Beginning Farmer and Rancher Opportunity Act of 2011

General Summary

Agriculture is a growing and vibrant sector of our nation's economy, yet farming and ranching as a career choice may be one of the most difficult occupations to enter. Limited access to land and markets, hyper land price inflation, high input costs, and a lack of sufficient support networks are just a few barriers new agriculture entrepreneurs face.

Despite these hurdles, dedicated people want to farm or ranch and see great opportunities in agriculture. Community organizations and institutions are seeing a wave of interest all over the country. Relatively good crop prices, a burgeoning local food movement, thriving alternative livestock production systems and markets, and the growth in organics are just a few national trends that have engaged more and more individuals and families interested in farming or ranching.

We need a national strategy and commitment to support beginning farmer and ranchers entering agriculture. With an aging farm population and large segment of baby boomers in this economic sector considering retirement in the near future, now is the time to nurture new agriculture start-ups.

New farmer and rancher policy is a jobs creator – a sound investment that can provide long-term societal benefits. It is the people in agriculture that produce the food and fiber of our nation, protect and enhance our natural resources, and contribute to the revitalization of our rural and urban communities.

New farmers and ranchers are much more diverse than previous generations. In addition to young people from farm families who are hoping to follow in their parents' footsteps, there are also new producers from non-farming backgrounds and recent immigrant families that hope to begin farming in this country. The unique needs of an increasingly diversified farmer base can and should be addressed by a national beginning farmer and rancher investment strategy.

Beginning with the 1990 Farm Bill, Congress created programs for beginning farmers and ranchers, particularly in the area of farm credit. The 2008 Farm Bill went even further by augmenting existing provisions and creating several new initiatives and incentives for beginning farmers and ranchers.

Yet, those starting or hoping to start farming or ranching continue to face distinctive challenges as agriculture changes and evolves. They also continue to face barriers in accessing federal programs designed to assist them with getting started. If we want to encourage a new generation to pursue a career in agriculture, we must design public policy that responds to the unique needs of beginning farmers and ranchers.

With the 2012 Farm Bill, Congress has an opportunity to expand and improve a comprehensive beginning farmer and rancher initiative that breaks down barriers to entry and gives real support to ensure the effective start-up and success of new small and mid-scale producers across the country. The Beginning Farmer and Rancher Opportunity Act of 2011 pulls together the best ideas from around the country for advancing new farming opportunities. It draws on progress made in previous farm bills but picks up the pace of reform. The provisions of this bill should be incorporated in the new farm bill to ensure the next generation of farmers that will feed our nation are able to thrive and prosper.

Draft Outline – Beginning Farmer and Rancher Opportunity Act of 2011
Marker Bill for 2012 Farm Bill

Preliminary Notes:

- Short summaries of draft provisions listed below in order of current farm bill titles for sake of convenience.
- To help see which provisions are amendments to existing provisions and which are brand new, each item is marked as either "*Revise" or "New*".
- In addition, each provision that would entail farm bill direct (mandatory) funding it is marked with *"$$"*.

Short Summary of Draft Provisions:

Title II – Conservation

Revise – *$$* – **CRP Transition Incentive Program (CRP-TIP):** Started by the 2008 Farm Bill, the Conservation Reserve Program (CRP) – Transition Incentives Program provides incentives for retired or retiring farmers to rent or lease land expiring from CRP contracts to beginning or socially disadvantaged farmers who commit to advanced conservation farming systems. In the 2012 the Farm Bill, CRP-TIP should be continued through 2017 and amended to strengthen the conservation language, create a comprehensive conservation plan option, and in certain circumstances allow transition between family members who meet the eligibility criteria in the case of land sales to the younger generation.

Revise – **Farm and Ranchland Protection Program (FRPP):** Amend the FRPP to provide selection criteria that allow the eligible entities that implement the program at the State or local level to do so in a manner that gives funding priority to proposals that help create new farming opportunities now or in the future. The selection criteria would include considerations for farm transfers to beginning and farmers and ranchers (BFRs), easements with an option to purchase at the agricultural use value, applications with a farm succession plan, and other similar mechanisms that maintain the affordability of farm and ranchland. Also amend the purpose of the program to include "and to encourage farm viability for future generations" to drive home the significance of farming viability and opportunity.

Revise – **EQIP Cost Share Advance Payment Option:** Reaffirm the existing cost share differential for beginning, limited resource, and socially disadvantaged producers in the Environmental Quality Incentives Program (EQIP). The cost share for these underserved groups are set at up to, but not greater than, 90 percent of the costs associated with employing a conservation practice, and not less than 25 percent above the otherwise applicable rate which general applicants receive. Also, reaffirm the advance payment option allowing beginning and socially disadvantaged producers to receive an advance payment for the project's costs for purchasing materials or contracting services, but increase the limit on the advance payment from 30 percent to 50 percent of costs. Include BFRs and socially disadvantaged farmers and ranchers in the Conservation Innovation Grant subprogram.

Revise – **EQIP and CSP Funding Set-Aside:** The 2008 Farm Bill provided for a 5 percent reservation of funds for beginning farmers within EQIP and CSP. The 2012 Farm Bill should reserve 10 percent of total funds allocated for EQIP and 10 percent of total acres allocated for CSP for beginning farmers and ranchers. The revised measure should also give USDA authority to increase the rate at which technical assistance is provided when assisting BFRs.

Revise – **Whole Farm Conservation Planning:** The conservation title of the 2002 Farm Bill in Section 2004 authorized the Secretary of Agriculture to provide special incentives to beginning farmers and ranchers and limited resource producers to participate in federal agricultural conservation programs. The authority under Sec. 2708(a) of the 2008 Farm Bill should be reauthorized but strengthened to include a specific authorization for NRCS to provide these farmers and ranchers with technical and financial assistance (through EQIP, CSP, or Conservation Technical Assistance), to develop whole farm resource management system plans.

Title V – Credit

Revise – **Direct Farm Ownership Experience Requirement:** For all FSA loans, applicants must have sufficient education, training, and experience to qualify. For direct farm ownership (DFO) loans, an additional requirement applies – the applicant must have participated in the business operation of a farm for at least three years, thereby narrowing their ten-year eligibility as beginning farmers to seven years. The 2012 Farm Bill should reduce the DFO requirement to two years. It should also provide FSA with the discretion to consider a wide range of farm experience, including on-farm employment, mentorships, and apprenticeships, in determining the contributions to the two year requirement.

Revise – **Conservation Loans:** Direct and guaranteed conservation loans, as authorized in the 2008 Farm Bill should be reauthorized and continue to include a priority for beginning and socially disadvantaged farmers and ranchers. The 2012 Farm Bill, however, should apply all of FSA's traditional farm ownership and operating loan programs eligibility requirements to ensure that limited government financing is well targeted. In addition, the guarantee amount should be raised to 95 percent for beginning and socially disadvantaged farmers and ranchers, and a target participation rate for BFR similar to the targets for other loan programs should be created. Finally, the authorization for appropriations should specify amounts for direct loans and for guaranteed loans, consistent with the authorization for appropriations for all the other farm loan provisions.

Revise – **Direct Loans – Loan Limits:** Direct farm ownership and farm operating loan limitations were increased in the 2008 Farm Bill from $200,000 to $300,000. The 2012 Farm Bill should retain these higher limits, but should add new discretionary authority to USDA to adjust the direct farm ownership loan limit by up to $200,000 to reflect geographic variation in land prices.

New – **Young Beginning Farmer and Rancher Microloan Program:** Currently no intermediate program option exists targeting the needs of young farmers after they no longer qualify for FSA Youth Loans. To serve first career beginning farmers and ranchers, and patterned in part on FSA Youth Loans, this program option would create a new simplified loan category administered by FSA to provide quick and flexible capital through operating microloans for new producers:

- Principal balance may not exceed $35,000;
- Eligible beginning farmers and ranchers would be 19-35 years of age;
- Loan repayment would be required in not less than 5 and not more than 10 years;
- Interest rate would be set at the limited resource loan level;
- Issuing of loans would require new farmers and ranchers to complete the borrower training program, a BFRDP-funded training program, or an equivalent as determined by FSA; and
- Funding would be from within the Direct Operating Loan authorized and appropriated amount; does not need separate funding line.

Revise – $$ – **Individual Development Accounts Pilot Program:** Passed in the 2008 Farm Bill but never appropriated to date, this program supports the establishment of matched savings accounts for beginning and socially disadvantaged producers, the proceeds of which may be used on capital expenditures for a farm or ranch operation, including purchases of land, buildings, equipment, or livestock. Administered through the Farm Service Agency, the program would include at least 15 state pilot programs and be subject to an annual and 5-year evaluation. The pilot program should be reauthorized exactly as written in the 2008 Farm Bill, but provided $5 million per year in mandatory funding.

Revise – **Graduation to Commercial Credit:** Under current law, direct and guaranteed loan borrowers have a short, fixed number of years in which they are eligible for loans. Congress has regularly waived the term limits for guaranteed loans for a few years at a time, while direct loan term limits remain in full force and are affecting thousands of borrowers.

The 2012 Farm Bill should get away from periodic extensions and waivers and establish a permanent graduation policy, the building blocks of which are already in place from previous farm bills and from agency procedures. The 2012 Farm Bill should direct FSA to eliminate term limits on direct and guaranteed loans once the agency certifies that:

- FSA has issued rules (and employee performance evaluation criteria) to ensure the borrower training program, loan assessment process, market placement, and graduation procedures are strengthened and fully operational; and
- On a state-by-state basis, FSA certifies that local office training of all loan officers on these four elements has taken place and these existing program elements are being fully utilized in the state.

Revise – **Funding Authorization Levels:** The 2008 Farm Bill increased the authorization for appropriations for program levels for direct farm operating loans to $850 million and for direct farm ownership loans to $350 million. The actual appropriations for these programs, however, have been considerably higher. The 2012 Farm Bill should raise the authorized levels to the more realistic levels of $1.25 billion (Direct Farm Operating Loans), $750 million (Direct Farm Ownership Loans), and $1.5 billion (Guaranteed Farm Ownership).

Revise – **Loan Reserve Fund and Priority for Participation Loans:** All of the existing statutory loan fund set-asides for beginning farmers and ranchers should be continued at their current levels and with their current timing provisions. The date for the current direct operating loan reserve rate should be extended beyond 2012. In order to serve the maximum number of borrowers for a given amount of appropriations and to encourage partnerships with private lenders, the 2012 Farm Bill should establish a policy that within the direct farm ownership loan portfolio, priority is given for the down payment program or the 50/50 joint financing participation loan program and these options must be considered first. The more traditional 40-year, 100 percent government financed loans should still be allowed, but only in cases in which FSA determines that participation loans are not a viable option for a particular producer.

Revise **–** **<u>Borrower Training Program:</u>** A directive should be included in the 2012 Farm Bill to instruct the Secretary to coordinate the FSA borrower training program established by the 1992 Agricultural Credit with the Beginning Farmer and Rancher Development Program (BFRDP) administered by NIFA to ensure that financial management training programs funded by BFRDP are able to meet the borrower training requirements for obtaining an FSA loan.

- **Special Note**: There are several programs from previous farm bills that should be continued, but which are not in need of any statutory changes. These include:

  <u>Beginning Farmer and Rancher Down Payment Loan Program:</u> Continue the popular Down Payment Loan Program, a real estate partnership loan option that brings together borrower equity, commercial lender financing, and FSA direct lending to help beginning and socially disadvantaged producers in buying farm or ranch property. The program was first authorized in 1992. The reforms introduced in the 2008 Farm Bill are working very well and should be continued without revision.

  <u>Contract Land Sales Program for Beginning and Socially Disadvantaged Farmer and Rancher:</u> Continue this innovative option for owner self-financing as written in the 2008 Farm Bill. The program provides federal loan guarantees to retiring farmers who self-finance the sale of their land to beginning or socially disadvantaged farmers. The program is designed to encourage private land contract sales by providing a degree of protection to a retiring farmer whose retirement savings is often in land and the farm. (Note: USDA has not yet issued the final rule for this 2008 Farm Bill program and hence it is not yet operational.)

  <u>Direct and Guaranteed Loan Fund Set-Asides and Inventory Land Sales Preferences:</u> Continue at their current levels and with their current timing provisions all of the existing statutory direct and guaranteed farm ownership and operating loan fund set-asides and the inventory land sales preference for beginning farmers and ranchers.

Title VI – Rural Development

Revise **–** **<u>Value-Added Producer Grants:</u>** The 2008 Farm Bill created a priority within the Value-Added Producer Grant Program (VAPG) for projects benefiting beginning farmers and ranchers as well as a set-aside of program funding. Those provisions should be continued but clarified in light of an impractical USDA interim rule for the program. In its proposed rule, USDA decided that farm coops or businesses participating in VAPG needed to be 100 percent made up of beginning farmers in order to qualify for the priority and the set-aside. In the interim rule, USDA revised the requirement to 51 percent in one place but left it at 100 percent in another place. The 2012 Farm Bill should clarify that VAPG projects in which more than a quarter of the beneficiaries are beginning farmers shall qualify as meeting the priority and for the set-aside.

New – **Rural Development Authority for New Entrepreneurial Farm Enterprises:** The growth of entrepreneurial agriculture and new higher value local and direct markets hold great appeal among young and beginning farmers. Increasing support for farm and farm-related business start-ups can be an important rural development strategy in some areas. A new general authority should be created to allow USDA to use Rural Development grant and loan programs to foster new entrepreneurial opportunities for BFRS that will produce primarily for local and regional markets (as defined by the 2008 Farm Bill). Any such grants and loans would be targeted to small and mid-size farm enterprises, consistent with the purposes of each individual underlying program and excluding annual agricultural production purposes.

Title VII – Research, Education and Extension

Revise – *$$* – **Beginning Farmer and Rancher Development Program:** BFRDP should be reauthorized with changes that simplify the grant types offered and ensure the program focus is targeted to community-based approaches to supporting new producers. Considering vigorous demand and positive outcomes, mandatory funding should be increased from $75 million to $125 million over the next 5 years. Also, to help facilitate participation in the program by non-governmental and community-based non-profit organizations, a voluntary option should be added to provide for a 10 percent indirect cost option in lieu of a higher negotiated rate. Finally, the program should include an additional grant purpose on agricultural rehabilitation and vocational training programs for returning military veterans.

New – **Beginning Farmer and Rancher AFRI Research Priority:** A new national program area within the Agriculture and Food Research Initiative (AFRI) competitive grants program should be authorized to support research, education, and extension, including integrated projects, related to beginning farmers and ranchers, socially disadvantaged and immigrant farmers, farm transition, farm transfer, farm entry, new marketing and farm viability alternatives, and related issues.

In addition, the law should be clarified to ensure that all persons and entities defined in statute as eligible for AFRI awards are eligible for integrated AFRI projects that combine research, education, and extension components. This is important for all AFRI integrated projects and especially for applied program areas like the proposed New Farms program.

Title XII – Crop Insurance

Revise – *$$* – **Beginning Farmer and Rancher Revenue Insurance Eligibility:** The 2008 Farm Bill directed RMA to contract for a study to analyze barriers for beginning farmer participation in the Adjusted Gross Revenue (AGR) and AGR-Lite revenue insurance policies and to recommend ways to overcome those barriers. The report is in process. The 2012 Farm Bill should include sense of Congress language to encourage RMA to make whatever regulatory or operational changes that are necessary to provide beginning farmers and ranchers with full, unhindered access to these programs and related revenue insurance products.

Revise – $$ – **Risk Management Partnership Programs:** The funding for the RMA partnership programs is part of a broader mandatory funding line item from the 2000 ARPA legislation as revised by the 2008 Farm Bill. The proposed revision would increase partnership program funding from $7.5 to $10 million and within the partnership programs add a strong emphasis on beginning and socially disadvantaged farmers and ranchers.

- **Special Note**: The Risk Management Education program should be continued, but is not in need of any statutory changes.

  Risk Management Education Program: Continue the 2008 Farm Bill special emphasis on risk management strategies and education and outreach specifically targeted at beginning farmers and ranchers, immigrant farmers and ranchers who are attempting to become established producers in this country, farmers and ranchers who are preparing to retire and are using transition strategies to help new farmers and ranchers get started, and new and established farmers and ranchers who are converting their production and marketing systems to pursue new markets.

Title XIV – Miscellaneous

New – **Beginning Farmer and Rancher Coordinators:** The 2012 Farm Bill should add a new component: designation of a beginning farmer coordinator/specialist at the state office for FSA, RMA, RD, and NRCS who would coordinate outreach and technical assistance and develop statewide plans to help beginning farmers gain access to USDA programs. The BFR coordinator would be knowledgeable across agency lines -- so regardless of whether they are FSA, RMA, NRCS, or RD employees, they would be informed about what was available to BFRs from USDA as a whole. The new farm bill should also clarify the role of the OAO with respect to rulemakings by the Department.

New – **Military Veterans Agricultural Opportunity Program:** Create a new veterans/beginning farmer initiative, including –

- Authorize the use of GI Bill funds by eligible veterans for participation in beginning farmer training programs that are not for college credit.

- Establish a Veterans Agricultural Liaison Position at USDA (placement left to the discretion of the Secretary) charged with facilitating the process of educating returning veterans about and connecting them with beginning farmer training and/or agricultural vocational and rehabilitation programs appropriate to their needs and interests; helping all veterans to understand availability and eligibility requirements for participation in farm bill programs with particular emphasis on beginning farmer and rancher programs; serving as a resource for assisting veteran farmers/potential farmers in applying for participation in farm bill programs; and advocating on their behalf in interactions with agency staff.