

DATE: MARCH 14, 2011

TO: ALL PARTIES INTERESTED IN THE VALUE-ADDED PRODUCER GRANT (VAPG) PROGRAM

FROM: MARTIN ZONE, VAPG COORDINATOR, OREGON OFFICE/USDA-RURAL DEVELOPMENT

SUBJECT: VAPG INTERIM RULE – HIGHLIGHTS OF PROGRAM CHANGES

1) **DEFINITIONS (Section 4284.902) – Some terms have been added to this section of the rule that were not previously formally defined. The following list does not include all these additions:**

Agricultural producer – There is a significant change that allows for the inclusion of agricultural operations in which the agricultural producers are “directly engage(d)” by virtue of “substantially participating in the labor, management, and field operations themselves OR (emphasis supplied) by maintaining ownership and financial control of the agricultural operation.”

Beginning farmer or rancher – The reader is referred to “Section 4284.902 Definitions,” of the Interim Rule.

Branding – This is newly provided and means that “branding” of a product, as defined, will once again be an eligible activity. Please note, for an agricultural product to be eligible for the activities involved in branding, the product must still meet one of the five value added methodologies enunciated in the definition of “value-added agricultural product,” found in Section 4284.902.

Change in physical state – a formal definition is now provided that is consistent with the previous usage of this term (this term was not previously defined). This process is “(a)n irreversible processing activity that alters the raw agricultural commodity into a marketable value-added product.”

Emerging market – a formal definition is now provided that is consistent with the previous usage of this term (this term was not previously defined).

Family farm – the same basic definition is provided as previously used, with clarifications regarding the commodities produced on the farm and the work performed by owners. A distinction is made between a farm and a rural residence and hired help is limited by definition. And, who qualifies as owners is defined.

Farm- or Ranch-based renewable energy – the energy source and usage are specified, tying together the renewable energy generated with a specific agricultural commodity produced on the farm. Ineligible sources are listed. The key to this category is the on-farm generation of energy. (If you are going to propose a project in this category be sure to clarify its eligibility.) Other types of energy generation activities may be eligible under “change of physical state.”

Farmer or rancher cooperative – even if they are incorporated in states that do not have specific co-op incorporation laws, co-ops may now be considered eligible applicants. In addition, members may be confirmed as independent producers by class, as opposed to each member being listed, as previously required. (See #6 and # 7 below, for more details.)

Independent producers - the definition is basically consistent with the previous usage of this term. In addition, the harvester of an agricultural commodity (now specifically included) will have to “document their legal right to access and harvest...the value-added product” they will be producing.

Local or regional supply network – this concept is expanded to include ALL agricultural products, not just food.

Medium sized farm – annual gross sales have been increased to \$1,000,000. (See below, #8, for more details.)

Project – a clarification is provided that indicates this is the Value-Added proposal, as opposed to the normal operations of the applicant (see “Venture”).

Value-added agricultural product – a significant change in this definition relates to the second qualifying methodology...“(ii) was produced in a manner that enhances the value of the agricultural commodity.” This definition now leaves out the requirement to have this methodology demonstrated through a Business Plan. Consequently, an applicant can now apply under this category for a Planning Grant (which was previously not allowed). (Also, see #9 below.)

Venture – the applicant’s overall operations, including the proposed value-added project.

2. MATCHING FUNDS REQUIREMENT: The applicant may now include the expense of their work or that of family members valued up to 25% of the project’s total cost as part of their match. The work must be done on eligible activities and is subject to a list of criteria that must be met. These include a “basis for the valuation, referencing comparable market values, salary and wage data, expertise or experience of the contributor, per unit costs, industry norms, etc.” In addition,

the “final valuation for applicant or family member in-kind contributions is at the discretion of the Agency.” (Section 4284.923)

3. LOCAL AND REGIONAL SUPPLY NETWORKS that link into Mid-Tier Value Chains are **NO LONGER** limited to food related businesses. They now, by definition, apply to “agricultural” products in general. Thus, both food and fiber products are eligible. (Section 4284.902)

4. BEGINNING FARMER OR RANCHER AND SOCIALLY DISADVANTAGED FARMER OR RANCHER: The inclusion of these two categories in the VAPG program was new in September 2009. They have now been modified. The definitions include how applicants in these categories may compete for reserved funds. In addition, priority points may now be awarded to applications that demonstrate a contribution to farming opportunities for Beginning Farmers or Ranchers or for Socially Disadvantaged Farmers or Ranchers, with applicant ownership or membership of 51% or more beginning farmers or ranchers or socially disadvantaged farmers or ranchers. Competition for reserved funds in these two categories is also discussed in the definitions. Please note that the requirement to be included in these reserves requires 100% membership in these categories. Some additional clarification may be forthcoming in the final rule or explained more completely in the application template that is also forthcoming.

5. The definition of “CONFLICT OF INTEREST” is expanded (section 4284.902).

6. THE MEMBERS OF A FARMER OR RANCHER COOPERATIVE OR AN AGRICULTURAL PRODUCER GROUP MAY NOW BE IDENTIFIED BY NAME OR CLASS, rather than requiring full disclosure, by individual names, of all the members. This will make it easier for these groups to apply for funding.

7. A FARMER OR RANCHER COOPERATIVE is a business owned and controlled by independent producers that is incorporated, or otherwise identified by the state in which it operates, as a cooperatively operated business. This change allows a more diverse membership in the cooperative (processors, consumers, etc.), as long as the *majority* of the ownership and financial control is held by independent agricultural producers. This change also makes clear that, in states not offering cooperative incorporation status, a cooperatively operated business, as identified by the state in which it operates, may apply as a Farmer or Rancher Cooperative.

8. The definition of a “MEDIUM-SIZED FARM” has been changed. The amount of the maximum “...annual gross sales of agricultural commodities in the previous three years” has been increased from \$750,000 to \$1,000,000. This change allows more family farms to receive priority points in the competition for funding.

9. THE PRODUCT ELIGIBILITY CATEGORY “PRODUCED IN A MANNER THAT ENHANCES THE VALUE OF THE AGRICULTURAL COMMODITY: MAY NOW COMPETE FOR PLANNING GRANT FUNDS. This change results from dropping the requirement that applicants applying in this category had to have a feasibility study and a business plan *before* they could apply for funds. This limited such applicants to applying only for Working Capital funds. They now can apply for Planning Grants as well.

10. While the requirements for FEASIBILITY STUDIES AND BUSINESS PLANS have generally stayed the same, there are SOME SIGNIFICANT CHANGES that “ease up” on these requirements as they pertain to certain specific categories. Applicants must review Section 4284.922 Project Eligibility, specifically (b) *Purpose eligibility*, (6), for a complete understanding of these requirements.

(1) An Independent Producers applying for “...working capital grant(s) of \$50,000 or more, who can demonstrate they are proposing market expansion for an existing value-added product(s) that they currently own and produce from at least 50% of their own agricultural commodity, and that they have produced and marketed for at least two years at (the) time of application submission, may submit a business or marketing plan for the value-added project in lieu of a feasibility study.” All other eligibility requirements must still be met, including documentation of increased customer base and increased revenue returns to the applicants (producers). The feasibility study is not required in this situation because the applicant has been doing this activity for at least 2 years. Nevertheless, the business plan is required in order to justify the amount of funds (greater than \$50,000) being requested.

(2) All four applicant types that submit a simplified application for working capital grant funds of less than \$50,000 “...are not required to provide an independent feasibility study or business plan for the project/venture but must provide adequate documentation to demonstrate the expected increase in customer base and revenues resulting from the project that will benefit the producer applicants supplying the majority of the agricultural commodity for the project. All other eligibility requirements remain the same.” No feasibility studies or business plans are required in this situation since the amount of funds requested is less than \$50,000.

AGAIN, PLEASE BE SURE TO REVIEW THE ENTIRE SECTION IN THE RULE TO UNDERSTAND THE STANDARDS THAT MUST BE MET.

11. An applicant that applies as a STEERING COMMITTEE is no longer limited to converting into an eligible Independent Producer entity, but now may convert the Steering Committee into any of the four eligible applicant categories. The steering committee members must be the owners of the new legal entity that is formed. (Please be sure to review this category in the Final Rule.)

12. THE POINT STRUCTURE OF THE SCORED QUESTIONS HAS BEEN CHANGED. THESE ARE ALL FOUND AT “SECTION 4284.942, PROPOSAL EVALUATION CRITERIA AND SCORING APPLICATIONS” IN THE RULE. (THIS STRUCTURE MAY BE CLARIFIED WHEN THE FINAL RULE IS ISSUED.)

13. PRIORITY POINTS (ten points) “...may be awarded in both the General Funds competition, as well as the Reserved Funds competitions,” for Beginning Farmer or Rancher, Socially Disadvantaged Farmer or Rancher, Operator of a Small or Medium-sized farm or ranch that is structured as a Family Farm, Mid-Tier Value Chain proposals, and Farmer or Rancher Cooperative.” Be sure to refer to the documentation requirements including those in Section 4284.922(d) of the rule.

14. Two RESERVE FUNDS will be available. Each fund will have ten percent of the available General Funds reserved for applications submitted under that specific category. Beginning Farmer or Rancher and Socially Disadvantaged Farmer or Rancher will constitute one Reserve Fund. And, Mid-Tier Value Chain Projects will constitute a second Reserve Fund. Be sure to refer to the documentation requirements including those in “Section 4284.922 Project eligibility, (c) *Reserved funds eligibility.*”

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