needs.

Guiding Questions

Our initial guiding questions were:

- 1. Why, when, and how do AOTM producers grow to this scale?*
- 2. Do AOTM farmers, in fact, hold themselves to higher environmental, animal welfare, and labor standards? If so, why, and if not, why not?*
- 3. Why do AOTM producers choose to not “get big” or sell nationally or internationally?*

The following questions were added to the initial guiding questions during the course of this research:

- 1. What factors lead AOTM producers to sell within Oregon’s foodshed?*
- 2. What conditions make cooperation or aggregation preferable to business expansion?*
- 3. Is there truly a lack of local supply to meet regional demand?*

The initial guiding questions and the first two additional questions are addressed in the conclusion of this report. The final supplemental question is explored in Ecotrust’s Oregon Food Infrastructure Gap Analysis for six product categories. All questions could be explored in greater detail.

Methodology

In choosing producers to interview, we first identified criteria that were relevant to our definition of AOTM (see “Working Definition of Agriculture of the Middle (AOTM)” below). These criteria included:

- **Business Scale**, including gross income, the number of employees, the proportion of wholesale sales, the types of wholesale accounts, and other marketing outlets,
- **Land**, including location, whether land was leased or owned, the types of products produced, and whether the operation was certified organic, etc. or considered its practices to be “sustainable,” and
- **Succession**, including whether the business was family-owned, had a succession plan, or had a working lands conservation easement.

The research team measured a number of potential interviewees against these criteria and selected twenty producers who were either AOTM, slightly larger than AOTM, or about to become AOTM, who represented the greatest diversity among these criteria. Key points of diversity included: estimated gross, proportion of wholesale sales, product category(ies), and location.

We considered producers who were either known to us, referred to us by colleagues or AOTM wholesalers, or found through internet searches of their product category.

In all, we interviewed eighteen producers in ten different product categories with between five and 3,500 acres in production, between two and forty employees during high season, and between under \$50,000 and \$15 million in gross sales.

In-person interviews were preferred over phone interviews to improve the quality and detail of the exchange of information. To accomplish this, we took three major trips during July, 2015 and traveled over 2,400 miles, spanning from Walla Walla, Washington to Nehalem and Grants Pass, Oregon.

Interview questions were developed through team collaboration with advice from partners. These questions encompassed five basic topic areas: 1) business structure and succession, 2) growing practices, 3) operations management, 4) land-based issues, and 5) financial issues (see Appendix B: Interview Questions). For the purpose of this report, Sales and Marketing was separated from Operations Management into its own category to form six total categories.

Despite our efforts to seek a diversity of producer categories and experiences, we recognize that eighteen producers is a small sample set. We acknowledge that the producers we have chosen cannot speak for all AOTM producers, or even the average AOTM producer, if there is one. As a result, this whitepaper often attributes statements and observations to individual producers, whose names are kept confidential, or to categories of producers, rather than to AOTM as a whole. Generalizations are made where strong correlations were observed.

Working Definition of Agriculture of the Middle (AOTM)

Disclaimer

For the purpose of identifying Agriculture of the Middle (AOTM) producers to interview for this whitepaper, and to help define this demographic for Ecotrust's continuing food systems work, we created the working definition of AOTM producers outlined below. The definition is formatted as a set of characteristics shared by most, but not all, AOTM producers, rather than as a concise and absolute description. We found this to be the most usable and accurate approach, given the following inherent difficulties of defining AOTM.

First, there is no hard and fast rule distinguishing AOTM producers from their larger or smaller counterparts. AOTM producers are neither large, corporate-controlled, commodity operations, nor small, highly diversified, direct market operations, and

yet they might have characteristics of both of these two extremes. For example, an AOTM producer might be indistinguishable from a small-scale producer of the same product in terms of acreage in production, but have greater net proceeds and be able to sell to regional wholesale markets because of its location or investments in labor, equipment, and professional business management. Moreover, the size-to-profit ratio varies dramatically between product categories, such that an AOTM vegetable seed farmer on 10 acres might net more than a dry land grain farmer on 1,000 acres. As the Ag of the Middle resource hub explains, “the definition of AOTM farms and ranches is scale related but not scale determined ... [and] varies with crops produced, geography and market.”³

Second, it is difficult to isolate information on AOTM producers using existing data. For example, AOTM producers generally sell more than one product through more than one marketing channel, yet USDA Census data rarely aggregates data from individual products or marketing channels and attributes it to the individual diversified producers from which it came.

Because of the above difficulties in creating a commonly accepted, objective definition of AOTM, our working definition by necessity has a subjective foundation. We began crafting this definition by identifying the one characteristic of AOTM producers that is most relevant to our work: selling to wholesale markets with regional distribution. From there, we identified the following common causal conditions and attendant circumstances for producers who have grown to be this large: 1) average gross, 2) supporting a family on their farm income, 3) employing farm laborers, and 4) having some but not a lot of diversification. We also identified the following factors which might prevent these businesses from becoming very large: 1) owner-managed and -operated, 2) engaged in cooperative marketing and processing agreements, and 3) a commitment to community and environmental values.

The definition is admittedly somewhat circular, or proven by itself, since it is premised in part on our observations of producers whom we chose as prime examples of the model of production we hoped to study. It is, therefore, quite possible that the average Oregon producer who fits the quantitative factors of our definition (e.g. gross) might not exhibit all of the qualitative (especially values-based) factors of our definition to the extent that our observations indicated. In addition, the sample set for this project was too small (eighteen) to address the definition’s intrinsic bias by interviewing a larger number of producers.

However, although there is some unavoidable bias in the selection of our sample set and the creation of our definition, our research showed a strong correlation, or at least a marked co-existence, of the definition’s factors (quantitative and qualitative) among the producers we interviewed.

³ Kirschenmann, Fred, Convening Chair. “Characterizing Ag of the Middle and Values-Based Food Supply Chains.” Agriculture of the Middle January 2012. September 21, 2015 <http://www.agofthemiddle.org/archives/2012/01/characterizing.html>

Definition of AOTM

Although it might be impossible to craft a definition that describes all and only AOTM producers, it is safe to say that AOTM producers tend to share a common scale of operations and a value system which meet most of the characteristics listed below:

In regards to scale of operations, AOTM producers tend to:

- be owner-managed and -operated;
- gross between \$100,000 and \$3,000,000;
- support the owner-operator's family on the net profits of the agricultural operation, whether or not the owner(s) also choose to receive off-farm income;
- have farm laborers;
- produce more than one product, but are not extremely diverse;
- sell a significant portion of their product to wholesale markets. The wholesale markets to which they sell tend to be primarily restaurants, institutions, retailers, and small regional processors and distributors, rather than large commodity brokers; and
- be more engaged in sharing marketing and administrative costs with other similar producers, such as through cooperatives or aggregators.

In regards to values, AOTM producers tend to:

- contribute to local economies by hiring and purchasing locally;
- compensate their workforce as best they can;
- be actively involved in their community;
- use agricultural practices that are conscientious of animal welfare;
- exhibit a high level of environmental stewardship (certified or uncertified) in their production practices and the treatment of their unfarmed land;
- make efforts to be environmentally resilient and financially competitive in light of climate change;
- be interested in delivering their products to consumers within their state's foodshed. This is in contrast to selling products primarily to national and international markets or just within their small locality; and
- make decisions for their operation based on costs and benefits projected beyond the current operator's generation. This long term decision-making affects both environmental stewardship and relationship building with other producers, members of the supply chain and, (sometimes) farm successors.

The following observations, made during our research, helped shape our definition.

1) Gross

We increased the range of gross for AOTM producers from between \$50,000 and \$500,000 to between \$100,000 and \$3,000,000. \$50,000 to \$500,000 was chosen initially because the Agriculture of the Middle online resource⁴ identified this as their range. However, upon reviewing USDA 2012 Agricultural Census data, this range appeared low for our purposes. The first USDA gross income category where the majority of producers showed an average net income greater than two times

⁴ Ibid.

the 2015 federal poverty level (\$48,500)⁵, was \$250,000-\$499,999.⁶ These producers reported on average \$80,931 in net income to the operation and \$79,848 in net income to the operator.⁷ The breaking point for twice the federal poverty level must fall between this category and the category of operators with sales between \$100,000 and \$249,999, which shows a net income of \$28,540 to the operation and \$25,773 to the operator.

However, producers grossing only \$100,000 might also have many AOTM characteristics, such as selling to regional wholesale markets. These smaller producers might earn a higher net return from their lower-than-average AOTM gross because of their superior efficiencies, windfalls of equipment, land, and infrastructure, or higher-margin crops and marketing niches. Producers we interviewed who grossed less than \$100,000 did not have either the regional wholesale markets nor net income to be considered AOTM, but one operation is preparing to increase its efficiency and wholesale reach (and social impact) through a growers' cooperative where many farms behave in the aggregate as one AOTM producer.

Many producers in higher income brackets also exhibited most AOTM characteristics. According to the USDA Census, the average farmer grossing \$250,000-\$499,999 nets around \$80,000, but Eric Henny of NW Farm Credit Service stated that \$115,000 net per family is a living farm income, implying that AOTM producers may be found in a higher concentration at higher gross sales categories.

It was difficult to determine the upper limit of gross for AOTM producers, but our interviews led us to set \$3 million as an approximate ceiling. Of the producers who grossed \$1.5 million, two had strong direct market as well as wholesale sales and one was solidly AOTM, selling only wholesale with an effort to sell to regional channels. One producer who grossed \$3-5 million and another who grossed \$2.5 million and both considered themselves to be (and meet many characteristics of) AOTM producers. These families have full control over their business, the farms are diversified, they make great efforts to be environmentally and socially sustainable, and although much of their product currently leaves the region, they are very interested in regional wholesale, with one producer expanding their regional markets through a related processing enterprise. At the extreme, the producer who grossed \$15 million had some features of AOTM, but because of their lack of diversification and targeted regional distribution, and the sheer size of their operation, they do not fit our definition of AOTM for the purpose of this work.

For our purposes, it is, therefore, assumed that most AOTM producers gross between \$100,000 and \$3 million. The first range in gross sales where more than half of farms might possibly be considered AOTM is between \$250,000-\$499,999. However, the producers we interviewed who grossed \$1.5 million also met almost all of the characteristics of AOTM. The percentage of AOTM farmers might taper off after \$1.5 million in gross, judging from the several producers we interviewed who grossed roughly \$3 million. These producers did not align as strongly with our AOTM criteria

5 Federal Poverty Level. September 26, 2015. <http://obamacarefacts.com/federal-poverty-level/>

6 National Agricultural Statistics Service (NASS). United States Department of Agriculture (USDA). August 8, 2015 http://www.nass.usda.gov/Statistics_by_Subject/index.php

7 Ibid.

in that they sold a smaller percentage of their total product into regional wholesale, despite an interest in increasing regional sales. A larger sample set and further statistical research set would be necessary to develop definite brackets of AOTM scale in terms of operational gross.

2) Labor

Also under the scale category we added the criterion that AOTM producers generally retain farm laborers as either full- or part-time employees or contractors. This point became obvious during our interviews, where only one (who was not quite AOTM scale) did not yet have a regular employee. However, this producer raised a low input crop (hay) and had a relatively mechanized operation, and even this producer hired one part-time laborer during the high season.

3) Climate Change

Finally, under the values category, we added the criterion that AOTM producers tend to make decisions to mitigate the environmental and economic effects of climate change. The importance of this criterion was anecdotal, but expressed spontaneously by enough producers that it seemed relevant to the definition, especially as it relates to how and why producers espouse sustainable practices.

Issue Areas

Business Structure & Succession

Bookkeeping and Taxes

Until they become large AOTM, many producers or their spouses do their own bookkeeping, although some admit to being “really bad at it” and that they “don’t know if it’s wise.” Producers are often self-trained in bookkeeping by webinars or from prior employment. Yet farm operations are different from and often more vulnerable to market and environmental risk than most businesses; there are many uncertainties in projecting farm profits. One producer laughed that beginners think they can plan their farm finances on an Excel sheet: “Welcome to farming. Nothing ever turns out like you think.” Even if they are competent, producers do not usually have time during the season to do their books with care.

Since AOTM farmers are, by our definition, owner-operated and -managed, the time at which the owner no longer has exclusive oversight over the finances might come later than would be ideal for business profitability. Several producers felt that it was a good business practice to have a second, impartial set of eyes looking over their financial decisions to “keep [the farm managers] in line,” especially if one of the partners is stealing profit. Because of the complexity of farm accounting, not having an expert bookkeeper or management team might hinder expansion. For instance, one producer felt that doing their own bookkeeping, financial planning, marketing, and production supervision rather than cultivating a management team has been a limiting factor to the operation’s current and continuing success.

In multi-generational operations, some next generation producers are not included in business decisions. One producer who farms with his parents, did not know the financials of his family's operation. He stated that he "knows so little about running a proper business" and that the operation is "flying by the seat of [their] pants." He felt that they were losing potential profits by not understanding or tracking their costs of production. By contrast, next generation producers who felt prepared to take over the business have been steadily entrusted by the prior generation with increasing management responsibilities. This supports the view that succession planning is not merely the transference of assets, but also the transference of the skills and experience to operate the business (see "Succession" below). Several producers hire a part-time bookkeeper, and one "rents" their full-time bookkeeper to other farms. AOTM producers might benefit from cost-sharing a business management team.

Almost all producers interviewed hire an accountant to do their taxes, especially since, as one producer stated, tax law is complex and there are "constant changes" that a lay-accountant cannot keep track of.

Business Entities

Most businesses separated the farm business (as an LLC, S-Corp, or C-Corp) and sometimes homes and buildings (as an LLC) from the land (as a sole proprietorship or LLC). This helps prevent creditors or parties with a judgement (e.g. food safety claim) against the farm business from claiming the farm real estate as part of the business's assets. This separation of entities saved one producer's land during bankruptcy.

Agricultural operations can use business entities for succession planning by gradually increasing new members' ownership and voting rights. For instance, one operation's young partners currently have equal decision making power but less ownership than the founders; their ownership will increase over time.

One producer did not know how their business was organized, or that by not organizing they are a de facto sole proprietorship. One smaller producer was a sole proprietorship, but wanted to become an LLC.

Cooperatives and Cooperation

Several producers are engaged in or exploring options within and beyond the co-operative business structure, such as: 1) a creative succession model with shared ownership, 2) vertical integration where separate businesses are owned by different family members, 3) an interest in the shared purchasing and use of expensive equipment like an optical sorter, 4) community-based processors that act "like a family operation" (e.g. Lundberg Mill and Lochmead Dairy), and 5) one producer's marketing co-operative with broad flexibility in how members may participate. As a further example, more than 30% of Clackamas County farmers surveyed by the County expressed interest "in joining an association, cooperative or similar organization to

access equipment, resources and other inputs, lower costs and expand their market.”⁸ OFARM in California found that cooperatives were most successful if they built trust among producers and allowed for flexibility of producer participation.⁹ Their experience showed that cooperatives could magnify the market influence of individual niche (organic) producers to increase demand for and wholesale access to their product, but that “deep-pocketed food corporations [soon] undermine farmers’ connection to organic marketing organizations” by capitalizing on the marketing niche the cooperative created and poaching producers by out-competing the cooperative on prices.¹⁰ They also found it difficult to recruit members and accumulate profits within cooperative regulations, like the Capper-Volstead Act.¹¹

Building a critical mass of producers within a feasible geographic region and with a similar product can be a challenge for cooperative formation, especially in rural areas or for new or capital-intensive crops. Yet one producer is trying to increase the number of neighboring organic producers of the same crops by informing them of organic price premiums, and one producer is working to convene and train the next generation of local farmers, who might then join the operation’s related marketing cooperative.

One producer expressed frustration with the inefficient decision making within a cooperative, and several felt that not having personal control over the business’s resources prevents an “ownership mentality” that encourages producers to “pay attention to detail” and follow their costs and price negotiations closely.

One consideration for larger cooperatives with decentralized processing is that farmers usually only have an incentive to join a cooperative’s board if they are large enough to have a stake that requires self-representation. These larger producers might use their processing infrastructure to process product on a fee agreement with the cooperative. However, producers at this scale might have the capacity to vertically integrate and sell their own product, making their long-term commitment to the cooperative uncertain.

Succession

An essential part of succession planning is the transference of management roles and responsibilities to the next generation under the supervision of the prior generation. One producer said that the transmission of knowledge from the producer’s father has been “the biggest part” of succession for their operation. And one producer frequently acts on their son’s decisions, even if the producer disagrees, so that the son can “learn by performance.” Several farms (all large) are organized such that the older generation supervises while the next generation operates the business. A producer who is transferring the operation to two non-related producers, is helping the young producers build equity by giving them one-third share each.

8 Cogan Owens Cogan with MARStewart Group, LLC and Crossroads Resource Center, Eds. “Clackamas County Agriculture and Foodshed Strategic Plan,” p. 13. Oregon City: Clackamah County, 2012. http://www.clackamas.us/business/documents/CC_Foodshed_Strategy_FINAL.pdf September 1, 2015.

9 Lyson, Thomas, G. W. Stevenson, and Rick Welsh, Eds. *Food and the Mid-Level Farm: Renewing an Agriculture of the Middle*, p. 65 Cambridge, Massachusetts: The MIT Press, 2008.

10 Ibid.

11 Ibid.

The older producer is a consultant, but the younger producers make the business decisions. The older producer said, “if you want them to treat it like they own it, let them own it.” Similarly, one first-generation operation, is transferring ownership to unrelated farmers via an LLC. Yet the transference of operation management depends on interpersonal dynamics, including when and whether the older generation is willing to share information with and entrust responsibility to the next generation. One producer had not received this information from their family and felt not only unprepared to manage the farm business, but unsure of the family’s intention to transfer it to them.

For several larger and multi-generational farms, estate planning was done in due course of business. But many first-generation operations nearing transition have neither a succession plan nor identified successors - family members or not. Producers with children noted that, to be enticed, children need not only the guarantee that they will inherit the skills and experience to manage the operation, but also the expectation that the business will be profitable. A producer gave Hood River as an example: when apple prices are good, the next generation comes back. And even if farm children are interested, some might not make their decision within the timeline needed for proper succession planning.

For producers whose children are not interested in the operation, it is difficult to identify unrelated successors. One producer has made numerous unsuccessful attempts to train young and eager, but irresponsible and grossly inexperienced, potential successors. Another producer calls conventional neighboring farms with children who might be interested in organic production. And yet another producer has been searching without success for farmers prepared to manage and afford his operation. These producers innately desire to expand their operation, but are uncertain when and how to expand, given the uncertainty of future management.

Operations that do not own their land (yet) and/or who do not have children, either do not feel an urgent need to plan for succession, or are attempting to plan community-based succession with multiple, like-minded beginning producers. As one producer said, “it’s a community effort. And if we don’t have these big farm families anymore, we have to create families.”

Several first-generation farms have not thought seriously about succession because they feel their track record is not predictable enough to estimate what they could pass on. One of these producers regretted that the estate “would be a mess,” but has not planned for succession, in part because the producer does not believe that a written succession plan would be properly executed after his death, or that it is possible to craft a document that could affect their wishes. In a survey of Clackamas County producers, less than 39% had a succession plan, and only 43% of those with a plan had this formalized in a legal document.”¹²

Producers who intended to inherit the operation emphasized that “there is no equity in succession;” the retiring generation is never required to give farming and non-farming members equal asset value. This principle is especially challenging when

¹² Cogan Owens Cogan, 10.

transferring a farm business to non-family members. For example, a producer mentioned a farm family that had verbalized, but not recorded, an agreement to pass their operation on to unrelated farmers. However, the producers' children wanted to liquidate their share of the estate and did not honor the verbal agreement. Some farm children were preparing to inherit the family business, but their siblings expected an equal share of the assets, which would severely harm the viability of the farm business. One producer stated that, "if you split up the land, you wreck it," which is more than just a barrier to profit, "it destroys the family legacy when land has been in the family for generations."

Most producers preferred selling their land to successors who would continue their operation and sustainable management techniques. But since land is their greatest asset, they must ultimately rely for their retirement on income from its sale, whether to sustainable or conventional producers or to non-producers.

Growing Practices

Sustainability

Impetus to Transition to Sustainable Certifications

All producers interviewed, certified and uncertified, took opportunity costs that may or may not have been compensated through price premiums to institute "sustainable" practices. And many certified organic producers said that they would use practices that meet or exceed the National Organic Program (NOP) even if they were not certified. The decision to become certified under a program like the NOP seems to be primarily related to whether the price premium, minus the expense of certification and costs or lost profits of organic production, result in a significant net profit.

Producers tend to certify when they begin to sell to a wholesaler with regional distribution, when there is a high premium for and limited availability of organic product (dairy, hay, or specialty grain), or when the product is relatively easy to grow organically (alfalfa). Producers seemed less likely to certify when the cost of certification is compounded by numerous steps of production that each require certification (poultry or value added) or when the grower is comfortable selling their crop to commodity markets (big grain).

One conventional producer who was very conservative with chemical application did not see the long term financial benefit for the short term inconvenience of organic transition and paperwork, but would consider transition if a) "times were tough," b) as a result, they were forced to examine the cost benefits of organic transition, and c) those benefits were significantly greater than the costs.

Having few organic producers in a niche can help or hinder an operation. One producer shares their organic prices with conventional neighbors in the hopes of increasing the critical mass of organic producers in the area, creating opportunities for shared processing. But another producer benefits from being one of the few producers in their niche in the Pacific Northwest because customers pay for their certification.

Reasons for not Certifying

Whether a farm seeks any certification seems to depend ultimately on pressure from the consumer, not just the purchaser. In direct market grain, this is GMO-Free certification; one grain producer said that their customers do not ask for organic. In wholesale, customers demand organic, but generally not GAP. In fact, some fresh vegetable producers joined together to refuse a wholesaler's request for GAP certification (see "Food Safety"). Their success might have been due in part to the lack of public demand for and/or knowledge of GAP certification. Federal requirements for food safety would, obviously, override an absence of direct consumer demand. Similarly, one biodynamic producer does not feel the need to certify biodynamic under the Demeter Program because customers who care know that the operation is biodynamic, and those who do not care would not be influenced by this certification.

Transition can be costly, with increased risk and no price premium for the first three years. It is beneficial when farms can transition in partnership with purchasers who market their goods as transitional to compensate for lost farm profit, as Hummingbird Wholesale has done. Where producers alternate between crops and fallow on a biannual basis, they could meet the three year transition threshold if they simply do not grow a crop one year, perhaps receiving a subsidy for this year. But temporarily losing a portion of yield without having a price premium to fill the revenue gap is not the only cost of transition. A dairy producer said there is huge demand for organic dairy, but few existing dairy producers have the land base, infrastructure, or inclination to transition from a confinement dairy to organic, pastured production.

Certifiers

One organic producer felt that it was worth paying extra money to certify under Oregon Tilth because of the organization's reputation in the industry. But another producer felt that Oregon Tilth has not proven to be the most thorough certifier, that their support services are insufficient and primarily for row crop growers, and that they are "really hands off until they want their fee." One remote grower did not mind the lack of support services or oversight and appreciated that Oregon Tilth "left [them] alone." However, several producers felt that organic certifiers "won't boot someone who pays their dues," even if they find spray residue, and that cheating was common in organic reporting. Producers expressed skepticism about whether all product marketed as organic, especially international product, is actually grown according to NOP standards, and felt that conventionally grown food is often marketed under the organic label.

Paperwork

Some producers felt that the paperwork requirements of organic certification were too time-consuming for them to satisfy, but many already had sophisticated record keeping systems or felt that maintaining records caused them to be "better farmers." One organic producer documents "standard operating procedures" to avoid documenting each activity. Less diversified and larger producers did not feel that certification was an unreasonable expense, especially since most certified farms received National Resource Conservation Service (NRCS) costshare. But the cost and

time for inspection increases with the diversity of the farm, costing “thousands of dollars” and taking one full day for a diversified vegetable farm.

Difficulties of Organic Production

Some producers felt that some NOP requirements not only increased their cost of production, but could harm their soil. For example, organic alternatives to chemical weed control are hand weeding (a huge labor cost) or frequent tilling (which harms soil structure and increases fossil fuel use). Organic grain and forage producers feel this pinch in particular, as organic regulations make it impossible to conserve the soil through no-till techniques in combination with minimal herbicide application. Several organic farmers resorted to spraying non-OMRI-approved herbicides on parcels where they could not control their weeds with organic techniques; they lost their organic certification on these parcels for three years as a result.

Non-organic growers who considered themselves sustainable, felt that the judicious use of more potent, targeted chemicals is sometimes better than many applications of chemicals that are less toxic per application, but more toxic in the aggregate, and may even be more “sustainable” than some OMRI-approved chemicals and practices. They felt that some pesticide regulations were flawed in that they did not account for a chemical’s overall toxicity, given the actual rate of use. However, an organic producer noted that a major benefit of not spraying is that native pollinators flourish, benefiting crops like alfalfa seed.

Many organic farmers worried about the accumulation of phosphorus and potassium in their soil due to the application of the most affordable organic nitrogen fertilizer: chicken manure. One organic producer also felt that the NOP’s rules limiting manure applications to fields and requiring the covering of compost heaps to prevent drift were contrary to sound soil and food safety science. Most farmers, certified or not, used cover crop and never left bare ground in order to prevent erosion and improve soil health.

One organic dairy producer agreed that the operation might save on costs by not using antibiotics or hormones, but that additionally, organic practices, such as pasturing animals and not feeding as much feed concentrate, reduce animal stress and improve animal welfare while also improving milk quality.

Season Extension

The purpose of season extension is to increase profits by artificially creating a time-based market niche, but the demand and value for such a niche and what the producer grows in the early and late ‘shoulder’ seasons depends on what their direct competitors produce at that time. For example, when one North Coast farmer competes with farmers in their region, season extension means producing hot season crops, like corn, when competitors cannot. But when that farmer sells to the James Beard Public Market or wholesale in competition with Willamette Valley or Californian growers, season extension means producing cool season crops suitable to the North Coast, such as peas and brassicas, when competitors cannot. In the first case, the farmer’s skill and infrastructure differentiate their product from growers

in their local growing and marketing region. In the second, the farmer's climate differentiates their product from more distant competitors with less favorable growing conditions for those crops. Expanding this farmer's distribution to a regional level might, therefore, reduce the operation's inputs and increase its efficiency by allowing the farmer to work with their climate (See "Niches" under "Sales & Marketing").

Most vegetable farmers have greenhouses - often built with NRCS costshare funds, but sometimes self-capitalized because farmers needed to build before funds became available. Yet this infrastructure is primarily competitive during a crop's shoulder season because, while yield in greenhouses is three times as high as in the field, labor costs can be six times as high; "it was 43 percent more profitable to grow in an open field—suggesting that use of tunnels will be less competitive during the peak-growing season."¹³ For this reason, one producer grows cool season crops and does not want greenhouses.

For grain producers, season extension is not so much about forcing off-season production (aside from buried tile line and ditches that drain moisture from fields allowing earlier access in the spring), as finding and developing varieties that are adapted to shoulder seasons. This means double cropping fields with short-turnover varieties suited for early or late season, or seeding two crops at once (e.g. orchard grass and clover) for dual harvests. The increased income from growing late-season specialty crops like nyjer, teff, and phacelia, has been a factor in diversifying larger grain operations beyond commodity crops.

Some farmers prefer to rest their fields, rather than strain their natural and capital resources by growing out of season. This is part of their sustainability philosophy. As one producer said, "resting the ground is a good idea... Folks here wear the ground out" by not doing so.

Producers try to mitigate for climate change by variety selection. For example, legumes have been shattering prior to harvest due to drought, creating a need for varieties with less of a tendency to shatter early. Providing food security despite climate change was a motivating factor in one producer's decision to farm.

Food Safety

Producers are uniformly in favor of food safety in concept. But many find food safety rules unnecessarily cumbersome and expensive, not grounded in science nor likely to prevent food borne illness, not flexible in relation to specific growing conditions, and not scale-appropriate. Many did not know the requirements of new rules, such as the Food Safety Modernization Act (FSMA), and would benefit from education like Organically Grown Company's (OGC's) food safety curriculum.

Some are not affected by the rules because they grow low-risk crops (seed, grain, and beans), their processor bears most of the risk of contamination (dairy), or their infrastructure already satisfies the rules. Affected producers view the rules as a

13 Osborne, 199.

cost of operation. Producers with GAP certification state that it is not prohibitively expensive or time consuming to keep records, as long as they have good practices and record keeping already. But many farmers stated that they would not become GAP certified until the government or their buyers absolutely require it, largely because of the cost of additional record keeping.

Many producers, especially those using surface water, have made improvements that they hope will satisfy the rules. This includes water purification systems and wells, which some farmers claim cost the same to install, but wells are generally more reliable and some producers oppose chemical treatment.

Producers were concerned about how the enforcement of new rules would be funded. One producer anticipated that vegetable farms would be charged an assessment for FSMA inspection. Other farmers felt that they could not know about the hazards on their property until after they were fined. One producer who was not GAP certified refused a hypothetical inspection because, if it found issues and an outbreak happened later, the farm might be liable for intentional crimes, rather than simply being found negligent.

One producer explained that food safety regulations are designed for large operations that can absorb additional costs and paperwork at a lower cost-per-item than small producers. Producers felt that the disproportionate burden of regulations on small producers is unfair because large operations cause the majority of food borne illness outbreaks. In addition, farm infrastructure differs depending on scale, making it impractical to create blanket regulations that fairly govern large and small operations alike. Yet it is difficult to describe the differences between large and small operations to decision makers and the public.

One producer supported FSMA's Tester Amendment as a way of leveling the playing field. This amendment exempts some small, direct-market farms from FSMA rules. This producer felt that this exemption was essential to the future of AOTM, because compliance with FSMA would make it cost-prohibitive for small farms to grow or enter wholesale markets. Many producers believed that small producers would continue to "fly under the radar" rather than spend a large percentage of their revenue on compliance.

Collectively owned and managed infrastructure could help lower the per-producer cost of FSMA-compliant food handling and storage. It could also give producers greater certainty that their product is being properly stored, since some producers suspect that their purchasers' warehousing practices contribute to the risk of a food borne illness outbreaks, for which the producer might be held liable.

Technical Training

Most producers have a college degree, but their field of study was not necessarily related to whether they intended to farm or were raised on a farm, and the usefulness of any degree varied widely. However, producers with degrees in agriculture or agriculture economics reported using their degree more often.

The youngest generation of multi-generational farms often learned by experience. One producer was “just born into it;” they studied agriculture in college and it “didn’t really cross [their] mind” to pursue a different career. Another producer sold agricultural supplies and worked on an organic farm in California before returning to the family farm with the knowledge and intention to begin organic production.

Most first-generation farmers, and several multi-generation farmers, learned from “trial by fire” and earned “several Doctorates in the school of hard knocks.” They learned by reading books early in their farming career, attending conferences, listening to other farmers, and working on profit-driven farms. They also transferred skills from prior experiences as business owners and project managers to farm management.

Many felt that “the best teacher is experience.” Daily farm work is “repetitious effort,” but it takes years to develop the skills to be an owner/operator, or even a good farmhand or equipment operator. Yet many youth without a farm in the family, including some rural youth, do not have opportunities for first-hand experience, since the time spent training a novice is lost profit to producers operating on tight margins. One producer acknowledged that inexperienced employees are a profit sink, but training the next generation of farmers is that producer’s act of advocacy, which is subsidized by agritourism revenue.

Producers expressed interest in classes about financing, business management, risk management, and regulatory compliance, but most have not found time for available classes unless it was necessary, e.g. training to write a HACCP plan. Producers appreciate the support they receive from Extension specialists where they are funded and when the producer proactively contacts them about a particular issue, but they sometimes rely on other professionals (e.g. chemical salespersons) for advice, especially when Extension is not available. One producer wanted region-specific academic resources, like soil science for Southern Oregon, and felt that Extension resources were primarily limited to high-value crops and regions.

Many producers appreciated producer-focused conferences with unstructured time to learn from their peers, like Farmer-to-Farmer Exchange, EcoFarm, Organicology, and Stone Barn. First-generation producers found informal mentors to be highly valuable because of their advice and access to specialized equipment. But an older, rural producer felt that mentoring must be regional and happen naturally, as many farmers are independent and would be skeptical of matchmaking that is not farmer-initiated.

Operations Management

Labor

All AOTM producers we interviewed retained labor; having a crew of more than a farm operator and spouse seemed necessary for them to operate at their scale. Yet funding labor for growing operations can be a Catch-22, where producers cannot afford to hire new employees until their income has increased with the help of new employees. By extension, it appears that farm operators must find funds to hire labor

before they have the income to pay themselves a living wage. Mechanization may reduce labor costs, but is a large up-front cost and is contrary to some farmers' social values.

Regarding availability and quality of labor, producers stated, "you get what you pay for"; not surprisingly producers who pay above minimum wage and offer benefits do not have nearly as much difficulty finding and retaining quality employees as producers who pay only minimum wage. One producer with high employee retention offers "everything but dental" (including medical and 401K) to full time, year round employees. Another producer's lowest paid employees make \$16 per hour, and although they do not receive benefits, employees receive significant performance based bonuses. Of this producer's roughly forty employees, four or five have worked for the operation for over thirty years. Not only are producers who pay higher wages better able to hire and retain employees, but well-paid employees do higher quality work. As one producer said, "if you pay more than minimum wage, you get more than minimum effort."

By contrast, a producer who pays their part-time employees minimum wage with no benefits has significant turnover and lackluster employee performance. This producer has found it increasingly difficult to find employees as the economy has improved, and stated, "apparently they're here because they can't find something else,... this isn't the most desirable job in the world." Similarly, one producer's only employee had just left his 50 hour per week farm position at \$11 per hour for a job in town for 40 hours per week at \$12 per hour. Although the employee would earn less, the producer assumed that their former employee wanted to improve his lifestyle by working fewer hours.

Yet one producer with low employee turnover still found it increasingly difficult to find quality replacements for employees who do leave. Like many producers, many of this producer's laborers are Hispanic. This producer felt that immigration is "an issue" because "good workers are a big deal." This producer did not advocate for citizenship per se, but would support a certificate that allows immigrants to work.

Similarly, another producer with good worker retention found it difficult to find seasonal workers. This producer pays seasonal workers above minimum wage, but must pay more during the summer as demand increases and producers outbid each other for limited labor pools. For this reason, this producer prefers to complete off-season maintenance, such as pruning, before late spring when labor prices increase and availability decreases. One producer noticed competition for labor from as far away as Wisconsin. In 2014, this operation had to downsize its crop plan because it lacked four or five workers during the high season when some employees left for more lucrative work in the Midwest. And producers in remote areas with limited local housing found it difficult to find and retain employees. For example, producers the Applegate Valley regretted purchasing properties far from labor pools in Grants Pass or Medford.

One producer felt that their farm had good employee retention in part because their employees are grateful to them for employing their family members who cannot find

other work, such as an employee's son who is a convicted felon and is paying a debt to his father through his farm wages. These small-to-mid scale producers also earn employee loyalty by never asking employees to do a task that they would not do themselves. This is a promise that a larger farm with a rigid management hierarchy could not deliver.

Producers, especially in remote areas of Eastern Oregon, reported a shortage of skilled mechanics. Larger producers paid to retain a mechanic on staff, as did one smaller producer who used specialized and modified equipment. Several producers were self-trained mechanics, to greater or lesser degrees of success. They reported that, as farm equipment becomes more computerized, the need to take equipment to a dealership for repairs increases, as do their maintenance costs. One producer also noted that skilled large equipment operators are in short supply in the North Willamette Valley; they are not available through employee contract services and good operators are hired away quickly by other operations.

Many producers viewed training new employees as an avoidable expense. One producer attributed their former bankruptcy in part to their leniency towards inexperienced employees; as a result this producer now sees "an employee is a paycheck." But another producer, who has hosted over 100 WWOOFers, acknowledged the significant time and cost required to train employees, but viewed training the next generation of farmers as advocacy, subsidized by agritourism income. This producer also sees long-term financial returns from training new employees, as the farm is currently being operated by former interns while the producer works on expansion projects. A third producer has found it hard to find local youth who can perform tasks without constant instruction or reminders. This producer lamented that "common sense isn't taught at the family level anymore."

Several producers mentioned that a mandated \$15 per hour minimum wage would "destroy" them. Some felt they could not afford to stay at their scale and pay such a high wage. In addition, one producer explained that an "ag exemption" to the minimum wage law would not help agricultural operations find and retain quality employees, because potential farmworkers would likely choose to earn \$15 per hour elsewhere. Another producer felt that the \$15 per hour minimum wage would make Oregon agriculture less competitive with out-of-state and international producers; additional labor costs are ultimately paid by the consumer who is "already tapped out on what they want to pay" and would not pay more for local product.

Producers identified Worker's Compensation as a major expense and expressed skepticism about how SAIF sets and uses fees. For example, the year after one producer's life-threatening farm injury, their premium doubled. The producer assumed that SAIF would be more than reimbursed for those medical bills before the producer retired.

Regulations in General

Producers' primary complaint about regulations in general is that they are not scale-appropriate. In other words, they are designed for the largest operations, which not

only have different systems and issues than small producers, but are also better able to distribute the fixed cost of these regulations over their entire operation as overhead. As a result, it is much more expensive per unit for small producers to comply with rules that do not even account for their unique needs and risks. Examples included food safety regulations, trucking requirements, specifications for processing and handling facilities, and much more.

Several producers mentioned trucking regulations in general as a significant product distribution cost. One producer felt that California's transport fees and emissions regulations impeded interstate commerce and feared that similar laws would be passed in Oregon. This producer also referred to an Oregon law passed in 2015 that required significant documentation, including certification of origin, for shipments of over twenty bales of hay - another example of how regulations disproportionately burden small-scale producers. Another producer felt that fuels tax reporting on trucks that are parked ten months of the year are "silly" but not overly burdensome.

Conventional producers also felt burdened by pesticide regulations (see "Difficulties of Organic Production" above).

Sales & Marketing

Many beginning producers stressed the importance of consistency to winning and retaining customers. One first-generation producer said there was "nothing special" about their farm, except that they were persistent and reliable, not missing a single farmers' market and following through on wholesale orders.

Not having personal responsibility for farm finances and income seems to correlate with the absence of a comprehensive business and marketing plan. For example, one beginning farmer who partners with an established farm for marketing, equipment, and recordkeeping, did not have an independent marketing plan. Similarly, the manager of a farm that was funded by a non-managing owner said that not having a marketing plan was their "greatest non-cost cost."

Similarly, several producers with guaranteed markets also do not have marketing plans. An organic producer who sells hay to organic dairies, considers marketing to be a "weak link" and does very little outreach, even after land that had lost its certification came back into organic production. Yet marketing is an understandably low priority for this producer, since their hay is sold before it is grown. Similarly, a pasture-raised pork producer stated that their product is rare enough that most of his customers find them. By contrast, several larger producers with greater competition in their niche meet yearly with customers to determine what and how much to grow.

Direct vs. Wholesale vs. Commodity Markets

Most beginning farmers started with direct sales and transitioned to wholesale gradually as they grew. For example, one producer sold to local groceries that then connected them to OGC's Ladybug Program. This producer is increasing their wholesale sales because it is more efficient to sell less frequently in larger volumes;

where they once sold two cases of kale twice per week, they now sell 100 cases of kale once per week.

One producer (who sold primarily to wholesale) found farmers' markets to be inefficient in terms of time, cost, and fuel, but another producer (who sold primarily to direct markets) believed that direct markets are the most efficient way of distributing food to the end user. Two producers with high direct market sales said that their commitment to their community has kept them in direct markets. One producer was frustrated with the requirements for packaging grain to sell at farmers markets and preferred bulk sales. This producer is contracting with Hummingbird, which eliminates the producer's need to package.

One beginning farmer entered national and international commodity markets rapidly upon establishing their business because local processors did not have the capacity to process their herbs in a timely manner and the commodity price was better than what local processors would pay. Large and multi-generational operations, especially with less perishable products like grain, regularly sold to international commodity markets. A producer whose family has long sold grain on commodity markets, said that the process is "ominous" for inexperienced producers, but mechanical for someone with experience. This producer checks prices many times per day and has kept grain in silos for a year waiting for a good price.

Contracts

Producers interviewed tended not to sign production contracts or meet to renegotiate existing contracts when they had long-standing relationships for a particular crop. In multi-generational operations, some formal or informal agreements had been successful and un-renegotiated for several generations. Producers stated that contracts are often for any amount of product the producer can deliver, with a price that varies depending on the market, but is no lower than price floors established in the contract or by a bargaining association. Producers tended to find it useful to not guarantee the delivery of a certain quantity of product. For example, when alfalfa that one organic producer was growing for seed became infested with alfalfa worms, the producer cut the field early for hay and took the risk that the second crop would be worm-free and suitable for seed, which it was. If this producer had guaranteed a quantity to the buyer, the producer might not have taken this ultimately lucrative gamble. Grain producers make similar marketing decisions when their grain is not human grade so they sell it to animal feed markets.

If the producer is raising a specialty crop with few alternative customers or the account is new, producers seem more likely to sign a contract. For example, one producer grew mustard seed at a customer's request, but without a contract. The purchaser cancelled the agreement after the crop was in the ground. It took the producer two years to sell the crop and, because of the difficulty, this producer no longer grows crops for specialty markets without a contract. Another producer stated that contracts to purchase perishables are important because if a buyer falls through, the producer has to find another customer very quickly. As Attina Diffley stated:

“For small farmers to make the leap in production and risk they need solid commitments from their buyers. This is an absolute requirement and no amount of land preservation or farmer education can negate it. With a true long term commitment from their buyer, farmers can write budgets, make the infrastructure decisions they need to grow etc., and count on the buyer to buy the product.”¹⁴

One producer who sold exclusively to wholesale expressed dissatisfaction with inspection protocols after the contracted product has been delivered. This producer now requires “impartial USDA grading” immediately upon receipt, rather than grading at a customer’s discretion. The producer has found that graders at the plant reject or dock the grower for quality defects that do not exist or that were not present upon delivery. The producer said that some processors grade potatoes only after they have stored them in poor conditions, which shows more damage than was present when the potatoes were shipped and the customer accepted them. This producer said some customers are irresponsible, but some actively “spoil food to get a claim” against the farmer. After a customer has done this, this producer does not do business with them again.

Producers who contracted with Hummingbird Wholesale expressed great satisfaction with their detailed, in-person contract negotiation and favorable terms. Hummingbird also brokers contracts between growers and other purchasers, such as Dave’s Killer Bread. One producer stated that they could sell their specialty grain directly to the end customer, but in appreciation for past business Hummingbird has brokered, this producer prefers to negotiate through Hummingbird; they “turn each other a good deal.” Similarly, one producer could sell all of their product to one commodity purchaser, but chooses to sell some product to Hummingbird because the compensation in their Hummingbird contract is “significant;” James Henderson maintains close communication and spends a great deal of time negotiating a detailed sales contract, whereas this producer is not in contract at all with the commodity firm and their representatives have never been to the farm; the producer feels like a small cog in the large mill’s wheel - they are reliable, but they do not need a farm as small as his; and this producer wants to “help out the Northwest” because “it’s fun!” This producer also sells to Charlie’s Produce, although other markets would be sufficient, because the producer sold to them when they first began and feels loyalty to them.

Diversification

In deciding how and whether to diversify, a producer must consider whether the possible reduction of efficiency is outweighed by the new venture’s reduction of the business’s total risk. If a producer’s demand or supply does not fluctuate significantly there is less need to mitigate that minimal risk via diversification. For example, several producers grow only one product because they have few competitors and a guaranteed market, and one vegetable producer grows relatively few varieties because consumers in their primary sales region are few in number and “not picky.” Large producers expressed an interest in diversifying into local, niche, and direct sales for “fun” and to buffer against then-hypothetical fluctuations in international markets (e.g. China), but the financial benefits of diversification have not been

significant enough to cause them to invest much time or money in the effort. Diversification is not always good business. For example, one producer attempted to expand into two high-value products, but one (turkey) was not efficient, as 40 to 50% of pullets died each year, and the second (quail) increased the operation's overall risk because demand fluctuated too greatly for the ranch to consistently supply fresh (not frozen) birds.

Niches

As mentioned above in "Season Extension," a producer's niche depends upon where they sell their product. Similarly, one producer sells produce through OGC to reach beyond the limited demand of their local customers who prefer to purchase inexpensive food from big box stores rather than more expensive local food. This producer's vegetables are still "local" for the purposes of OGC's Ladybug brand, but fetch a higher price with the more distant populations that the producer could only access through a distributor.

Vegetable producers with some direct-market sales felt competition from small farms that undercut larger producers in direct markets like farmers' market and CSA. They felt that some small producers do not follow labor and food safety rules and do not make (or intend to make) a profit; they go out of business after a few years, only to be replaced by another similar farm. Similarly, one small producer found it inefficient for farmers' market vendors to grow the same items and compete with each other for prices. This is one reason that this producer is forming a cooperative that can schedule crop rotation between farms.

Producers also felt that industrial farms poach the niches that AOTM farmers have trailblazed. One producer explained that small and AOTM producers grow market niches from popular trends to successful markets, but once the market is created, big industry starts to produce those crops and sell at a lower price. As a result, the producers who started the niche watch their market erode and become less accessible to them. Examples include organic wholesale, kale, and medicinal herbs. This producer stated that the "cycles [of creating and navigating new market niches] are debilitating" and exhausting to keep up with. While it is true that small and AOTM producers are "nimble enough to respond quickly to market signals relative to the largest commodity farms, which tend to be slower to change,"¹⁵ this might give an advantage to commodity farms that can wait to capitalize on the time and money AOTM producers spend on research and development.

Vegetable producers also mentioned the effect that California produce has on their profitability. One stated that they must not only lower the wholesale price to compete with California produce, but also the direct market price to make it equivalent to the grocery store retail price for the same items.

15 Osborne, 29.

Distribution

Competition from California can be both a liability and a boon. One large vegetable producer sells fresh vegetables only within Oregon, not just because California prices are lower, but also because the cost of freight outside of Oregon is a “diminishing return.” This producer receives \$4 to \$5 less per case on shipments to California and \$2 to \$3 less per case on shipments to Washington and Idaho. Conversely, the cost of freight from California to Oregon gives this producer a \$3 to \$4 cushion per case on similar product in season. While large distribution centers might decide on occasion that it is more cost effective to ship his product out of state, this producer does not search for these out-of-state price breaks or customers himself. While this producer has an advantage over out-of-state producers for Oregon sales, they also feel trapped by a small and “captive audience” and sometimes find it difficult to sell all of their product. This producer treats their buyers well to ensure ongoing sales.

One producer said that distribution is the hardest part of business. This producer said that wholesale customers require letters of guarantee and other documents with each shipment, which can be done, but is a greater burden per unit for small producers than larger producers. Another producer agreed that “distribution is the toughest thing,” not only because their small volume of product costs more to distribute than truckloads from larger farms, but also because their location is distant from regular distribution routes.

Aggregation and Cooperative Agreements

Aggregation and co-marketing have the potential for reducing overhead, but “if costs of production are high and [producers] aggregate from a bunch of smaller producers, it may not bring down cost of production and make [them] able to compete.”¹⁶ One producer initially intended to run their poultry processing plant as a CSA for similar poultry operations, but other producers were not willing to contribute an upfront payment for the service. Producers with whom this producer had discussed a joint enterprise pulled out and started their own facility, and other producers have reacted to the price of processing by building their own facilities, despite the likelihood that this would not increase their overall profit margin. However, although a joint venture for poultry processing did not materialize, this producer participates in a joint venture for hog production because this venture saves time and is profitable.

By contrast, another producer is creating a co-marketing, -production, and -distribution cooperative that will hopefully be comprised of other small producers (many of whom this producer trained) on property the producer owns, and hopefully at some point on land owned by a farmland trust, which the producer is also founding. This producer envisions a flexible model where producers can participate at whatever level they choose. The producer predicts that the cooperative will attract members because many producers simply want to farm and “don’t want the pony show” of managing their own distribution and marketing.

16 Id, 4.

Value-Added

Smaller producers with direct markets and perishable goods, wanted to find ways of generating revenue by processing their seconds. One producer contracted with a processor to make jam, but was not satisfied with their attention to detail or compliance with labeling rules; in the future the producer would either find a different processor or build a commercial kitchen and process on their own. Another producer had built a commercial kitchen for this purpose, and a third producer is seeking a commercial kitchen or a partnership with a processor.

One producer started a poultry processing facility because there were no USDA poultry or rabbit processors in Oregon at the time. But the initial inspection process was “horrible.” Furthermore, soon after the facility opened, a state exemption for facilities that process under 20,000 birds per year was passed, obviating the need for a USDA license. Another state exemption for producers processing no more than 1,000 of their own birds on site for direct sales further reduced demand for the facility. This facility is now inspected under the 20,000 bird state exemption, but will not likely meet that limit. Another meat producer is processing their own pork because local processors do not have the capacity to process throughout the season. As a result, the producer had had to “dump” product into the commodity market and take a loss.

Farm-to-Institution

Only one producer reported selling directly to an institution. This producer made one sale of winter squash to Portland Public Schools one year, but the following year PPS imposed food safety requirements that the farm could not comply with unless they made improvements that were not cost-effective, especially since no other customer required this. Other small, vegetable producers were interested in farm-to-school, but one did not feel large enough to enter the market and another had not researched it.

Branding and Education

One producer stated that the value of “local” branding depends upon how far a product must go to reach customers willing to paying a premium for that product grown that distance away. Another producer felt “blessed that a lot of people are willing to pay more for local and organic,” but that other food purchasing options limit demand. A third producer felt that advocates for regionally produced food have not done well at breaking into new demographics. The producer felt that big box retailers had done well at marketing organics to consumers who would not otherwise have purchased it, but that they have not taken the next step of marketing local food to these customers. This is perhaps because retailer’s net gains from organic sales (local or not) might be higher than their net gains from local sales (organic or not) because of higher costs of distribution. Producers mentioned that New Seasons has begun advertising the local brand because they are competing with farmers’ markets for customers who value the brand. This producer found the That’s My Farmer Campaign successful at marketing to a broad audience, but another producer felt

that consumer education should target customers who already have the income and inclination to purchase not only organic, but local.

Land-Based Issues

Property(ies)

Many producers found their properties through luck, family, and community: one producer partnered with a couple who owned land; another's parents bought their property; another found the landlord of their twenty-year lease with option to purchase through friends; another's two low-interest rate mortgages with beneficial conditions were owner-financed by community members; another leases neighboring farmland from a woman who bought it specifically for their use; another bought their first two acres for several thousand dollars at an OSU auction; and another was the only bidder at an estate sale for their 160 acres and home, which they purchased for \$7,000 (slightly above back taxes). These producers unanimously claimed they would not be farming at their current scale without their initial 'break.'

However, this windfall of property is not always of a sufficient size to satisfy the business's growth. Several large farmers with inherited land have steadily purchased nearby parcels over the years and generations. Yet for farmland expansion to make financial sense, the farm business must be poised to efficiently incorporate that new acreage into their system; they must line up sufficient labor, equipment, and new markets for this increase in acreage to actually increase their operation's profitability.

Smaller and newer producers experienced severe growing pains when they took on second mortgages. One producer, who originally farmed on twenty mortgaged acres, eventually leased an additional ten acres for several years. When this producer's landlord terminated the lease, the producer decided not to scale down to their pre-lease size, and not to find another equivalent lease, but rather to expand the operation by purchasing twenty farmable acres from an adjacent neighbor. The seller leveraged the producer's interest to sell the property for three times its fair market value, a cost the producer incorrectly assumed would have been recovered by now through increased property values. The producer did not experience a direct, linear correlation between size and profitability; profit decreased with expansion because labor costs increased more than the producer's gross. This producer said that their most profitable year was actually when they scaled down to twenty acres the year after losing the lease. To scale back production, the producer "cut out" their least profitable accounts and crops. As a result, their gross and labor costs remained the same, but other costs decreased, creating a greater net return than when they farmed thirty acres. The producer said they could not have remained at that size because their crop rotations demand more acreage, but they learned that bigger is not necessarily more efficient unless the farm plan also becomes more efficient.

Producers cautioned against buying or leasing land that is too distant from their other parcels, equipment storage, or home. This is because equipment may be damaged during transit; transporting workers increases labor and fuel costs; and the consequences are magnified for mistakes like failing to turn off irrigation or

bring a specific tool. Yet ideal parcels are hard to find, as producers reported that land is extremely scarce (especially in the Willamette Valley) and the price bubble makes farmland especially unaffordable for new farmers without outside capital (see “Financial Considerations”). Established producers often know the seller personally and negotiate a sale before the land goes on the market. This insider information is difficult to acquire for producers who are not already established in the community.

Lease or Own

Each option has its pros and cons, and many interviewees farmed a combination of both owned and leased, private and public land. Leases are beneficial in that lessees avoid some debt and taxes and can write off their lease payments as a business expense, while landlords generally pay for large improvements. One producer would prefer leasing from a trust that makes farmland available to future generations, and another prefers leasing to owning as a way to involve community members in the operation and avoid debt. A third producer acknowledged that leasing may be wise for beginning producers who can invest limited capital in equipment and other improvements instead of a mortgage, but warned that lessees who invest significantly in soil health cannot take this improvement with them when the lease is terminated and are not compensated for soil improvements unless the lease provides for compensation.

Land ownership is beneficial in that it provides certainty of continued operation (especially for perennial growers), avoids personality issues and unrealistic demands of a landlord, allows the owner to retain the benefits of their improvements, increases the owner’s equity and consequentially their borrowing power, and fosters pride of ownership, especially for multi-generational operations. Because producers have strong, emotional ties to their land, one producer felt that they are more likely to use environmentally sound practices if they own their farmland. Another felt that, if farmers from California and investors from around the country and world recognize Oregon farmland as a good investment, Oregon farmers should take advantage of this investment opportunity themselves. In fact, the market value of Oregon farmland increased 5.52% faster than the S & P 500 between 1964 and 2012.¹⁷ Eric Henry of NW FCS noted that out-of-state investors were most attracted to land with high-value, perennial plantings, like orchards.

Although no interviewees had first-hand knowledge of farmland investment models that lease to farmers, such as Farmland LP, their opinions of these models were mixed. One producer saw great benefit in private investors divesting their money from the stock market and investing it in farmland, making leased land more affordable and accessible to beginning farmers. But other producers felt that “if a farmer doesn’t control the land or market, they’re just serfs.” As one producer stated:

“Not being able to build equity is almost crazy... If you can’t utilize the equity in an operation to leverage opportunity, then you’re at a severe disadvantage. That’s not just in land, that’s in all your assets. If you can’t monetize it, then you’re in trouble.”

¹⁷ Richmond, Henry, and Timothy Houchen. “Farm Zoning and Fairness in Oregon: 164 - 2014.” Portland, Oregon: American Land Institute, 2015. p. 2, Table 6, p. 31

Another producer felt that, if an objective of these models is to help beginning farmers become established, farmers would be better served if they owned their business and land and learned by taking the risks to grow.

Conservation Easements

Almost all producers either had not heard of working lands easements or did not understand how they functioned to preserve farmland and generate liquid assets for the landowner(s). Several producers mistakenly believed that their property was “too small” for a working lands easement. One producer had suggested putting a working lands easement on a property he was negotiating to purchase in order to reduce the fair market value, but the sellers felt that the concept was too “outside the box” to explore.

Several producers with some knowledge of easements felt that “forever is too long” and did not want to limit their options or the options of the next generation to subdivide a portion of the land to generate income or build a family home. However, one producer would consider creating an easement at the time of sale, if it is beneficial for succession planning.

Several producers had sold or applied to sell temporary conservation easements, such as enrolling in the NRCS Wetlands Reserve Program. And the only producer who had sold a working lands easement greatly appreciated the experience and benefits of the easement, but now disapproved of all “subsidies.”

Infrastructure

Most producers built or converted existing buildings piece-by-piece as their operations grew. One producer built structures as needed and converted buildings from personal use (e.g. garages) to business use as necessary. Using old and/or existing structures has the benefits of lowering the cost of construction and allowing the farm business to design their facilities to be multi-purpose or easily modified. However, that producer reported that repairs accumulate for old buildings, and that reliance on existing structures might stunt the continued growth of the business. For example, the producer’s seed warehouse, which was built in the 1960s, is now too small for the operation and requires expensive repairs. However, it would cost millions of dollars to replace it. As a result, the producer must contract with third parties to clean their grain at a much greater cost than if the producer cleaned it themselves. Several producers who recently built new facilities regretted having built them too small to meet their current needs; they had not accounted for their medium-term growth rate in the facility design.

Producers also accumulated and modified equipment gradually as they could afford it and as their operation had the labor, land, and markets to accommodate the changes to production that the new equipment would cause. As one producer stated, “profit on a small scale requires mechanization.” For example, the relatively expensive purchase of a simple wheelhoe greatly increased one beginning producer’s efficiency. And an herb producer stated that a piece of specialized equipment would “pay for

itself in the first month.” However, to afford it, the producer would need up-front capital, which they do not have, or a loan. This producer can qualify for financing for new equipment, but has found it very difficult to find financing for equipment that is used or modified because its value as collateral has been impaired. Not only is it harder to finance, but used equipment might become a net cost to the business if it requires frequent repairs (especially during a critical production period) and the operator must often hire a mechanic.

New or used, producers sometimes struggle in learning how to incorporate new types of equipment into their operation. One producer purchased a pivot to reduce their time spent irrigating hay. However, this producer spent long, hard hours removing trees and rocks from the half-pivot’s path and yet still the pivot caught on stumps three times during its first season, requiring repairs that were financially “devastating” to the operation. A beginning operation experienced “huge growth spurts” as a result of new acquisitions of equipment, but their equipment purchases have not always been wise in retrospect. For example, they bought a tractor that became too small for their operation after just three years. To make better equipment-purchasing decisions, they frequently seek counsel from experienced farmers, and have also acquired much of their specialized equipment from these farmers.

One major infrastructure need across all product categories is proper equipment for post-harvest handling. The need for this category of infrastructure was also identified by Gorge Grown Food Network¹⁸ and Ecotrust’s gap analysis.¹⁹ As one may imagine, most producers’ storage infrastructure is far inferior to a wholesaler’s storage facilities. For example, one producer’s cold storage can only reduce the temperature of their potatoes to 38° F, whereas OCG can reduce product loss by storing potatoes at the optimal temperature of 34° F. And one of this producer’s storage buildings keeps potatoes in piles that can easily become contaminated with rot if damaged potatoes make it through the processing line.

Although most farmers built their infrastructure over time, one operation’s infrastructure was financed by its owner, allowing its farm manager to start large and expand rapidly. This farm manager said that if a producer has infrastructure in place, they can handle incremental increases, provided they have labor. Many producers expressed that their operation could grow significantly if they just had one piece of equipment. A small producer’s sales are limited by the size of their delivery truck; another’s small water pump limits irrigation; and the number of crops one producer can harvest is limited by their number of combines.

Several producers were interested in co-investing with similar producers for shared infrastructure. For example, an optic sorter would sort one producer’s potatoes more efficiently and accurately than workers, thereby reducing both labor costs and product loss due to rotten potatoes entering storage. And another producer would like to use an optic sorter to clean beans and grains. However, an optic sorter is too expensive for either of these larger operations to afford on their own, especially if

18 Sullivan, Sarah. “Feeding the Gorge Community Conversations: Growing Gorge Farms.” January 8, 2015.

19 Osborne, 200.

they cannot supply it with consistent throughput. One producer would like to form a grower cooperative similar to one in Klamath County, where several producers invested in an optic sorter for their shared use. However, this producer does not have a critical mass of producers in his sparsely-populated region for such an investment; the producer estimates that they would need to partner with at least four other organic fresh potato growers, but the closest such grower is 150 miles away.

Another producer gave examples of successful equipment shares for root diggers, seed cleaners, and other equipment that is mobile or does not require frequent use. This producer felt that younger producers were more likely to participate in such a venture, and believed that producers would pay for such a service, perhaps making the rental of limited-use farm equipment a viable for-profit business niche.

Water

Producers reported that the cost of water rights is often the bulk of the total price of land for lease or sale, and many purchased particular properties specifically for their senior water rights. Availability of water also limits the producer's volume of sales and products raised, thereby affecting their net profits. For example, to stay within the limits of his water rights, one producer does not speculate on the market and raise more vegetables than they have a guaranteed market for. As the producer said, "if you can't harvest or sell [your product], you're just wasting water." Similarly, the types of crops another producer grows are limited by the size and certainty of their water rights. If this producer had more water, they would switch from growing alfalfa and forage crops to growing higher value human food, like squash, and potential value-added products like popcorn and dried beans. Similarly, if one rancher had more water, they would grow more of their own animal feed, thereby reducing their costs.

Many producers have had some of their water rights "called" (or temporarily suspended) over the years because of a lack of supply. In the same vein, the level of one producer's well dropped in August of 2014, causing them to reduce their plantings. No producer could recall a time when they had lost all access to water, however, when producers were interviewed during Oregon's record-hot July, many worried that this would be the year that their rights would be called while crops requiring irrigation were still in the ground. Several producers stated that if their rights were cut off significantly, they might decide to contest neighboring users' improper use. Water right enforcement is a complaint-based system, but in common practice, water users do not report their neighbor's improper use so as to avoid interpersonal conflict.

Many producers with surface water rights are switching to groundwater because of reduced costs, compliance with anticipated food safety regulations, and increased water conservation. One producer and their landlord are sharing the costs of drilling a well as part of a state program to trade instream rights for groundwater rights. The landowner had to forfeit their senior priority date for a priority date at the time of transfer, but the producer felt the trade-off was worth it, as the surface water source "was a sewer" and the producer needed to pump three times as much water from it as

from the well. A well is a cost savings for this producer, but electricity for a ground water pump is a significant expense for producers east of the Cascades with deep aquifers. For example, an eastern Washington producer estimated that the cost of applying surface water is one-fourth the cost of applying ground water.

Some irrigation districts, especially in eastern Oregon and Washington, have initiated water conservation and storage projects that producers have found quite useful. For example, an eastern Oregon producer participates in their district's groundwater recharge project, which pumps 7,000 to 8,000 acre feet of water from streams into their aquifer between October and January when instream water is plentiful. Operating a water pump for this project is an expense for this operation, but this producer reasons that it would cost more for district members to contribute to the construction of a storage facility to accomplish the same result. Other water conservation measures include converting open irrigation ditches into buried pipelines, and cost-shares for water efficient irrigation systems, which may also reduce the operation's electricity costs and create opportunities for more efficient fertilizer application via fertigation.

Financial Issues

Costs

Not surprisingly, labor was all producers' primary cost, accounting for approximately 50% of many producers' costs. The highest proportion of labor costs were 63.5% and 66%, but a small producer who reported the lowest relative labor costs had taken out their first line of credit this year to afford labor to help with the extra work created by new infrastructure, i.e. a pivot with frequent breakdowns.

After labor, fertilizer, chemicals, mortgages and leases, equipment purchases and repairs, capital expenses, and fuel were also significant. Another significant cost category that has increased over the past few years in proportion to total costs is seed and animal feed, depending on the enterprise. One producer's feed costs had doubled three years ago and prices have been slow to lower; this producer is still paying 133 - 150% of the former price of feed. Several producers attributed the increase in this cost category to reduced competition among seed and feed suppliers because of recent consolidation. All animal producers interviewed supplied at least some of their feed and wanted to supply more. For example, the largest producer provided all of their own feed except grain and concentrate and would like to purchase more land to raise additional feed. Another rancher would irrigate their hay to have more than one cut per year if they had a larger water right.

Electricity for ground water pumps was a high cost for producers in arid areas with low water tables. For instance, electricity for a water pump costs an eastern Washington producer \$3,000 per month and was an eastern Oregon producer's greatest cost.

Income

Several producers reported that they netted roughly 10 to 15% of their business's gross. This depended upon the scale of the operation (with larger operations netting more) and how much the producer reinvested in their operation. One small and new producer netted only \$4,000 per year. Their gross was subsidized by agritourism, but "every inch of" their net is reinvested into equipment, infrastructure, and two mortgages. Another new producer has "never been in the hole" for thirteen years of operation, but this is because they are "fiscally conservative" and have poured "sweat and equity" into the business.

Off-Farm Income

No primary farm operator interviewed mentioned a second income aside from one who received periodic honorariums for consulting and speaking, and another who was a pastor and received small donations from the congregation. The spouses of many producers held off-farm full-time or part-time jobs, like one producer's wife who works part-time, primarily to secure the couple's health insurance. A new producer who farms with her husband now has her first off-farm jobs for the first time in three years, but balancing her time between the farm and these jobs is very difficult. She stated that working other jobs is "not sustainable for anyone involved." It appears that it is necessary for one or more farm operators to receive steady income from a second occupation while the operation is small, but as the operation grows, a point comes where the primary producer must work full time for the operation for financial and lifestyle reasons.

Lifestyle

Producers stated that the producer's ability to reinvest in a business (and therefore its longterm success) depends greatly on the producer's lifestyle (and therefore how much they extract from the business's revenue for their income). One producer said "If you want to live high on the hog and be a farmer, they usually don't mix." This family lives year-to-year in their minds, and budgets by first determining how much income they need, and then planning to achieve the gross they would need to earn this income. Another producer said that, more than a certain income, one nice family vacation per year is a mark of success.

As one producer stated, "once you have kids, the whole picture changes;" the producers themselves might be willing to survive on very little, but they usually want a higher income to afford their children's immediate and longterm needs. One couple, became "bigger and smarter" by entering wholesale and hiring more employees after they had two children because they wanted "to be farmers our children know." First-generation producers without children were willing to reinvest a great deal into their business at some cost to their personal expenditures and lifestyle.

Cash Flow

Producers expressed the difficulty of maintaining cashflow throughout the year, especially because the time of year when they have the greatest expenses is long before they begin to receive payment for that year's crops. One producer who made \$86,000 in sales in 2014 entered 2015 with \$80,000 in inventory and was making

their first sale of 2015 crops at end of July. But another producer, who makes numerous sales throughout the year, said ranching/processing is the best business they had had because they are paid almost immediately.

Beyond managing cash flow, some producers did not know their cost of operation. As Tanya Murray of Oregon Tilth stated, diversified farms have particular difficulty with tracking their cost of operation and “if you don’t know your costs, you don’t know what your market options are.” And as Eric Henny of NW FCS explained, cost of production is easy for used cars or a restaurant to identify, but crops are very variable, and markets are not guaranteed, making it more difficult to identify costs, especially by crop. Mr. Henny observed that most of his clients, except high-capital producers, find creating standard accounting records to be very challenging and do not know their cost of production, although most have “a good intuitive guess.” Of the producers interviewed, only one mentioned enterprise budgets and kept twenty-eight.

Financing

Most producers built their operation piece-by-piece, capitalizing expenditures with their own cashflow as they expanded. They expressed an aversion to borrowing in general and preferred having as little debt as possible while “growing at an appropriate rate.” Low interest rates are, of course, preferred when borrowing is necessary - one producer noted the expense of compounded interest over time. But as a new producer, who has no debt and self-finances their operation piece-by-piece, stated, “low interest rate financing is always tempting, but I have a list of farming advice on my fridge that starts with ‘avoid debt.’”

One producer with a mortgage nearly lost their farm by incurring more debt than they could afford before the 1980s farm crisis. They said that, with debt, “you’re never out; you’re always under the gun.” This producer stated that being debt-free would “really take the pressure off,” and allow them to take a bigger line of credit for operating expenses. Several producers stated that creating “affordable financing” by reducing lending criteria and increasing loan size is not affordable in the long run if the farmer cannot repay.

Many producers avoided significant debt because of the generosity of family and angel investors who co-signed on loans, took partial ownership in the business as payment, were wholesale purchasers (like Hummingbird) who helped expand their producers’ capacity, employed the producer and rewarded their performance with land or inheritance of the operation, or gave the producer down payments, low interest rate loans with a grace period before the first payment, or an option to purchase land. However, producers tended to receive these windfalls only after they had been in operation for several years and had a track record of running a profitable business and a sound business plan. They often had to demonstrate the same criteria that a lending institution would require, but private investors judged them more leniently and were more likely to lend to unconventional ventures than commercial lenders. When borrowing from family, producers treated these loans like

a commercial loan, making payments on time and setting interest rates that were lower than bank lending rates but higher than savings plan rates.

Despite being frugal and receiving windfalls, first-generation producers have had to dig deep into retirement savings and income saved from prior occupations to afford land and equipment. A producer who went deeply into debt in the 1980s and had to sell some of their land, now puts returns from bumper crops into savings. This producer does not plan to make significant capital improvements in the near future and has refinanced existing loans to have lower interest rates than their return on savings.

Banks

Many producers, especially those with some direct market sales, would rather pay interest to their community than to banks. This reflects their values-based decision to support their community, in part, but also smaller producers in general do not trust that banks will be as willing to lend to them or as forgiving of lapsed payments. One producer said that a friend who is a banker once explained:

I'll be your best buddy while you're making money, but not when you're not. My job is to represent the investors. If you stop making money and I have to cut your head off, that's what I'll do. The day you start losing our money, I'll get as much cash back as quick [as I can] and loan to someone else who wants to borrow money.

As this producer explained, the bank lending model does not suit agricultural operations, which often experience sudden and dramatic changes in price, input costs, and supply of their product. Even producers who sell locally or within Oregon are greatly affected by national and international markets in terms of the demand and prices for their product and the cost of supplies. And growing conditions, which have made food supply unpredictable since the beginning of time, are becoming more volatile due to climate change. Compounding the effects of demand, cost, and climate volatility is that these factors do not often self-correct in time to meet producers' needs. This is especially, but not exclusively, true for perishable goods.

For example, one year in the 1980s one producer grew four acres of "premium," organic echinacea for the still-nascent medicinal herb market. That same year, very large Chinese producers who recognized medicinal herbs as a burgeoning market flooded the market with inexpensive, low-quality, non-organic echinacea. At the time, there was no significant price premium for quality or organic. The producer's price was so low that they cut their losses by tilling in the crop. If the producer had had the ability to process and store his echinacea, they might have taken the risk that the price would increase and marketed their own product. But instead, they relied on their processor's mid-season price offer.

Not only do most commercial banks not understand or accommodate for the volatility of agricultural enterprises, but many bankers do not understand the business of agriculture, including farmer's changing needs as they grow. Many producers who borrowed from banks chose large and mid-sized regional banks, like Columbia and Citizens, rather than national banks, in part because the bankers at

these banks “know ag” and could help producers make wise borrowing decisions. One producer banks with one specific banker “no matter where he works,” because this banker “understands this business” and “will tell you if you’re being stupid.”

More generally than working with a banker who “knows ag,” producers simply value having a personal relationship with their banker. One producer felt that banks are replacing such relationships with “insane” amounts of paperwork. Whereas the ultimate decision for loan qualification once rested in the subjective determination of a banker who understood the producer’s operation and ability to repay, commercial banks are increasingly automating the loan application process in an effort to reduce their risk. Generic loan forms and criteria for qualification do not necessarily take into account the unique needs, risks, and cashflow of agricultural businesses in general. Producers feel that their applications are unfairly deemed a “bad risk” when judged by these “objective” criteria and their business is, therefore, denied financing.

Producers reported that the most difficult of the “Five C’s of Credit”²⁰ to prove is capacity or, as one producer laughed, “the ability to pay back the money.” One criteria for capacity is a consistent track record of profitability, which, because of the market and climate volatility discussed above, is difficult for most producers to demonstrate. Similarly, another producer has been denied financing because, although their debt-to-asset ratio is low, their capacity to repay is limited at the beginning of the year because much of their asset value is in contracts. Also, commercial lenders often require five years of Schedule-F tax returns, which beginning producers do not yet have. Lenders view the contents of the Schedule-Fs as evidence of capacity, and the existence of five Schedule-Fs is evidence of character, or experience.

Beginning producers also tend to lack repossessable collateral and a satisfactory credit history. When one producer began farming, they were denied financing because they lacked a credit history. Their aunt co-signed and the producer paid the loan early. But when the producer applied for another loan, they were denied because they still had no legitimate credit history; the co-signed loan did not affect their credit history because the co-signer had ultimately born the risk. This producer tried to bootstrap a credit history by asking a bank to lend them \$2,000 against \$2,000 that the producer deposited in an account at that bank, but the bank said that the producer’s income was too low to lend to them at all. The producer received their first non-family loan after years of farming when they accepted an offer in the mail for a credit card with a \$200 limit. The producer built their credit history slowly from there.

Larger farms with a low debt-to-asset ratio do not have difficulty borrowing; large banks compete for their business. This includes one producer who is at the mid-range of AOTM in terms of gross. Similarly, operations with inherited land do not need as much financing for expansion or operations.

²⁰ The “Five C’s of Credit are capacity, capital, collateral, conditions (the purpose of the loan and market factors), and character (also sometimes called “credit history,” but generally broader than this). Minority Business Development Agency (MBDA). United States Department of Commerce. September 22, 2015 <http://www.mbda.gov/blogger/financial-education/5-c-s-credit-analysis>

USDA Farm Service Agency (FSA)

FSA markets itself as the “lender of last resort” to agricultural operations, yet some beginning and smaller producers did not feel that it was easier to qualify for FSA lending programs than for commercial loans. One beginning producer felt that their large acreage (much of which is not in production) and age (above 35) have unfairly disqualified them from FSA loans. Similarly, one mid-sized, beginning producer has been rejected for FSA loans because their operation is “too rich.” One producer felt that FSA loan applications were unduly arduous, causing them to “lose hope” before completing them. And another producer felt that FSA lenders do not have “on the job knowledge” of agriculture and that they have given away money too easily in the past, encouraging producers to take more debt than they could afford, especially preceding the 1980s farm crisis.

Northwest Farm Credit Service (NW FCS)

NW FCS is a cooperative lending service for agricultural operations. One producer transferred their FSA loans to FCS because of preferential lending terms and member dividends. This producer felt that this change was “a light in the tunnel towards paying off the farm” and Mr. Henny of NW FCS reported “exceptional penetration into the \$400,000 to \$2 million market.” But a different producer stated that FCS “has never been beneficial” because they have always found more affordable lending options.

Alternative Funding Mechanisms

Smaller farmers have raised funds by making capital calls to CSA members, crowdfunding through Kiva Zip or Kickstarter, Individual Development Accounts, and shuffling credit cards. Most producers did not report that alternative financing was their preferred model. For example, one producer “always turned to banks first,” but had to devise creative financing models because banks denied them financing.

However, one producer specifically chose community financing in order to cultivate relationships. This producer filed for Oregon’s new Community Public Offering (CPO) - a security for Oregon-based businesses to raise up to \$250,000 in debt or equity from Oregon residents who may invest up to \$2,500 per deal, per person.²¹ However, this producer cancelled their CPO appeal because they were not on target to achieve her investment goal by the deadline (their maximum investments were \$250); they wanted more education about the program; they did not have the time to conduct outreach; they felt the tool was too new to attract investors who do not know the producer’s business already; the producer could find the same investors in their

community, and; during the process, the producer decided not to sell shares in their business to the general public. This producer appreciated that the process pushed them to develop a strong business plan, but felt that more could be done to connect the producer to potential investors before the CPO is launched to ensure its success.

No other producers knew of the program.

²¹ Pearl, Amy. “Introducing Community Public Offerings.” Hatch Oregon. September 21, 2015 <http://hatchoregon.com/im-seeking-funding/raise-capital-public-offerings/>

One producer had set up a creative method of blending friends and family lending with a tax credit. In building farmworker housing, the producer received loans of \$10,000 from four people. The lenders shared the farmworker housing tax credit for 50% of the cost, \$7,500 in cash the next week, and wrote off the \$2,500 loss from the loan and \$5,000 from the tax credit. Investors found this to be “a great deal.” This producer said that a banker would never participate in such a creative venture.

General

It appears from farmer conversations and discussions with lenders that lending options (conventional or unconventional) are available for farms that are prepared for growth. But beyond qualification for a lending program, a producer’s fundamental need is to understand their business and its growth trajectory and to be prepared to pay the costs of growth. As Mr. Henny of NW FCS stated:

It isn’t a lack of tools or lack of ability to finance viable operations. The greatest lack is that folks aren’t in a position to achieve the wants they’re requesting. Many want to work hard and don’t understand the capital needs, marketing needs, and volatility of agriculture. It’s challenging for new producers because [agriculture is] a capital intensive venture and if you buy [equipment and land], you lack reserves to face adversity... I can bankrupt any of my customers simply by lending them the full value of their assets.

Insurance

Producers generally felt that most insurers (private or public) do not understand the risks of diversified farm operations and do not set reasonable payout amounts and conditions for payout that justify the cost of the premium. Producers even had this perception of the USDA’s Risk Management Agency’s (RMA’s) Whole-Farm Revenue Protection Plan (whole-farm insurance), which no producer carried. One organic producer calculated that the maximum whole-farm insurance payout for their crops would be only 1/20 or 1/30 of their market price. The reason for this disparity might be 1) that RMA calculates rates based on commodity wholesale, rather than local direct or regional wholesale, prices and, 2) the producer price-checked whole-farm insurance before RMA began using a separate schedule specifically for organic crops. In addition to low payouts, producers stated that payouts were only triggered by “catastrophic loss” as defined by the insurer, which is very rare, extreme, and difficult for producers to prove.

Producers did not carry insurance for crops that are not sold into commodity markets; they considered themselves “self-insured” though diversification or alternative markets (e.g. animal feed) for poor quality product. One producer who sells to specialty and commodity markets, does not insure specialty crops, like dill, but does carry crop and yield insurance for commodity grains - “a no-brainer” decision for them.

Generally, producers felt that increases in premiums were not directly related to increased risk of their operation, but rather to decreased competition among

insurance companies. Several producers have struggled to find insurers who would accept the risk of their “unconventional” ventures, such as a CSA or meat processing plant. Despite the lack of options, some have chosen to boycott Country Insurance because they do not wish to join the Farm Bureau, as Country requires for all of its customers.

Almost all producers carried some form of business liability insurance, often at the requirement of their customers. One producer stated that customers would not accept deliveries without proof of coverage up to \$2 to \$3 million. Another producer’s larger customers require them to carry an expensive liability insurance policy for \$4 million “just to sell a piece of meat.” This producer reported that the premium for liability insurance has been increasing, despite the fact that their business’s production has been decreasing.

Worker’s Compensation and unemployment insurance are a huge portion of labor costs; as one producer said, “when you talk labor costs, you’re talking about insurance.” Regarding unemployment, one producer disagreed with the Bureau of Labor and Industries’ (BOLI’s) decision to award unemployment to part-time employees whom the producer had hired for two to three weeks three years prior to the complaint.

Grants

Many vegetable producers had not received an NRCS cost share for their greenhouse. One producer cancelled their application when it became clear that the farm would not receive NRCS funds until after they had begun construction. Organic producers commonly used the National Organic Certification Cost Share Program to receive reimbursements of up to 75% of annual certification costs, up to a maximum payment of \$750 per year per operation. One producer also reported using the NRCS Environmental Quality Incentives Program (EQIP) Organic Initiative to assist with the costs of transition to organic production. Many producers also used various grants for water efficiency improvements; for example, one producer received funding to change their water pumps to a more efficient variable speed drive. Another producer had received EQIP and Conservation Stewardship Program grants.

Several producers no longer applied for grants because they felt that the grant writing process was too complex and onerous; deadlines did not coincide with their needs; or they were arbitrarily denied grants. One producer who was denied an NRCS Wetland Reserve Program grant for three years without sufficient explanation, felt that NRCS “has you jump through hoops” to apply and “it’s a waste of time.”

Although one producer had sold a working lands easement, this producer now feels that their business is stronger when it does not receive grants or other free services, and that subsidized programs “create a culture of dependence.” This producer feels that “free money is not free money” and fears that if they receive government money, they will “get soft, lose [their] edge,” and not be able to compete. This producer feels strongly that it is a mistake to equate success with total income if it includes subsidies.

Recommendations

Recommendations for Ecotrust

The following recommendations are potential programs and research that fall within Ecotrust's current wheelhouse, and which Ecotrust could initiate with input from, but not necessarily in formal partnership with, other organizations. Producer thoughts on the Redd and features they hope it will provide follow.

It should be noted that several larger producers did not feel that they required resources. One stated "I got most of that stuff" and another restated my question as: "What bills do I want someone else to pay?" However, even these producers understood that beginning, growing, and first-generation producers are at a disadvantage and would benefit from resources.

1) Matchmake between producers and investors, especially for: a) small infrastructure with a big impact (such as a delivery truck, water pump, or root washer), b) quick turn-around operating loans for Redd processors to purchase product from producers, and c) expensive, specialized regional infrastructure that can be shared (such as an optical sorter or a mill). As Ms. Murray of Oregon Tilth stated, this work would be a logical fit because Ecotrust is perceived by the community as having expertise in investment. However, Ms. Murray stressed that the first step towards connecting producers with investors is the creation of a sound business plan (see #4 in "Recommendations for Ecotrust Working with Partners.") Ecotrust could potentially use the Community Public Offering to connect producers with an offering to eligible investors.

2) Matchmake between farmers and purchasers, such as institutions and processors. This could include a) facilitating the sales of 'seconds' to processors or assisting farmers in selling their existing processing facilities to interested processors, b) connecting producers and processors for forward contracts with wholesalers and, c) investment opportunities in longterm infrastructure, such as orchard plantings that will eventually supply the processor's business. A Specialty Crop Block Grant could assist in work to improve distribution channel of specialty crops to institutions and processors.

3) Beyond making individual connections, Ecotrust could create a broad marketplace for connections between producers, processors, sources of useful byproduct, distributors, and institutional purchasers. This could mean proactively connecting producers, investors, processors, and institutions to assist institutions without scratch kitchens (such as most public schools) in purchasing and utilizing more local agricultural product. The NW Food Buyers' Alliance is already the institutional purchaser piece of such a network.

4) Purchase interests in farmland to keep it in production and affordable to beginning farmers. One producer recommended this as a possible extension of Ecotrust's Forest LLC. This producer felt that such a service would be especially useful in the purchase of dairy operations, which are changing hands quickly in large blocks, and which require large tracts for pastured, organic production.

5) In order to better connect triple-bottom-line investors with local producers, research could be conducted on:

- what financial benefits are investors looking for in investments, including:
 - the minimum and desired rate of return and expected schedule of payment on loans,
 - the amount of personal involvement the lender would like in the agricultural enterprise, and
 - whether and to what extent the investor is interested in donating to a nonprofit that assists the producer (such as a land trust that purchases a conservation easement), instead of lending directly to the producer, to receive a charitable tax deduction, and
- what existing and potential financial products could be combined to satisfy the varying needs of both investors and producers.

Producer Thoughts on the Redd

While larger and more distant producers did not immediately know how they could benefit from the Redd, producers of all scales and product categories were interested in hearing more about or ideally seeing the facility to determine how it could be useful to them. A virtual, online “walking tour” with a 3D hologram of potential facilities might be a good introduction to the project for distant producers. It would also be beneficial to craft a producer portal on the website with messaging about the services that will, or could, be available to producers in particular, with separate messaging for investors and processors.

A visual tour could especially inform producers about the size and capacity of the facility. Some wondered whether individual deliveries would be “by semis or hand trucks” and cautioned to “make it bigger than you think” to accommodate for the added transaction cost of many, relatively small activities. Larger producers assumed that the Redd would be most cost effective at processing and storing high-value, low-volume products like greens and poultry, rather than large volumes of grains. Large producers initially assumed that the Redd would be used only by small, urban, “boutique” operations, until we discussed how they could use it to diversify into niche or regional markets. But generally, large farms with established markets were not as interested in taking on the risk of diversifying as smaller, newer farms.

One producer who had a negative experience with a co-managed, profit-sharing enterprise, stressed the necessity of running the Redd like a business, and emphasized that contracts between the Redd, its tenants, and producers, must have “specified deliverables that are performance-driven.” But another producer, who was more likely to use the facility, hoped that it could be affordable and slightly subsidized.

Processing

The types of processing that interest producers include cleaning and milling seeds, beans and grains, a creamery, and barley malting. Another potential use is solar drying for herbs and garlic on the roof.

Larger producers with very established wholesale markets showed some interest in utilizing the Redd's processing facilities for processing niche grains and seeds with unique milling specifications, such as quinoa and flax, or value-added products for regional markets, such as malted barley or cheese. However, large producers would not likely use the Redd's processing equipment beyond an initial trial period, as it is more cost effective and convenient for them to build facilities on-site since they have the capital to invest, and their volume is larger than they believe the Redd could handle long term.

The smaller and newer the producer, the more likely they were interested in processing their own goods rather than selling to a processor. More established producers were interested in having the Redd connect them with processors or purchasers for their existing value-added business and equipment, like Wali. Producers interested in selling to a processor wanted to transfer all responsibility and liability for their product as quickly as possible so that they would not be held liable for spoilage due to the processor's excessive delay or errors in processing, labeling, and packaging. One benefit of the Redd's integrated system is that waste could be purchased by other processors for products such as compost or animal feed, such as whey from cheesemaking or spent grain from distilling.

Producers interested in processing their own goods wondered who would be responsible for operating and maintaining the equipment. Several recommended hiring a professional operator to reduce the producers' time spent processing and risk of damage to the equipment. One producer advised that the processing equipment be of higher quality than farmers could afford themselves. This would be appropriate for another producer, who fears that their commercial kitchen will not comply with future food safety requirements because of its on-farm location.

Storage

It would be beneficial to have multiple cold storage rooms with adjustable temperature and humidity to accommodate different products, such as grain, sweet potatoes, squash, and poultry, as well as freezer space for berries and pesto. Having multiple storage rooms also allows for the segregation of products that adversely affect each other's storage quality, like apples and onions. OGC envisioned sixteen storage environments for fresh vegetables alone. Storage facilities exist in Eugene, Albany, and Salem. It might be useful to research services they offer, e.g. specialized storage conditions and deliveries.

Distance/Distribution

Many farmers were very interested in saving on cost and time by sharing distribution to the Redd, and from the Redd to customers. But one operator who has tried to co-distribute with neighbors found it difficult to schedule pick ups and set a satisfactory price. Producers might be especially reluctant to pay for shipping if they recently transitioned to wholesale from direct markets, where they transported both themselves and their product to customers and therefore had not isolated their true cost of distribution.

Producers who at first considered the Redd too distant from Scio, Corvallis, and Cornelius mentioned that the location would not be an issue if they could coordinate deliveries with other producers (perhaps trucks with product for farmers' markets), reduce their overall travel by making fewer, larger deliveries to a facility with appropriate storage conditions, and stack their trip by using the Redd for multiple purposes.

Similarly, one producer stated that they might use the facility if they could get a quicker turn-around for milling seed than at their current mill, which has a 9-12 month backlog; this delay has caused them to turn down contracts in the past. Not only does the milling equipment cost \$10,000-\$30,000, but the producer would have to hire one more employee if they milled their own product. Cost savings, timeliness, and the potential for business expansion could make the occasional journey from Grants Pass worthwhile.

A Eugene producer said the facility should be in Salem to accommodate producers from Portland and Eugene equally. However, the Redd could be considered central for other producers such as a producer in the Willamette Valley and one in eastern Washington who are partnering in growing a crop.

On-Site Retail

Many farmers were excited about the prospect of processing and storing goods at the Redd for sale to the James Beard Public Market. Additionally, a small "Made in The Redd" retail establishment on site could generate revenue for producers and the Redd, while educating visitors about the facility's services.

Farmer Resource

Not only could producers bring their product to the Redd for processing, storage, and distribution, but they could return with supplies purchased in bulk, tools from an independently-run "farm tool library," and information from courses and consultations with business, marketing and legal professionals. Producers could first engage with the Redd via either distribution services, ancillary services, or both. Bulk items might include pallets of items purchased by one or many farmers that B-Line stores for pick up. Ideally, bulk purchases would not compete with local retailers like Concentrates because the products would be different (e.g. irrigation supplies), or the quantities would be larger (e.g. totes of feed) than these businesses customarily carry. For classes and services, see "Recommendations for Ecotrust and Partners."

Community Education

Producers felt that Ecotrust could use the publicity generated by the Redd and the facility's central location to educate the public on the importance of supporting regional, sustainable agriculture. They wanted eaters to understand their difficulties, including: the disproportionate burden of regulations and fixed costs on AOTM operations; how consolidation of suppliers increases their cost, while consolidation of purchasers decreases their price, thereby shrinking their margin; how free trade

agreements disenfranchise both foreign workers and domestic producers; the complexities of farm labor and need for immigration reform; and the importance of farmland protection. Fresh vegetable growers wanted to promote the consumption of their product, and several producers wanted to increase access by low-income individuals.

Recommendations for Ecotrust Working with Partners

The following recommendations are potential programs and research that Ecotrust could pursue in partnership with organizations that are already or potentially engaged in this work.

- 1) Support collaborative efforts between producers. This could include the creation of cooperative entities, the sharing of processing infrastructure and marketing, or regional branding. The Northwest Cooperative Development Center already assists producers who are ready to form legal cooperatives, and local trademark attorneys have expressed an interest in assisting with local branding.
- 2) Educate the public on the benefits of supporting local producers, unfair international competition, and industry consolidation. A potential partner is Friends of Family Farmers (FoFF), whose InFARMation series educates eaters on issues faced by family-scale farmers with potential policy solutions.
- 3) Producers, especially first-generation producers, have either found or wished for, a greater connection to experienced producers, either by meeting farmer advisors in their locality and/or niche who could provide information or specialized equipment, visiting other farms during the season, or attending farmer-specific conferences with unstructured time for peer learning about farm and business techniques, marketing, and how to value their product. But interviewees cautioned that farmers are individualistic and might be leery of artificially created mentor relationships. Noah Brockman of the Oregon Small Business Development Center Network (OSBDCN) suggested that successful producers could agree to participate in mentoring producers receiving training through the OSBDCN.
- 4) Find or create and distribute educational materials written for producers on how to navigate the challenges of scaling up and the resources available to them. Curriculum exists for fresh vegetable growers (FamilyFarmed.org's Wholesale Success program) and smaller or beginning operations (OSU Small Farms Program) but the author is not aware of trainings for producers of all product categories who are scaling up from to AOTM, and which offer thorough business training. If done in collaboration, coursework could include training on food safety by ODA or Extension, risk management by RMA, financial decision making by FCS and OSBDCN, certification by Oregon Tilth, and grant eligibility and writing. Note: One organizer heard great interest in business training courses, but producers did not attend as expected.
- 5) While many programs exist to assist farmers in business planning, succession, and marketing, not all of these programs offer one-on-one assistance, and they are not coordinated on a statewide level to comprehensively address individual producers' needs. Agricultural producers culturally tend to refrain from expressing their needs

before large peer groups, as in classroom settings, making it preferable to offer one-on-one assistance for direct services, or at least to triage their needs, facilitate negotiations between stakeholders, and coach producers on which professionals to retain and what questions to ask.

An affordable one-on-one resource hub of professionals with knowledge of agricultural operations or a generalist with strong connections to such service providers could be housed at the Redd. Services could include legal advice and transactional work on succession, entity formation, sales contracts, labor, trademarking, regulatory compliance, and employment. Legal services could potentially be provided in partnership with Lewis & Clark Law Schools Small Business Legal Clinic. Financial services could include business planning, accounting, and marketing plans, and could be in coordination with SCORE or OSBDCN. OSBDCN already offers a ten month program of courses paired with one-on-one support and Noah stated that OSBDCN would consider developing farm-specific curriculum if Ecotrust could find ten participants. #4 and #5 could be funded by a Beginning Farmer and Rancher Development Program grant and/or Federal State Marketing Improvement Grant for assistance with marketing plan development.

6) Assistance in succession planning. This could involve collaboration with the Austin Family Business Center and participation in conversations around working lands easements, that can create liquidity.

7) Connect young producers (especially first-generation) to existing enterprises for succession. FoFF's iFarm program does this for land, and FarmStacker does this for land and capital.

8) Learn about existing apps for farm records to understand how they could best suit AOTM producers.

9) Ecotrust could support research efforts to gather information on the number and characteristics of AOTM farmers in Oregon. Information could also be gathered on changes in agricultural land prices and purchasing trends to determine if there is truly a land rush from out of state and how this might affect Oregon agriculture into the future. OSU's Small Farms Program could conduct such research.

Recommendations for Partner Work to Support

The following recommendations are potential programs and research that Ecotrust could encourage partners to conduct and support them in conducting.

1) Comprehensive, hands-on training for beginning farmers, conducted by Rogue Farm Corps and groups like Future Farmers of America.

2) Technical and financial assistance during transition to sustainable systems and certification programs, conducted by Oregon Tilth.

3) Connecting producers to water efficiency and storage programs for environmental and cost savings.

4) Improving the labor pool by encouraging training for mechanics, welders, butchers, and skilled equipment operators. Training could be offered through community colleges or departments of correction.

5) Research is needed for:

- production techniques, markets, and varieties that improve sustainability and viability. This includes disease-resistant variety trials, ecological practices (e.g. organic weed control), disease prevention (e.g. black leg), second-stage processing of early or late season crops, varieties best-suited to weather climate change (e.g. legumes), and region specific soil science. This can be provided by Extension, possibly with grants from Western Sustainable Agriculture Research & Education, Organic Agriculture Research Extension Initiative, or Agriculture and Food Research Institute.
- long-term business planning, including what factors determine what is it wise to finance when and how, and what conditions indicate that it is wise to expand an operation into more land, greater infrastructure, and/or wholesale markets? Note: Ms. Murray has found it challenging to generalize from this data.

6) Low-interest rate loans for equipment purchases (including used/modified), secured by the equipment.

7) Policy: The definition of AOTM producers should be closely examined in policy measures intended to help them; an overly broad definition can include corporate farms, while an overly narrow definition could exclude AOTM producers as we have defined them. Specific policy measures to consider include:

- Financing for farm successors (related or not) who would like to buy into the operation - possibly a program of Business Oregon. This could be structured like a Federal Small Business Administration (SBA) 504 loan, where SBA buys in to an existing loan that the borrower has already secured,
- Gap loans for start-ups. FSA and FCS have beginning farmer programs, but as Noah stated, “one option isn’t enough if you’re rejected.” This would need to be structured as a gap loan that will accept lower-quality applications in exchange for higher rates, with the understanding that some loans will fail,
- Extend the Natural Resources Credit to inheritance by non-family members who materially participate in the operation. Also index the adjusted gross estate limit of \$15 million for inflation.
- Allow deferred payment of Oregon estate tax for agricultural operations, as is allowed for up to 15 years in Federal IRC 6166 for any closely held business. Interest only is required for the first 5 years. This would prevent farms from having to liquidate assets immediately upon the decedent’s death.

- Funding for OSU Extension services, especially field agents for specific product categories or regions,
- Assistance for compliance with regulations, such as food safety rules,
- State support for working lands conservation easements,
- Preferences for purchasing local product by institutional purchasers receiving significant state funds.
- Enforcement of federal anti-trust laws, especially in regards to seed, feed, and chemical suppliers and vertically integrated livestock operations, and
- Reduce trucking requirements, such as paperwork and taxes.

Conclusion

What follows is a consideration of the minimum size of an AOTM producer, as judged by our interviewees. A quantitative analysis can be found in Appendix A: Summary of USDA Data on AOTM Producers. We also address five of our guiding questions, the sixth question being outside the scope of this project.

Size

When producers were asked to estimate the minimum size of an operation similar to theirs that could support a family of four on farm revenue alone, producers gave their answers in acreage, infrastructure, or livestock. In terms of acreage, producers identified: a) 1,000 acres for conventional grain or 200 for local, b) 2,000 acres for conventional potatoes grown in Eastern Oregon or 1,000 for organic, and c) three acres for direct-market vegetables or thirty for wholesale. In terms of infrastructure, a Central Oregon hay producer stated that one irrigation pivot could generate revenue to sustain a family; although one pivot equates to 160 acres, without the irrigation that acreage would not be nearly as productive. In terms of dairy cattle, one producer considered 200 to 300 head to be the minimum size to support a family.

It should be noted that producers chose not to measure farm viability by estimated gross income. The interviewer left the term “size of operation” undefined, but producers offered every metric except gross income to describe conditions of farm viability, finding these to be more informative than gross itself.

Moreover, most producers disagreed with the premise that “size” or any single criterion could reliably indicate farm viability. One producer spoke for the majority of interviewees when they stated that they did not “care about size as much as being efficient and getting people together as a team.” Producers valued efficiency almost more than gross or size in and of themselves. Because of the volatility of agricultural markets, input costs, and yield, an agricultural business’s returns rarely fluctuate in direct correlation with its gross. As one producer said, “when prices are low, it doesn’t matter how many acres you have. You’re asking a question that there’s no true answer to.”

Still other producers disagreed that providing an income for the owner's family is the mark of AOTM. They said that the question should instead be: how many people are earning a living wage from the agricultural enterprise, including employees and their families. As our research indicated, no primary AOTM producers interviewed had significant second jobs and every AOTM operation hired labor. It appears that AOTM enterprises directly support not only the owners, but also a community through their revenue. As one producer explained, their farm supports twelve families plus seasonal workers. That averages to 300 acres per family, which the producer said would not be enough land to support an individual family producing the same crops. They felt that the efficiency of operating on one larger operation provides higher wages and better income stability to all of its workers than if the farm were fragmented. One producer intends to use a different method to achieve the same effect by organizing many independent farm businesses under a comprehensive growers' cooperative to increase revenue by improving efficiency.

Question 1: Why, when, and how do AOTM producers grow to this scale?

As Ms. Murray explained, although data on this subject exists, it is difficult to extrapolate general rules of thumb from it. Each producer is different. Beginners have different amounts and sources of start-up capital, multi-generational farms have different family dynamics that drive (or inhibit) expansion, and individual producers have different understanding of or connection to resources to assist them.

It should also be noted that expansion in-and-of-itself is not always beneficial for an operation. A business might have the need and opportunity to expand one element of its operations, e.g. equipment, land, labor, or markets, but in practice, the other elements of the business are rarely aligned to easily facilitate this growth opportunity. The producer's business plan must anticipate and provide for the costs of each growth event, and each growth event must eventually make sense for the business's long-term growth. As Mr. Henny of NW FCS noted, an operation might make less profit overall or per item if it increases production by several small steps, rather than by a larger increment. And to reach that next big step, producers often need to invest in something that is not currently economical. As one producer succinctly stated: in growing a farm business, "there is no slope" but rather a series of almost impossible leaps.

We call these "quantum leaps" - where in order for a business to grow and become viable in the long run, it must make decisions that it cannot afford in the short run. Quantum leaps include, but are by no means limited to: a) the primary producer quitting other jobs and dedicating themselves to the farm full-time before they have the cash flow to do so, b) purchasing land and cost-saving equipment before the business can qualify for or afford financing, c) hiring labor before the business can afford the cost or compensate the owners with a living wage, and d) compliance with food safety rules, especially without the exemption.

Even if a producer successfully weathers one quantum leap, the energy and ingenuity it took to accomplish this feat can deter them from making the next leap. One

producer's operation, for example, became profitable once they took on a second mortgage and increased production from fifteen to thirty acres. The producer reported that, "the transition was tough," but that they've "recovered now." However, the producer does not know what the next step for growth is and do not have the inclination to take it. Rather, they wanted to "fine tune" their current operation for profitability and stay at the same size. A producer who is larger than our definition of AOTM, was also not interested in expanding, but rather becoming more efficient, especially by producing more of their own feed. One first-generation producer was not yet AOTM, but felt that they were not at the point where they could expand given the debt they had already taken to grow from nothing. The producer stated that, even if they found another angel investor, they were not comfortable with taking on additional debt. And one operator had "run out of energy" after numerous attempts at finding a successor and now just wanted to "make enough money to pay the bills."

In terms of how producers grew their business, most farmers self-financed as much of their operations as they could. This necessarily limited their rate of growth to what they could afford with what returns they had left to reinvest. As one producer stated, they are undercapitalized, especially because of their mortgage obligations, "which is the hardest part." And as another producer summed up, "it could be so much easier and better if there was money in play."

However, especially for first-generation farmers who are not only building their business from scratch but often learning to farm and operate a business as they go, growing at the rate at which they learn and gain capacity for growth might be best. They might not qualify for financing at all stages, but financing tools exist for when they can demonstrate to a lender that they have capacity to grow, which might coincide with the time when they are ready to grow and face the consequences of growth. As Mr. Henny said:

From a financing standpoint, the tools are there, and they are very well designed, and they are very well administered, across all lender spectrums. It's simply marrying reasonable expectation with those tools. Complaint of lack of access is because the reality of what people want is not where the business is at to take on that debt. If debt and expansion are right for the farmer, when they seek the resource, it's easily obtained. It's not that the answer is no forever, but this is what you need to do to be ready.

Investing in growth before the operation is ready to grow is not wise for any enterprise. As John Baker of Iowa State Extension explained, the farm crisis was in part caused because lenders were "trying to put people into farming in a way that didn't make a lot of sense - borrowing enough money to buy their way in." Instead of simply trying to make more money available to operations that were not ready, John researched how best to get beginning farmers into farming, especially if they did not inherit the land. He found that the most successful farmers had started by working for an experienced farmer. They then began to rent land and equipment from that farmer for their own enterprise, and then shared labor with the existing enterprise. Next, they bought land but continued to share labor and equipment

until they could “spin off as an independent business.” Rather than asking a lender to accept their risk, they managed their own risks over time by collaborating with experienced community members. This requires a personal connection with an experienced producer who is willing to take risks with the new producer.

One additional consideration is that businesses are constantly evolving, even when they appear to be in a static state in terms of land and equipment. They will have to respond to changes in uncontrollable factors, such as costs of production, market prices, yield, labor availability, and family involvement, for better or worse. Other changes, such as availability of information or efficiency improvements, can greatly affect the profitability of a seemingly static enterprise.

Question 2: Why do AOTM producers choose not to get bigger or sell nationally or internationally?

As one producer stated, “getting big isn’t a bad thing.” For small, pre-AOTM farms living on a thin margin, growth means profitability. One producer felt they had suffered for their small size and stated of their pre-AOTM business, “in fact, for years it was the farming that kept us poor.” Furthermore, the factors that contribute to growth also contribute to business viability. Mr. Henny, for example, stated that many small producers did not know their cost of production. Knowing this would not only enable them to be more profitable at their current scale, but also inform them of what can be changed to increase their revenue.

One producer does not export out of state because they cannot compete with out-of-state prices due to shipping costs. Yet there are benefits to growing while continuing to supply Oregon markets. Many producers proactively choose to contract with regional wholesalers because these companies gave them attention, support, and beneficial contract terms that resulted in increased profits for their operation.

In addition, regional wholesale allows producers to enjoy some of the benefits of direct marketing, such as community involvement. Farmers want a connection to their communities, not only because they are the ones who would pay a premium for local goods, but also because they want to connect with consumers they could potentially know. If that means remaining at a scale where the producer has the time and role to participate meaningfully in their community, then some AOTM farmers have chosen to sacrifice growth for its own sake for a connection with their community. As one producer stated:

I do feel in my heart that agriculture just got sold this whole big lie about how we need ...to get bigger, bigger, bigger, bigger, and it's just this generation that's going to come up with an understanding that that was an error that fucked a lot of things up, including farm income. It ruined family farms... The consumer is now ready to support the farmer, so that's not a problem for the small farmer anymore. So now we've got this model, especially in the Pacific Northwest.”

This will be discussed more in the response to the following question, but as Attina Diffley asked, “What I see as the most important thing missing, and that I have not heard any non-profit or support group discuss is—do the farmers want to be mid-sized?”²² or larger for its own sake.

Question 3: What factors lead AOTM producers to sell within Oregon’s foodshed?

This question is, in essence, the inverse of the previous question, phrased in a positive way.

Producers as businesspeople want to make a profit. But producers as humans want to connect with the people who enjoy the product that they grew with care on land that they consider to be family. Justin Freeman from Hummingbird Wholesale was surprised that the primary reason many conventional producers gave for selling to Hummingbird was that they did not want to ship their product overseas, but rather they wanted to know that people in their region ate the product they grew. Similarly, many of Gorge Grown’s producers preferred cultivating direct relationships with their customers over increasing their scale in and of itself and were interested in selling only within the Gorge.²³ For one producer, growing food is community activism, which extends to potential partnerships with food banks, schools, and other institutions that deliver food to community members in need. As this producer stated, “it all comes down to community health at the root,” which is also a convincing argument for investors who want to support the community, young entrepreneurs, and the environment through sustainable agriculture.

But in order for these producers to receive returns on their values, the community that they sacrifice profit to supply must show appreciation through their pocketbooks. At a minimum, consumers should be educated about the sacrifices that hardworking entrepreneurs and environmental stewards are making to support their communities and provide them with nourishment.

Question 4: Do AOTM farmers in fact hold themselves to higher environmental, animal welfare, and labor standards? If so, why, and if not, why not?

Upon review, this question is unclear about benchmark to which these producers’ environmental standards are being compared: the average Oregon producer? the average producer of a similar scale who does not sell into regional wholesale markets? the bare minimum legal and regulatory requirements? For our purposes, especially because we did not research the average practices of non-AOTM producers as a reference, we will compare their practices the bare minimum legal and regulatory requirements.

Uniformly, producers made decisions to protect their farm ecosystem, including the soil upon which they depend for income and the surrounding natural areas that

²² Sobell, 5.

²³ Ibid.

sometimes, but not always, indirectly improve their farm income. These practices included fallowing, cover crop, wetland conservation, fostering habitat for pest predators and other wildlife, no-till or low-till cultivation, and more. Producers certified by a sustainability program were not necessarily more likely to use these practices than non-certified producers. The reasons they gave included protecting the farm resources for their future use and the use by future generations, but also a feeling of responsibility for the land they had the opportunity to steward.

Thirteen of the eighteen producers interviewed had organic certification on at least part of their operation and one planned to begin transition the following year. Yet even most of these producers reported that they spent money, time, and opportunity cost to institute measures that were stricter than the National Organic Program, and that they would use most of these measures even if they were not certified.

Although our sample set of animal producers was a relatively small portion of overall producers interviewed, the animal producers we interviewed were concerned about animal welfare, not just for profit that animal welfare measures could add, but because their values encouraged it. One producer stated that pasturing animals, refraining from feeding them too much concentrate, and not giving non-medically required antibiotic treatments could be a net cost-savings, in part because happy, healthy cows produce more and better milk. But the producer's first stated concern was the welfare of his herd.

And regarding labor, while some producers could not afford to pay their employees more than minimum wage, those who could did and offered some employment benefits in addition. This improved not only the operation's ability to retain quality employees, but benefited the local economy by providing good jobs.

AOTM producers interviewed did more than was required to support their environment, animal welfare, and labor force, sometimes at a cost to near-term profit, in part to prepare for long-term success. They take losses when they cannot monetize these long-term efforts in the short-term because "the market [fails] to adequately reflect the full costs of resource use over the long run."²⁴ By extension, the criticism often leveled at conventional agriculture - it focuses only on profit - might be an overgeneralization. The issue might not be that conventional agriculture focuses on profit and sustainable agriculture focuses on values, but rather that sustainable producers act on their values in a way that also promotes the long-term welfare of their land and business - a sacrifice for which the current farmer might never reap the reward.

Question 5: What conditions make cooperation or aggregation preferable to business expansion?

Even at their scale, AOTM producers must still participate in all aspects of farm management that larger operations commonly outsource, like bookkeeping, human resources management, processing, and distribution. This is because they at least feel

that they do not have the expendable income to retain experts or outsource these services.

Many producers are interested in co-marketing - from developing a multi-level cooperative, to co-purchasing expensive equipment to decrease the overall cost of services by creating a more efficient system. The primary barriers producers stated to such agreements were the time and expense of coordinating such collaborations and lack of proximity of related farms with which to collaborate.

But if producers could collectively pay for expert management of a cooperative venture, they would personally be relieved of much of the additional time for coordination and interpersonal conflict involved with verifying the quality of each producer's crop. And some producers reported that collaborative endeavors with producers who were distant but still within Oregon could prove fruitful. This includes one producer's partnership with an eastern Oregon farm to grow popcorn which can be more easily produced in that bioregion. Similar collaborative agreements were described where a collective of producers coordinated crop rotations on each other's fields, with each farmer using their specialized equipment and expertise to grow different crops.

It appears that producers are ready to collaborate. What appears to be lacking is the facilitation and impartial, expert management of such endeavors.

General

AOTM producers in general seemed to be reaching out to community. They looked to their neighbors for help affording financing and land. They looked to their peers for mentorship and collaborative enterprises. They looked to regional distributors to help them make the leap to wholesale. And they looked to local eaters to support their work by purchasing their product. It is as though mid-scale producers are seeking the community support of CSA, but within a broader network. And it seems that the community wants to participate in this network. Advocates, service-providers, distributors, and a customer base exist and are growing to support Oregon producers. But the efforts of these stakeholders could be better synergized if they were better understood, marketed, and connected to each other.

Potential Next Steps

In addition to exploring and possibly initiating some of the listed recommendations, research could be conducted to provide more nuanced and complete responses to our six guiding questions, especially:

- Question 1: Why, when, and how do AOTM producers grow to this scale?,
- Question 3: What factors lead AOTM producers to sell within Oregon's foodshed?,
and
- Question 5: What conditions make cooperation or aggregation preferable to business expansion?

Our sixth guiding question - Is there truly a lack of local supply to meet regional demand? - was beyond the scope of this work. However, such an economic analysis would complement Ecotrust's growing body of research on the topic of AOTM in Oregon's foodshed.

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Glossary of Acronyms

AOTM - Agriculture of the Middle

BOLI - Bureau of Labor and Industries

CPO - Community Public Offering

CSA - Community Supported Agriculture

FoFF - Friends of Family Farmers

FSA - Farm Service Agency

FSMA - Food Safety Modernization Act

GAP - Good Agricultural Practices

GMO - Genetically Modified Organism

LLC - Limited Liability Company

NASS - National Agricultural Statistics Service

NOP - National Organic Program

NRCS - National Resources Conservation Service

NW FCS - Northwest Farm Credit Service

OFARM - Organic Farmers' Agency for Relationship Marketing

OGC - Organically Grown Company

OMRI - Organic Materials Review Institute

OSBDCN - Oregon Small Business Development Center Network

OSU - Oregon State University

RMA - Risk Management Agency

SBA - Small Business Administration

USDA - United States Department of Agriculture

WWOOF - World Wide Opportunities on Organic Farms

Appendices

- A. Summary of USDA Data on AOTM Producers
- B. Interview Questions

APPENDIX A: Summary of USDA Data on AOTM Producers

1. Overview

The following is a summary of statistics describing Agriculture of the Middle (AOTM) producers in Oregon. It is derived primarily from 2012 USDA Agricultural Census data found through searches of the National Agricultural Statistics Service (NASS).²⁵ Other resources are listed at the end of this summary.

This summary has not been fact-checked or formatted for presentation to the general public. Rather, it is intended to provide background information to inform the Organizing to Rebuild AOTM whitepaper. The quantitative data below will hopefully identify economic and scale conditions that can be used to generalize AOTM producers. In making conclusions based on the data, we assumed that AOTM producers were those who could support a family of four at at least twice the 2015 federal poverty level of \$24,250 per year²⁶ (\$48,500 per year net income). This is not a perfect proxy for financial viability, in part because the federal poverty level was set for the 2015 cost of living, while the USDA agriculture census data is from 2012. But it is a satisfactory threshold for profitability for the purpose of this summary.

It can be difficult to extract data specific to AOTM operations from the census data. For some categories of producer, USDA statistics provide insufficient information to calculate net revenue per producer; for example, USDA occasionally only identifies total revenue from a product, without segmenting that total revenue by numbers of farms or categories of farm size. In addition, since many AOTM producers are diversified, it is difficult to calculate total sales and revenue for their operation as a whole using USDA's crop-specific data. Explanations are given where data is difficult to find or conclusions are difficult to draw.

In the section below organized by product category, the categories match (as closely as feasible) the six categories outlined in Ecotrust's Oregon Food Infrastructure Gap Analysis: chicken, beef, pork, storage crops, and greens. Information was not available, or difficult to use, for grains and legumes. A brief discussion of vegetables and fisheries is also included.

Most of the data summary sections below match with tabs on the Excel spreadsheet with the same name. This summary and the raw data use words "operation," "operator," and "farm" as they are used in the census data. It was not clear to

²⁵ National Agricultural Statistics Service (NASS). United States Department of Agriculture (USDA). August 8, 2015 http://www.nass.usda.gov/Statistics_by_Subject/index.php

²⁶ Federal Poverty Level. September 26, 2015. <http://obamacarefacts.com/federal-poverty-level/>

the report's author whether "farm" and "operation" were synonymous in USDA's definitions. Economic class is defined as "total farm production expenditure."

Additional data to collect include the number of Oregon operations with various third-party certifications and the characteristics of those operations, e.g. sales, acreage, location.

2. Summaries of Data

2A. General Information from Oregon Agripedia between 1998 and 2012²⁷

- The number of Oregon farms has decreased from 39,500 to 38,100, with a seven year increase to 40,000 farms between 1999 and 2005. Overall, this was a 3.6% loss, compared to a national loss of 1%.
- The total amount of Oregon land in farms decreased from 17,300,000 to 16,500,000 acres. This was a 4.8% loss compared to a national loss of 4.1%
- Average Oregon farm size decreased from 438 acres to 433 acres. This was a 1.1% decrease compared to a national decrease of 3.1%, the national average in 2012 being 421 acres.
- Value per acre steadily increased for Oregon producers from \$960 to \$2,100. This was a 219% increase, compared to a national increase of 272% in value/acre over that same time period. The national average value/acre is \$2,650/acre, which is 26.2% higher than Oregon's average.

2B. Summaries by Sales, Acreage, Economic Class Categories

2Bi. By Sales Category

It appears that the majority of Oregon producers do not have a net gain until they begin to make between \$10,000 and \$24,999 in sales (53% of these producers show some net gain). The highest percentage of producers by category showing a net gain is the highest sales category of over \$1,000,000 per year (80% of producers show net gain). Regarding the aggregated net gain for each sales category, the \$50,000 to \$99,999 category is the first to show a positive net gain for the category of producers as a whole.

Producers with sales between \$250,000 and \$499,999 are the first to show an average net gain in excess of two times the 2015 federal poverty level (\$48,500), with \$80,931 in net income to the operation and \$79,848 in net income to the operator. The breaking point for the federal poverty level must fall between this category, and the category of operators with sales between \$100,000 and \$249,999, which shows net income to the operation of \$28,540 and net income to the operator of \$25,773. On average, US farmers net twice the federal poverty level at a lower sales threshold, somewhere between \$50,000 and \$249,999 for operations, and slightly over the \$100,000 to \$249,999 category for operators.

²⁷ 2013 Oregon Agripedia. Oregon Department of Agriculture, 2013. <http://library.state.or.us/repository/2008/200802261548322/2013.pdf>

2Bii. By Acreage

The first category of Oregon producers by acreage to show a majority of operations with some net gains is in the 180-219 acreage range (51%). Yet the first category to show an average net gain that approaches twice the federal poverty level is the 220-259 acre category, with an average of \$42,481 in net gains. On average, Oregon operations likely surpass twice the federal poverty level somewhere between the 260-499 category (\$42,253) and the 500-999 category (\$138,727).

At least some operations at all categories, from 1-to-9.9 acres to 2000+ acres, show net gains between \$25,000 and \$49,999, and even net gains in excess of \$50,000. However, the only acreage category to have a majority of operations with net gains over \$50,000 is the highest category of 2,000+ acres. The first acreage category with a majority of operations that show net gains in excess of \$25,000 is the 1,000-1,999 acre category (55.3% of operations).

2Biii. Acreage per Sales Category

This section describes the average number of acres per farm at various sales categories. In Oregon, farms that reported \$250,000 to \$499,999 in sales in 2012 were the only category of farms to increase their acres per farm between 2007 and 2012. All other sales categories slightly decreased their acres per farm or remained relatively steady (\$1,000 to \$99,999) with an overall 1.9% increase in acres per farm. National numbers show a uniform drop in the acres per farm in each of the various sales categories during this time period (this data was unclear, as each category showed a decrease in acres/farm, yet the average of all categories showed an increase in acres per farm).

Also of interest, the number of farms with \$100,000 - \$249,999 in sales grew 5% between the 2007 and the 2012 censi, and farms with over \$500,000 grew 17.6% in the same time period. All other categories of sales decreased, except farms with \$1,000-\$9,999 in sales, which held steady in numbers. Nationally, the number of farms with over \$500,000 in sales grew 20.8% and farms with \$250,000-\$499,999 in sales grew 4.8%, with all other categories decreasing in number during this same time period.

Both nationally and in Oregon, farms with over \$500,000 in sales were the only ones to increase in total acreage between 2007 and 2012, with Oregon farms with \$1,000-\$9,999 in sales and \$250,000-\$999,999 in sales remaining steady in their total acreage during this time.

2Biv. Government Payments

The first economic class in Oregon to show more than 50% of farms receiving government payments was the \$250,000-\$499,999 category, with 50.7% of farms receiving payments. All higher economic class categories also showed a majority of farms receiving some payments, except the \$5,000,000+ category, where 38.8% of farms received government payments.

Yet the ratio of government payments to total farm value was highest for farms in the \$25,000-\$49,999 category (8.62% of total farm value), with this ratio decreasing for higher economic categories, reaching .048% of total farm value for farms in the \$2,500,000-\$4,999,999 economic category and 0.11% for farms in the \$5,000,000+ economic category.

2C. By Product Category

2Ci. Chicken

For layers, data did not appear to be available for the average net per operation. However, it is interesting to note that the vast majority (91.1% in 2012) of producers with layers had fewer than 50 birds in inventory. However, these producers accounted for only 3.3% of reported inventory in Oregon. The vast majority of inventory (94.7%) was reported by the four producers in the highest inventory category (100,000+). It is also important to note that no Oregon layer producers were reported in the categories ranging from 400-49,999 in inventory and only one producer in the 50,000-100,000 category. Sales per producer showed roughly the same percentages as inventory.

For meat birds, the average number of birds per farm decreased 43.4% from 10,065 birds per farm in 2007 to 5,700 birds per farm in 2012. This might be in part due in part to the 1,000 bird state exemption for on-farm processing, that became law in 2011. Like layers, the number of meat bird producers in 2012 was predominated by producers with sales under 1,999 birds (86.9%) with no producers with sales between 16,000 and 199,999 birds. There were three producers each in the 200,000-299,999 and 300,000-499,999 categories and 23 producers with sales over 500,000 meat birds. Producers with over 200,000 birds accounted for 99.9% of sales, with producers above 500,000 birds accounting for 92.2% of Oregon sales in 2007 (complete sales data is unavailable for 2012).

2Cii. Beef

The average net income per ranch was extrapolated from Utah Extension's 2013 study on beef cattle operations to average the percentage income per gross sales on ranches with 200 head at 27%.²⁸ At this rate, Oregon's cattle/calf ranches in 2012 did not net twice the federal poverty level for a family of four until they had a herd size of 200-499 cattle, with average gross sales of \$176,381 (\$47,623 average net gain). Cow operations fared slightly better, with net incomes reaching twice the federal poverty level somewhere between a herd size of 100-199 (\$33,085) and 200-499 (\$78,448). Beef cow operations were similar to cow operations, with operations with a herd size of 100-199 netting ~\$31,093 on average and operations with a herd size of 200-499 netting ~\$68,257 on average. Judging from this data, the actual breaking point could fall at 200 for both types of operation, but information on ranches of 200 head of cows or beef cows in Oregon was not available.

28 Holmgren, Lyle and Mike Pace. "2013 Costs and Returns for 200 Cow, Cow-Calf Operation Box Elder County." Utah State University Cooperative Extension, June, 2013. https://extension.usu.edu/newsletters/files/uploads/2013_Budgets/CowCalf.pdf

2Ciii. Pork

Similar to chickens, the vast majority of Oregon pork producers fall in the category with the fewest animals per operation. 86.3% of Oregon pork producers raised fewer than 24 hogs in 2012. However, unlike chicken producers, small pork producers accounted for 32.4% of reported Oregon pork sales in 2012. There are likely two reasons for this. First, there is little competition in the higher production categories. No Oregon producers raised over 5,000 or between 1,000 and 1,999 hogs in 2012 and only two producers raised between 2,000 and 4,999 hogs in 2012 and one producer raises 500-999 hogs in 2012. Second, USDA sales data is not given for Oregon producers who raised more than 500 hogs in 2012, so the total is under-reported. Data on total value of sales also does not include the value of sales of producers over 500 hogs, so it is not useful for this analysis.

2Ciii. Greens

Information was not readily available on sales or net income. Of note: all categories of greens with information on the number of producers in 2007 and 2012 show an increase of producers, with kale and collards producers increasing roughly threefold. However, total acreage for lettuce and spinach have decreased around 25% each (kale and collards acres increased roughly commensurate to the number of producers). As a result of these two trends, the ratio of acres per producer decreased for all categories of greens with available information, except collards.

2Civ. Vegetables

Although not a category in Ecotrust's Oregon Food Infrastructure Gap Analysis, many producers interviewed raise vegetables. There was little information aside from the number of Oregon producers per acre grown, and that information was highly segregated into different vegetable types; it was impossible to trace data from each vegetable type to individual, diversified farms. However, it can be said that the total number of producers in Oregon has increased 22.7% in Oregon between 2007 and 2012. This increase was most marked at the .1-.9 acre category (41.2% increase), 1-4.9 acre category (53% increase), and 750-999.9 acre category (70% increase). The acreage category with the largest decrease in total producers was the 15-24.9 acre category, with a 42.5% decrease.

2Cv. Seafood

At Ecotrust's request, data was also collected and analyzed on Oregon fisheries. In 2013, the active vessel median revenue for all seafood was \$35,852 and in 2012 it was \$29,012. However, the Oregon Department of Fish & Wildlife noted that 70-80% of harvest revenue came from 20-30% of vessels.²⁹ The average personal income per vessel for Oregon fisheries only was \$309,921 in 2013 and \$249,123 in 2012. The average personal income per vessel for Oregon and distant water fisheries was \$542,581 in 2013 and \$481,579 in 2012. By species harvested, the highest average

²⁹ Oregon Department of Fish and Wildlife and Oregon Coastal Zone Management Association. Prepared by The Research Group, LLC with assistance from Oregon State University Coastal Marine Experiment Station. "Oregon Commercial Fishing Industry in 2013 Briefing Report: Version 1.3" 2013. P. 7.

values per vessel were for pacific whiting (\$833,208/vessel in 2013 and \$705,524/vessel in 2012), pink shrimp (\$402,550/vessel in 2013 and \$767,875 in 2012), and sardines (\$450,000/vessel in 2013 and \$433,333/vessel in 2012).

3. Tentative Findings Relevant to AOTM Producers

3A. Product Sales per Acre

Generally, the value of sales per acre has been increasing at a rate higher than inflation (3%). Average farm sales per acre in 2012 would have been \$1,490.89 in 1998 dollars. This is a 55.3% increase in sales per acre from 1998's average of \$960. Nationally, the value of sales (adjusted for inflation) per acre increased 93% between 1998 and 2012. This data correlates to the reduction of the number of acres between 2007 and 2012 for operators to reach certain sales categories. However, the farms between \$250,000 and \$499,999 in sales have been the only category to increase their average acres per farm. This category also lost 9.1% of its producers between 2007 and 2012. Some possible conclusions to explore:

A higher rate of farms with sales between \$250,000 and \$499,999 with smaller acreages either did not stay in this sales category (they grew or shrank) or went out of business. This left larger farms in this category still producing in 2012; Farms with sales between \$250,000 and \$499,999 are able to rent or purchase additional land where farmers at lower sales categories might find this cost prohibitive. Also note that, despite increasing in number, farmers in the higher sales category of \$500,000+ have decreased in average acreage per farm; Some farmers formerly in the \$500,000+ category might have fallen into the \$250,000-\$499,999 sales category and affected this category's average acreage.

3B. Gross Income

For Oregon agriculture on the whole, producers who gross \$50,000-\$99,999 are the first to show an overall net gain, but producers in the \$250,000-\$499,999 category are the first to show average net gains solidly within twice the federal poverty level range at \$48,500/operator. Depending upon the product, it appears that AOTM producers begin to show themselves en masse at this level of sales, and likely are present at higher concentrations in higher gross income categories. The upper limit for gross is difficult to determine, and might need to be deduced in combination with data on ownership, the markets they sell to, and qualitative data concerning values, among other factors.

3C. Acreage

Although only producers in the highest category of 2,000+ acres show a majority with a net gain of \$50,000 or more, at least some Oregon farmers in each acreage category are able to achieve this net gain. This data reflects the obvious understanding that the acreage required to achieve a particular net gain is highly dependent upon factors including the producers' costs, the product(s) raised, and how they are marketed. It was difficult to find data on acreage used per product, per producer in Oregon.

However, for beef, where 200 head appears to be smallest herd at which the rancher can net at least twice the federal poverty level, AOTM producers would likely require enough acreage to raise a herd of at least 200. This will depend greatly upon where the herd is located in Oregon, with arid central and eastern Oregon ranches requiring a greater area per head.

The reported acreage for greens has been decreasing while sales have been increasing, but it is still unclear how many acres would be required to net twice the federal poverty level by growing greens exclusively. Furthermore, most greens producers also raise other vegetables, diversifying their operation and sources of revenue, but making it difficult to calculate the necessary acreage for a successful operation that sold nothing but greens.

3D. Product Category-Specific Findings

- There is a huge gap in chicken producers between 50 and 50,000 birds per year. This is likely due to processing regulations, but has served to consolidate sales in the very largest producers (100,000+birds per year).
- As stated above, beef cattle operations probably need to raise 200 head before they can net twice the federal poverty rate for their beef operation alone.
- There is not enough data available on pork producers in Oregon to understand where the breaking point is for financial viability from this product alone. Data from comparable states (e.g. Washington) should be consulted.
- Not enough data is available on greens or vegetables to make sound conclusions on the breaking point for profitability. More research should be conducted.

4. General Summary

It appears that producers with \$250,000-\$499,999 in sales can be identified as AOTM, although producers with greater sales, and some with lesser sales, could also be considered AOTM. Ecotrust's efforts to rebuild Oregon's AOTM come at an important time, since the number of producers in the \$250,000-\$499,999 range has decreased dramatically in the past five years, and they are farming on larger acreages than average, despite an overall trend towards reducing acreage and increasing sales per acre.

More data is needed for each production category, including average sales and acreage for each. Research can also be done on the number of AOTM operations for each product category that maintain third-party certifications, e.g. National Organic Program, Salmon Safe, etc.

APPENDIX B: Interview Questions

Note: The Vice President of Ecotrust's Food and Farms Program, Amanda Osborne, bolded the most significant questions. Given the number of questions, producers were not asked to answer each one. Depending on the interviewee's operation, some questions were deemed irrelevant and not asked. And given the conversational nature of the interview, questions were not necessarily asked in this order.

Background

- Products produced
- Primary market channels (direct, wholesale)
- Acreage / head harvested per year
- Gross sales
- Ownership type
- Number of staff; participation of family

Before we get started, the point of this research is to figure how to support and grow midsize farmers in Oregon and Washington – not too big, not too small. Does that kick off any thoughts in your mind right away about barriers that need to be removed or opportunities created for you to grow or be more successful at that size?

1. Business Structure & Succession

1A. Management Roles

- Who is (and how many are) involved in the ownership, management, and labor of the operation? Would you change this division or availability of labor and, if so, how?
- Who among those involved in the farm business have access to or seek off-farm income?
- What benefits are available to those involved in the enterprise (e.g. health insurance, retirement plan, etc.)? Would you change the benefit structure and, if so, how?

1B. As what business entity(ies) is the farm registered? Would you like to change the organizational structure and, if so, how?

1C. Succession

- Was a succession plan used for passing the land to your generation?
- If interested successors have been identified, has a succession plan been initiated for the next generation?
- What have been the successes/challenges in succession planning?
- What resources have you used and what additional resources could assist you?

2. Technical Training and Information Sharing

- What training have those involved in the enterprise received? What additional training would you like to receive, if any, and are opportunities for such training in existence and feasible?
- Are those involved in the enterprise paying debts for their training (e.g. student loans)?
- Do you network with similar producers for sharing of best practices and, if so, how does this occur? What additional opportunities would benefit you?

3. Growing Practices

3A. Sustainability and Certification

- Do you maintain certifications for using sustainable or conscientious practices and, if so, what are your certifications? What resources do you put towards these certifications (e.g. research, reporting, monetary costs, training) , and do you think these inputs could be made less onerous?
- If you are not certified, what practices do you consider “sustainable” on your operation? If you are certified, what efforts do you make above and beyond the requirements of certification?
- Have you received training in sustainable growing practices? How do you find information on sustainable growing practices? What additional training and information would benefit your operation?
- What’s driving the interest (market opportunity, personal values, health) in transitioning and what are the perceived barriers to transitioning?
- How do efforts towards sustainability and conscientious production (certified or not) affect your net income? Does the premium for using sustainable growing practices cover the lost income (if any) from not using “conventional” methods?
- Does sustainable/organic growing distinguish your farm in other areas, e.g. insurance coverage?

3B. Season Extension

- What efforts do you make to extend your production season?
- What resources have you sought in extending your production season and what additional resources would be useful to you?

3C. Food Safety

- What efforts have you made towards ensuring food safety?
- How have food safety requirements changed since you began your operation?
- Have requirements been imposed by markets and purchasers, directly by governmental regulators, or were they self-imposed?
- How have you adapted to these changes? What have been the costs?
- How would you improve the food safety regulatory system as it is (and as it will likely be under the impending FSMA rules)?

4. Operation Management

4A. Business Management - ask about business savvy in terms on strategy specifically.

- How savvy do you consider the managing farm operators to be about business management (e.g. accounting, book keeping, regulatory compliance)?
- What is your personal training in business management ?
- What resources do you rely on for business management services (e.g. professionals, automated or online services, peer advice)?
- What is your current annual cost of business management services, including your own time, hired professionals, software, audits, etc.? How has this changed since you began your operation and/or first engaged in regional wholesale markets?

4B. Labor

- How many do you currently employ and in what roles? How has the number and how have the roles of your employees changed over time?
- How do you find your employees?
- What are the greatest costs and burdens of employing staff?
- In what ways have you cut labor expenses, e.g. automation, employment services, etc.?
- How would you improve the labor pool, opportunities, and costs on your operation?

4C. Sales & Marketing

- In what ways do you currently market? How have you marketed in the past and what led you to choose your current model? Have you, or have you considered, selling to larger, and/or international markets? If so, what went into your decision making process to sell to local wholesale markets?
- How stable are your current markets? What do you do to increase stability? Diversification between marketing styles? Diversification between wholesale customers?
- How do you create/cultivate relationships with your wholesale purchasers?
- How easy has it been to maintain these relationships?
- (Especially for vegetable and grain producers) Do you coordinate crops, varieties, harvest size, etc. with your purchasers? Do you sell on contract?
- When does your “sale” occur? In other words, when does your operation lose control of the raw commodity?
- (For producers of raw goods that are commonly processed before reaching the end user) How does the operation participate in, or evaluate, the processing of your goods? Does a farm engage directly in reaching end markets, e.g. through co-op board membership or assisting in marketing efforts?
- (For contract growers) How does your operation negotiate contracts? Is there much room for negotiation? At what time intervals?
- How would you improve your current marketing channels? How would you market your goods in an ideal world?

4D. Regulation in General

- What regulations (local, county, state, federal) play large roles in your operation? Has this changed since you began farming or began selling to wholesale markets?
- (Especially for meat producers) Are you a CAFO? How do state and federal regulations affect you?

5. Land-Based Considerations

5A. Property(ies)

- Lease/Own: Do you lease and/or own your property(ies)?
- Which do you prefer and why?
- Lease: What is your relation to lessor? How land was found? What is the length of lease and other relevant conditions? How would you change this situation?
- Sale: How did you acquire the land? What is your debt/equity ratio? Are there liens on the property?

5B. Conservation Easements:

- Are there conservation easements on the property(ies)?
- If so, is it a working lands easement, or are agricultural uses retired too?
- Was CRP involved?
- Would you be interested in a conservation easement, why, and what would prevent you from accomplishing this?

5C. Infrastructure:

- What major pieces of infrastructure exist in the operation? Did you acquire or build them?
- Do you utilize off-farm infrastructure before the final sale of your product? If so, what are the terms of using this infrastructure?
- What additional pieces of infrastructure could you use? Would you need them on your farm or could they be off-farm?

5D. Water

- Do you have access to the water you need to maintain your operation, even in the face of the current shortages? If not, what's the short version of the situation you're facing?
- What water rights do you have to your property(ies)?
- Would you want additional water rights and, if so, how would this change your operation?
- Have you tried to acquire additional water rights and, if so, how successful were you?
- What would be your perfect situation? Would you want more/less acreage? Different location? Different rights/zoning?

6. Financial Considerations

6A. Costs

- What is your largest category of costs (e.g. operating, equipment, infrastructure, mortgage)? How has this changed since you entered farming or wholesale markets?

- 6B. Operating costs
- Are you paying yourself and your family a salary, or taking whatever is leftover?
- Are you supporting your operation with an off-farm job?
- What is the relative burden of your amendments and chemical costs? What measures have you taken to reduce these costs, e.g. buying co-ops or wholesale rates?
- What is the relative burden of your seed and feed costs? What measures have you taken to reduce these costs?
- What equipment costs are you currently paying? How has the cost of equipment affected the growth of your operation?
- What is the relative time and cost burden of your transportation costs? How does your marketing outlet affect this?
- What is the relative burden of your labor costs?
- What percentage do you commit to savings? For what are you saving (e.g. self-insurance for price fluctuations, down payments equipment and land, family expenses)?
- Taxation - Where could you see the greatest opportunities for reducing your tax liabilities through policy?

6C. Insurance

- What types of insurance do you carry for your operation?
- How easy was it to find insurers and/or meet insurance qualifications?
- (Diversified veg) Do you use RMS whole farm insurance?
- (Certified organic) is there true parity now with RMS organic crop insurance?

6D. Financing

- How do you determine the inputs for which you will seek financing?
- Are you currently pursuing financing? For land, equipment, operations, or other? What is the expected source of repayment?
- What sources of financing have you pursued? Debt and equity? Who do you think of as the most accessible financing institutions?
- How agreeable have the terms been? How easy has it been to negotiate? Have you found financiers who are philosophically/mission aligned?
- What has been the most difficult part of your operation to finance?
- What has been the most difficult criteria for financing to prove to your lenders?
- What additional forms of financing would benefit your operation?

6E. Grants

- Have you pursued grants for your operation?
- If so, what, were you successful, and how did you find the application and disbursement process?
- What additional activities on your operation do you think should be supported by grants?

7. Producer's General Thoughts on Barriers and Opportunities

7A. Size

- What is the breaking point for profitability?
- What is the best size/gross/acreage to maximize efficiency and profit for wholesale sales?
- What size would you personally want?
- Are there multiple breaking points?
- Is it a “quantum leap” between break even points that requires external resources?

7B. Resources

- What resources or support do you wish you had now?
- What resources would have been of assistance to you when you started farming?
- What resources would have been of assistance to you when you decided to engage in wholesale markets?
- Would it be useful to share cost of production and business planning with other producer?

