Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0315

MEMORANDUM

To:	Members, Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship
From:	Abby Finkenauer, Chairwoman
Date:	July 24, 19
Re:	Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship hearing: "Supporting the Next Generation of Agricultural Businesses"

On **Thursday, July 25 at 10:00 a.m. in Room 2360 of the Rayburn House Office Building**, the Committee on Small Business, Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship will hold a hearing entitled "Supporting the Next Generation of Agricultural Businesses." The hearing will allow Members to hear firsthand about the issues that are impacting young and beginning farmers, as well as the programs and services available that support our next generation of farmers and agricultural entrepreneurs. Witnesses will include:

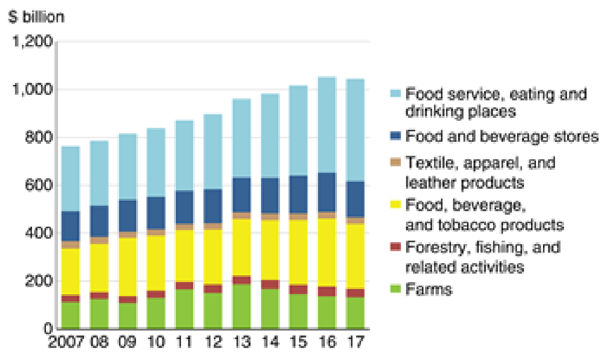
- Mr. Matthew Keesling, Farm Manager, Bures' Organic Family Farm, Deerbrook, WI; Testifying on Behalf of the Dairy Grazing Apprenticeship
- Mr. Jason Grimm, Owner, Grimm Family Farm, Williamsburg, IA; Testifying on Behalf of the National Young Farmers Coalition and the Eastern Iowa Young Farmers Coalition
- Ms. Meri Lillia Mullins, Farm Manager, Lighthearted Ranch, Longmont, CO; Testifying on Behalf of the Flatiron Young Farmers Coalition
- Mr. Rodney Hebrink, President and CEO, Compeer Financial, Lakeville, MN; Testifying on Behalf of Farm Credit

Background

From the nation's earliest days, farming has played a crucial role in the American economy and culture. Farmers play an important role in any society, providing food and fiber for food and clothing. But agricultural businesses have been particularly valuable in the American economy, with broad impacts in a range of farm and food-related industries. American farms and ranches produced $388.5 billion of economic output according to the latest United States Department of Agriculture (USDA) census.[1] In fact, agriculture, food, and related industries contributed $1.053 trillion to U.S. gross domestic product (GDP).

[1] U.S. DEPT. OF AGRICULTURE, NATIONAL AGRICULTURAL STATISTICS SERVICE, 2017 CENSUS OF AGRICULTURE (April 2019).

Value added to GDP by agriculture and related industries, 2007-17



Note: GDP refers to gross domestic product.
Source: USDA, Economic Research Service using data from U.S. Department of Commerce, Bureau of Economic Analysis, Value Added by Industry series.

In the early 20th century agriculture, farming was a labor-intensive business that took place on many small farms in rural areas around the country. At the time, around 38% of Americans were farmers, and more than half the U.S. population lived in rural America. In the census of 1935, there were almost 7 million farms in the U.S. and each one was a small business. American agriculture and rural communities underwent a tremendous transformation in the 20th century and continues to do so in the 21st century. While still a labor-intensive business, farms of today are often larger, more specialized operations. America's two million farms can produce more crops than ever before thanks to advances in agricultural technologies, economies of scale, and increasingly efficient agricultural business models. Today, around 2% of the population is involved in farming, primarily in rural areas where approximately one-fifth of the U.S. population lives.

Our nation's farmers and ranchers are aging. At the same time, aspiring and beginning farmers nationwide continue to face significant barriers to farming. To ensure the continued success of agriculture in the U.S., it is vital that Congress facilitate the transfer of skills, knowledge, and land between current and future generations. However, farmers entering agriculture today have different needs and face new challenges compared with those farmers who came before them and are now facing retirement.

<u>Current State of Agriculture</u>

More than 88 percent of farms in the U.S. are classified as small, with a gross cash farm income of $250,000, or less.[2] As a result, these farms, most of which are family-owned and operated, confront considerable challenges due to current trends, such as increased movement into cities, an aging population, farm consolidation, and changing weather patterns. In addition to the changing size of farms, the business of farming has also evolved, and much of commodity agriculture is facing challenges. Low commodity prices exacerbated by trade wars are negatively impacting the agricultural economy and hurting farm businesses across the U.S. Unpredictable weather events such as floods, droughts, and natural disasters are also wreaking havoc across American farmland. These hardships have a cost on farmers and ranchers of all sizes. For example, net farm income dropped 49 percent from 2013-2016, and it has remained depressed ever since.[3]

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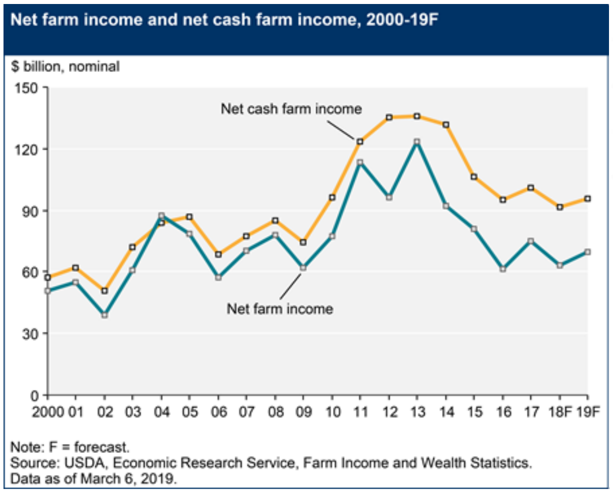
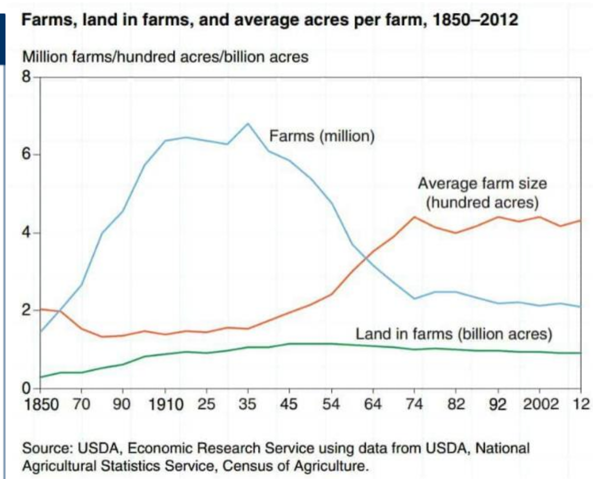
[2] *Id.*
[3] RANDY SCHNEPF, R40152, CONG. RESEARCH SERV., U.S. FARM INCOME OUTLOOK FOR 2017 (2017).

Statistics also indicate the average farm income in 2017 was $43,000.[4] According to the latest USDA Census data, only a total of 43% of farms had positive cash farm income,[5] while the median farm income was *negative* $1,500.[6] These conditions force many family farmers and ranchers to make tough financial decisions that impact their families, communities, and the entire country. This downturn in the agriculture economy makes a career in farming seem like a challenging prospect for the young and beginning farmers who make up the next generation of America's farmers and ranchers.





Yet in the past decade, more young people and beginning farmers with less than 10 years of farming experience are working hard to build viable agricultural businesses around the country. At a time when the country is seeing fewer farms and larger farms, the country is also seeing a growing number of small farm businesses engaging in different agricultural markets like community supported agriculture (CSA), farm to table, organic, urban agriculture, and other expanding markets. It is important for our rural economies and the overall health of our nation to support our next generation of farmers.

<u>Transforming Farm and Farmer</u>

Not only is this a difficult time to be a farmer, but today's farmers are older than ever. The average age of American farmers is 58 years old, and farmers over the age of 55 now outnumber farmers under 35 by a margin of seven to one.[7] Older farmers tend to operate larger farms. While the average size of a farm, according to the USDA Census, is 441 acres,[8] nearly 70% of all farmland is contained on just 8% of farm operations.[9] Over the next five years, nearly 100 million acres of U.S. farmland are expected to change ownership and will need a new farmer.[10] Nearly two-thirds of our nation's farmland will be under new ownership within the next two decades.[11]

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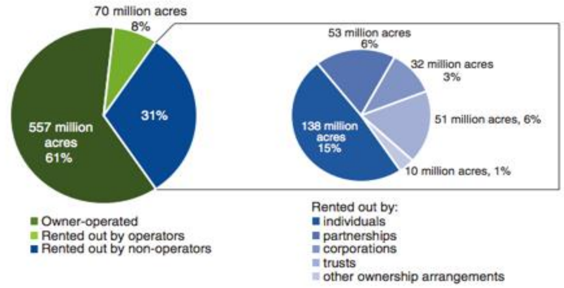
4 U.S. DEPT. OF AGRICULTURE, *supra* note 1.
5 *Id.*
6 U.S. DEPT. OF AGRICULTURE, ECONOMIC RESEARCH SERVICE, 2019 FARM SECTOR INCOME FORECAST (2019).
7 U.S. DEPT. OF AGRICULTURE, NATIONAL AGRICULTURAL STATISTICS SERVICE, 2017 CENSUS OF AGRICULTURE (April 2019).
8 *Id.*
9 DANIEL BIGELOW, ALLISON BORCHERS &TODD HUBBS, U.S. FARMLAND OWNERSHIP, TENURE, AND TRANSFER, U.S. DEPT. OF AGRICULTURE, ECONOMIC RESEARCH SERVICE, EIB-161 (2016).
10 *Id.*
11 U.S. DEPT. OF AGRICULTURE, *supra* note 1.



[1]Numbers in the tables and figures contained in this report may not sum due to rounding.
Note: Representative of the 48 contiguous States. In all figures based on the 2014 Tenure, Ownership, and Transition of Agricultural Land (TOTAL) survey data, a coefficient of variation (CV) between 25 and 50 is denoted with a * and a CV greater than 50 is denoted by a #.
Source: USDA, Economic Research Service and National Agricultural Statistics Service 2014 TOTAL survey.

Agriculture in America is constantly changing and shifting, with many farms not only getting larger, but also more technologically driven. In the 1970's, American agriculture was on an upswing with land values went up, exports of agricultural commodities were growing, and farmers gained access to credit easily to expand their operations. Then, came the farm crisis of the 1980's, the worst economic conditions since the Great Depression for agricultural businesses. Record production forced commodity prices down, while export markets dwindled. As land values dropped by one-third nationally and sky-high interest rates turned successful farms into failing agricultural businesses, many farmers found themselves in serious financial trouble. The farmers that remain have been forced to get bigger and embrace new technology to survive economically.

The farm crisis of the 1980's fundamentally altered the landscape of rural America with cultural and economic ramifications that are still felt today. The impacts of the farm crisis hurt Main Streets in small and rural communities as shops and businesses closed and towns hollowed out. Younger Americans have been discouraged from entering careers in agriculture, leading to a steady increase in the average age of the national farm population over the last four decades, contributing to the population decline in our rural communities.

Challenges for New and Beginning Farmers

Despite all these challenges, many Americans are stepping up and launching new farm businesses. For only the third time in the last century, the 2017 Census of Agriculture registered an increase over the previous census in the number of farmers under 35 years old.[12] Survey results show that these farmers are optimistic about the future,[13] but farming must remain a desirable and profitable career to attract and retain young and beginning farmers.

Access to Land

Land is a resource and access to farmland is vital to starting and supporting a viable agriculture business.[14] Since 1997, the U.S. has lost 54 million acres of agricultural land.[15] Today, of the 900 million acres of U.S. farmland, approximately 61 percent of farmland is owner operated, 31 percent is owned by non-operator landlords, and the remaining 8 percent is rented from one operator to another.[16]

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[12] U.S. DEPT. OF AGRICULTURE, *supra* note 1.

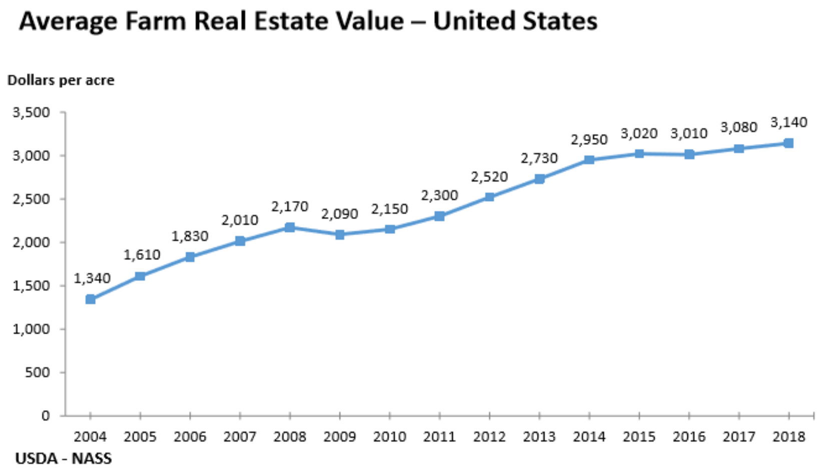
[13] SOHPIE, ACKOFF, ANDREW BAHRENBURG & LINDSEY LUSHER SHUTE, BUILDING A FUTURE WITH FARMERS II: RESULTS AND RECOMMENDATIONS FROM THE NATIONAL YOUNG FARMER SURVEY (2017).

[14] BIGELOW ET AL., *supra* note 9.

[15] U.S. DEPT. OF AGRICULTURE, *supra* note 1.

[16] BIGELOW ET AL., *supra* note 9.

Due to the aging population of farmers and agricultural landowners, transition of farmland is projected to increase in the coming years. However, this land is increasingly in demand and often remains in the family, meaning that many young and beginning farmers may still struggle to afford to rent or own farmland. Because of the limited market of farmland, agricultural real estate values across the country have nearly tripled since 2004.[17] Development pressure, high demand from other farmers, and speculation and competition from non-farm buyers has made land prohibitively expensive for new farmers. This poses a serious risk to the next generation of farmers.



While these increased values are important for current farmers and landowners, the relationship between real estate value and production value on farms continues to widen given the challenges in the agricultural economy where cost of production is often higher than the value a farmer is able to realize from their crops. With one dollar's worth of farm real estate generating just $0.16 in production in 2016, the return on investment for farmland is at the lowest the ratio has ever been.[18]

Access to Capital

Starting a farm is a capital-intensive proposition—land, equipment, and infrastructure are necessary and costly. Because of this, a beginning farmer may require large loans to get their operations off the ground. However, acquiring enough money to start up and remain viable is challenging for new and beginning farmers since they also have shorter production histories and may be challenged to prove future profitability. Farmers often need money most during the initial months of the growing season to buy livestock, seeds, fertilizer, equipment and more. Yet, the income from these investments is not usually recouped for months, while labor, marketing, and utility costs continue to add up. Access to operating loans are vital for new and beginning farmers to be able to farm.

Farm Ownership Loans and Down Payment Loans are tools to help farmers invest in land. Whether farmland is owned or leased, secure land tenure is vital for the success of a farm business. Without security, it is challenging for farmers to invest in on-farm infrastructure and the agricultural

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[17] U.S. DEPT. OF AGRICULTURE, NATIONAL AGRICULTURAL STATISTICS SERVICE, LAND VALUES 2018 SUMMARY (2018).

[18] Brent Gloy, *Farm Real Estate Pricey Compared to Income?* AGRICULTURAL ECONOMIC INSIGHTS, Sep. 11, 2017, https://aei.ag/2017/09/11/farm-real-estate-pricey-compared-income/ (last visited Jul. 17, 2019).

practices critical to building the financial equity of their businesses. There are also loans that support conservation of soil or water resources, the purchase of equipment, and emergency relief.

The Farm Credit System is a nation-wide network of borrower-owned lending institutions that was initially set up by Congress in the Federal Farm Loan Act of 1916. The Farm Credit System is overseen by the Farm Credit Administration, an independent agency of the federal government. Organized into numerous lending institutions around the country, the network operates similarly to private banks where applicants can receive farm ownership loans, operating loans, equipment financing and more. Many of the institutions also offer related programs, such as business consulting, crop insurance, tax services, and financial record-keeping assistance that are valuable for new and beginning farmers. The regional organizations within the Farm Credit System provide nearly $200 billion in loans, leases, and related services to farmers, ranchers, and other related businesses.

Finally, the USDA offers a number of credit services, discussed in detail below, and is intended to be a "lender of last resort." They often support new and beginning farmers who are unable to qualify for capital from a private institution or from Farm Credit. Many of the USDA programs, especially those administered by the Farm Service Agency (FSA), such as direct loans and guaranteed loans, are intended specifically for beginning farmers. FSA offers a range of different kinds of loans that can help a farmer purchase a farm. However, even though USDA FSA is intended to be a lender of last resort, there are numerous requirements that a new or beginning farmer must meet in order to be eligible for an FSA loan.

Student Loans

Americans are carrying more student loan debt than ever before. Paying this debt is an enormous burden and for many of America's young farmers and ranchers, student loans are an insurmountable barrier. Due to this debt, young people find that they either cannot afford to farm while paying down their loans, or that college debt is preventing them from leveraging capital to start and grow a farm business. For those young people who do start their own farm businesses, student loans can prevent them from investing their time and money into the farm. Some young farmers keep an off-farm job specifically to pay their bills. Other young farmers are forced to take money that would otherwise be invested in the farm and use it to pay student loans, limiting their ability to invest in new land, infrastructure, or equipment. In either case, the new farmer is prevented from building their farms to a scale and cover their student loan payments as well.

Federal Programs to Support Beginning Farmers

Recognizing the challenges that face beginning farmers, Congress has implemented numerous programs aimed at supporting the next generation of agriculture businesses. Many of these loans do not require a down payment but do require some form of collateral for the loan.

USDA Farm Service Agency

As mentioned previously, the USDA FSA has several guaranteed and direct loans available for farmers and agriculture business. Many FSA loans require that a young or beginning farmer show sufficient managerial ability, which may be a barrier to accessing these programs. Additionally, FSA borrowers are often required to attend FSA-approved borrower workshops or training sessions that cover financial management. While these requirements seem sound, it is unclear if these requirements are helping to support the next generation of farmers and agricultural businesses.

The Beginning Farmer and Rancher Development Program

In addition to the USDA FSA loan programs, the 2018 Farm Bill outlined a number of improvements to programs that support new and beginning farmers. The Beginning Farmer and Rancher Development Program, (BNFRDP) enacted in the 2002 farm bill,[19] is the only program explicitly focused on training the next generation of farmers. It is a competitive grant program administered by USDA's National Institute of Food and Agriculture (NIFA) that funds education, extension, outreach, and technical assistance initiatives directed at helping beginning farmers and ranchers of all types. It also offers financial and entrepreneurial training, mentoring, and apprenticeship programs; "land link" programs that connect retiring farmers and landowners with new farmers; vocational training and agricultural rehabilitation programs for veterans; and education, outreach, and curriculum development activities to assist beginning farmers and ranchers on a wide range of agriculture business topics. This program has invested roughly $162 million in developing and strengthening innovative new farmer training programs and resources across the country.

The 2018 Farm Bill established a Beginning Farmer and Rancher Coordinator in each state to improve the USDA's outreach and assistance to new farmers.[20] To date, BFRDP has funded 327 projects in nearly all 50 states.[21] In the 2018 Farm Bill, this program was merged with the Outreach and Assistance to Socially Disadvantaged and Veteran Farmers and Ranchers Program and the funding increased to $50 million in annual mandatory funding.[22]

The Environmental Quality Incentives Program (EQIP)

The Environmental Quality Incentives Program (EQIP) is a voluntary conservation program that offers farmers and ranchers financial cost-sharing and technical assistance to implement conservation practices on working agricultural land. Beginning farmers have the option to receive 50% of their eligible EQIP cost share funding upfront, helping to defray upfront costs.[23]

The Conservation Reserve Program (CRP)

The CRP provides land-owners with contract payments to remove environmentally sensitive land from production and plant resource-conserving land cover to protect soil, water, and wildlife habitat for a certain period of years. CRP includes a transition incentive program that was reauthorized with increased funding in the 2018 Farm Bill.[24] The transitions incentives program (CRP-TIP) offers special incentives to land-owners to rent or sell their agriculture land to a beginning, socially disadvantaged, or veteran farmer to farm the land using sustainable grazing or cropping practices. Due to the high demand for CRP-TIP, FSA appropriated all the funding available for the program under the 2008 Farm Bill in just a few short years, enrolling hundreds of thousands of acres. Demand for the program was been similarly high under the 2014 Farm Bill

[19] Farm Security and Rural Investment Act of 2002, 107 P.L. 171 (2002).
[20] *Id.*
[21] *BFRDP Projects*, Farm Answers, http://bfrdp.farmanswers.org/ (last visited Jul. 17, 2019).
[22] Agriculture Improvement Act of 2018, 115 P.L 334 (2018).
[23] *Id.*
[24] *Id.*

and is anticipated to remain high for the foreseeable future as more land comes out of CRP contracts.

These federal programs that provide training, support, and incentives for new and beginning farmers are helpful to ensuring that the next generation of agriculture businesses have access to the tools and resources necessary to grow and produce the food, fiber, and fuel that our country relies on.

Conclusion

Farming and agricultural businesses have been the backbone of our communities. When small family farms disappear, main streets become less active, fewer retail businesses can survive, and less money is spent in the community. Overall, rural areas that have more small farms have lower poverty and unemployment rates, higher average household incomes, and greater socioeconomic stability. This hearing will present both challenges and opportunities for the next generation of farmers and allow them to be part of the solution for attracting and retaining more new and beginning farmers.