

--DRAFT PENDING SUB-COMMITTEE APPROVAL--

**WISCONSIN DAIRY TASK FORCE 2.0
SUB-COMMITTEE ON ACCESS TO CAPITAL
MINUTES**

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January 23, 2019

The Access to Capital sub-committee of the Wisconsin Dairy Task Force 2.0 met on Wednesday, January 23, 2019 beginning at 12:30 p.m. at the MacKenzie Center, W7303 County Highway CS, Poynette, WI 53955.

Call to Order

Chair Bradley Guse called the meeting to order at 12:39 a.m.

Members Present

Members present included: Bradley Guse, Darin Von Ruden, Don Hamm, and John Accola. Paul Scharfman joined by phone. Dairy Task Force 2.0 Chair Mark Stephenson and DATCP staff Ashley Andre also attended.

Minutes

Approve minutes of last meeting

Chair Guse asked for a motion to approve the minutes from the teleconference. Darin Von Ruden made a motion. John Accola seconded. The minutes were approved unanimously.

Resume work on tasks identified in charging document

Chair Guse asked the group to review the challenges identified in the October 15, 2018 minutes to begin discussion. He recapped that at the last full Task Force 2.0 meeting, members passed a recommendation to increase access to capital for rural dairy processors.

The challenges identified at the last sub-committee meeting that have not yet been addressed are:

- Cycle bridging funding: How to bridge between peaks and valleys of the commodity markets.
- Start-up and transition financing: How to get young producers and processors started.
- Environmental compliance emerging technology financing: How to finance innovations in the industry.
- Willing players in the agricultural lending marketplace?

Cycle bridging financing

Chair Guse asked the group to consider how we bridge the times of high and low prices. Don Hamm asked if farmers should be asking for more when times are good and less when times are

bad to build more liquidity. Chair Stephenson added that it is challenging to have working capital not working for you. Mr. Von Ruden said that it does happen, but when times get bad two or three years down the road, the money is already used up. Mr. Accola described it as a type of rainy day fund.

Chair Stephenson pointed out that most farmers are in good equity positions, but some are not. Asset values are declining. Mr. Von Ruden agreed that cow prices are down. Chair Guse added that some machinery values are holding, depending on size and scale, as well as land values. Mr. Von Ruden noted that he has heard land values may drop this coming year as those who rented or leased land are not able to make their payments from last year.

Mr. Accola emphasized the stress many farmers are under during this tough time and if lenders are able to bridge the gap to when things will get better. Chair Guse agreed that it is a matter of operations considering how far they want to go, and then if they do want to unwind their business, it takes time. Financial stress often makes these decisions more difficult. Mr. Accola added the importance of banks going through a stress test with producers to determine next steps.

Mr. Accola asked if what is occurring in dairy is different than any other industry? Chair Stephenson added that there are some differences.

Chair Stephenson brought up an idea that has been discussed in past Farm Bill discussions, a tax-sheltered savings account. Similar things have been set up in other countries like Canada and Australia. On good years, farmers can put money away not taxed. When the money is drawn out, it is then taxed. Some each offer a type of a match for money put into the account. This account encourages farmers to put away more capital income without spending it on assets they don't necessarily need or push production to a higher level. He added that it gives farmers a way to put away for retirement.

Mr. Accola added that many farmers work to get their tax liability to zero. Mr. Hamm agreed that does happen. Chair Stephenson pointed out farmers should be proud to pay taxes. Mr. Hamm asked the group if this account would have unintended consequences to allow the big farms to shelter more funds. Chair Guse added that it could have a limitation on revenue, and Chair Stephenson emphasized that it is not tax-exempt; just deferred.

Mr. Hamm asked Chair Guse about debt per cow for the industry. Chair Guse explained that he now uses debt per hundredweight. Chair Guse added that you can't hang your hat on one number alone and that the lending industry probably doesn't do a good enough job of touting that there are standards in place.

Paul Scharfman asked if dairy farmers hedge for future inputs and outputs. What barriers exist that can be helped? Mr. Hamm said hedging can be done.

Mr. Accola asked if farmers look at the margins as many businesses do. The prices don't matter as much as the margins. Mr. Accola said that he understands that many farmers have had to take risks to get them where they are today. Mr. Scharfman asked if we could agree as a sub-committee that farmers who aren't hedging should consider it as an option.

Mr. Hamm said that the new Farm Bill offers new protections for some farmers and risk management tools. Chair Stephenson added that the Dairy Margin Coverage Program is an adequate risk management tool for smaller farms if their historic production is close to five million pounds or less. Larger farms would still need to consider additional alternatives. The Dairy Revenue Insurance Program is also a good tool for farmers to consider.

Chair Guse added that there have been educational programs about these programs and the possible benefits. He wonders what the adoption rate is for programs like this as well as grains. Chair Stephenson agreed that in grain, the adoption rate is low. Mr. Hamm mentioned that a group tries to match people up to get a contract for enough pounds of grain per month. It is difficult to get farmers to all agree to the same terms.

Chair Guse brought up forward contracting. Mr. Scharfman explained that fluid plants cannot do it.

Mr. Scharfman asked if the sub-committee should recommend a study about how hedging has the potential to take the cycles out of production. What are the barriers to use these tools? Why aren't more people using them? Chair Stephenson said that people have to pay money to transfer the risk to someone else who is willing to accept that risk. Some farms don't want to give up the chance of \$24 milk/hundredweight when it comes along, and contracting does that. That's the value of the Dairy Revenue Insurance Program.

Mr. Accola came back to that the tax-sheltered savings account could bridge the gap. Chair Guse agreed. It would have to be done at the federal level. Chair Stephenson added that it would have to be done through the Ways and Means Committee. The sub-committee could recommend that we support this concept and need to work with national organizations to speak to Congress about why it is important.

Mr. Von Ruden did point out that farmers may find it difficult to put money in the account versus investing in a new piece of equipment or upgrade a building on the farm. Mr. Von Ruden asked if the account would need limits. Chair Guse reminded the group that it would be tax-deferred, not tax-free. Chair Stephenson pointed out that we do not have to write the regulations. We only need to recommend that this concept has merit, and we would like to see it move forward. Mr. Accola and Chair Stephenson will draft a recommendation on the benefits of the federal government establishing a tax-sheltered savings account for farmers to utilize.

Mr. Hamm asked Chair Guse about efficiencies of scale. Chair Guse explained that larger farms commonly gain capital efficiency. Chair Stephenson added that smaller farms commonly gain labor efficiency.

Mr. Accola asked if larger farms are more focused on margins. Chair Guse said that it couldn't be characterized on farm size. He mentioned a past article he did that provided a scorecard for people to score themselves as their ability to not only know their numbers, but make financial decisions based on them.

Start-up and transition financing

Chair Guse asked if when we discussed start-up and transition financing, if this is where we consider financial literacy and the education side of that. With the changes in UW-Extension, are we concerned about access to this knowledge? Chair Stephenson asked where farmers receive this information. Mr. Von Ruden said that part of this comes back to the need for rural broadband. When young people come back from college and want to access information on their devices, they cannot, because they are not connected. Chair Stephenson agreed that the importance of broadband has come up at numerous sub-committees.

Mr. Hamm said that his UW-Extension staff are less engaged in production agriculture. He said that at the beginning of his career, he relied on the technical colleges for continuing education. Chair Stephenson added that we need to reach people where they are. Mr. Accola wondered if UW-Extension could partner more with industry to share information with farmers. Chair Guse added that there are many people doing education like this: UW-Extension, the technical colleges, PDPW, etc. Do we need a different one? Chair Stephenson added that webinars are gaining in attendance and allowing us to accomplish more.

Mr. Hamm noted that farmers talk about finances more now than ever before. It is also important to note the legacy or family costs that many farms have. Chair Stephenson mentioned that the Generational Succession and Transition sub-committee was discussing that issue.

Chair Guse brought up the importance of processing to the dairy industry. How can we get more processors and get them to start a new specialty cheese company?

Mr. Von Ruden brought up an idea that for the first five years, beginning farmers get a better pay price than those who have been farming for thirty years. He gave an example of the Organic Cost Share Certification Program. Mr. Von Ruden used it at the beginning of his career, but now he believes it should be utilized for the younger generation. How can we best spend these tax dollars?

Mr. Accola added that the issues are very fragmented with different situations, variables, and challenges. It will be difficult to address the issue with a specific program. It comes down to the individual.

Chair Guse pointed out that there are programs available for beginning farmers through the SBA, WHEDA and FSA. Mr. Hamm noted that the risk is different whether you are starting as an individual or as part of an LLC. There is also a difference when there is only one child involved instead of multiple.

Chair Guse will draft a recommendation to modernize language for the beginning farmer programs, including updating the definition of a beginning farmer.

Mr. Hamm asked what needs to be done for processors. Mr. Scharfman added that he didn't have a specific answer but that it is his perception that the Wisconsin dairy industry has boundless opportunities and niche markets to explore. Years ago he received funding from the state to complete market research, which has been shared across the industry. Mr. Hamm agreed we need to look beyond commodity cheeses.

Mr. Scharfman believes there is access to capital available for processors who have good ideas. There are ideas out there, but why aren't they pursuing them? Why isn't anyone doing the marketing to find the new ideas? Chair Stephenson recommended sharing this idea with the Research and Product Innovation sub-committee. Mr. Scharfman provided examples of how this has been done in the past with flavored shredded cheese and crunchy cheese. He added that Wisconsin is set-up for specialty cheese. Why don't we find more niches? Mr. Scharfman believes the state could consider a grant to fund research on this.

Chair Stephenson mentioned that that Generational Succession and Transition sub-committee met earlier this week and discussed the Dairy Grazing Apprenticeship Program and how it brings people together. It provides a formal structure to transfer information.

Chair Guse asked if the industry needed a mentorship program, such as the SCORE small business marketing. Could it be a network of retired farmers that provide mentorship to younger producers on financial management? Mr. Hamm pointed out that equipment dealers do this among its peers. Chair Guse added that the ag lenders share information as well. Mr. Hamm said that in a way, it's a bad thing to share so much. In most industries, businesses sign patents and non-disclosures. In agriculture, we share everything and in a way lose our competitive advantage.

Mr. Hamm noted how successful Producer-Led Watershed Grant Programs have become around the state to share information.

Environmental compliance emerging technology financing

Mr. Accola stressed that groundwater issues are not going away, are not one person's problem, and will need public money.

Chair Guse noted the difficulty of funding emerging technologies, like digesters.

Chair Stephenson noted an example of some leasing capped-off land fills to grab the methane, scrub it, and inject it into the pipeline. For farms that are not big enough for their own digester, how can they do something similar, taking a small amount from a farm each day? Communities may like that better to have less hauled at a time.

Mr. Accola asked about issues facing dairy processors. The group discussed how there is a lot of technology available, such as water purification or taking specific nutrients out of manure, but who funds it? Mr. Scharfman noted that his water treatment equipment is transferable and has value. He believes that the recommendation the Task Force 2.0 already passed addresses this challenge for processor.

Chair Guse and Mr. Hamm will draft a recommendation to update existing WHEDA programs to include emerging technologies, including those for manure management.

Mr. Accola agreed that it is important to make funds available for people to take advantage of available and proven technology, such as sand separators.

The group discussed how multiple farms could take advantage of technology at a central location. Mr. Hamm asked where money for something like that could come from, grants? Mr. Accola added they could be pilot projects but not necessarily limited to dairy. This is a shared issue by Wisconsin's livestock industry.

Chair Guse and Mr. Hamm will draft a recommendation on the possibility of funds for innovative pilot programs that can be utilized by multiple producers and beneficial for Wisconsin's entire livestock industry.

Willing players in the agricultural lending marketplace?

Chair Guse pointed out that the American Bankers Association released their top 100 farm lenders list. When lenders have a substantial part of their portfolio in agriculture, especially in rural communities, this can cause tremendous stress on the farms as well as the banks. This stress may make banks question if they need to be involved in agriculture. Ag lending takes a specialized staff.

Chair Stephenson asked if there was a possible solution to this. Chair Guse asked if we could give a tax incentive for banks to stay in agriculture. Could interest earned on ag loans be non-taxable or taxed at a lower rate? Could this issue impact ag's access to capital in the future? The group discussed the role of players, like John Deere Financial, in the ag lending community.

Chair Guse asked if this is an issue we are worried about at this time. Mr. Von Ruden added that by making changes to the FSA loan language, about who can and can't qualify for beginning farmer loans, may help some. Mr. Hamm added that at this time, there is still credit available.

Mr. Accola pointed out the consolidation in banking. Farmers pay a risk premium in good and bad years.

Chair Stephenson added that we not need to form a recommendation on this topic if the group doesn't believe there is one.

Identify next steps

Chair Guse asked for any more discussion. The group then reviewed the action items:

- Mr. Accola and Chair Stephenson will draft a recommendation on the benefits of the federal government establishing a tax-sheltered savings account for farmers to utilize.
- Chair Guse will draft a recommendation to modernize language for the beginning farmer programs, including updating the definition of a beginning farmer.
- Chair Guse and Mr. Hamm will draft a recommendation to update existing WHEDA programs to include emerging technologies, including those for manure management.
- Chair Guse and Mr. Hamm will draft a recommendation on the possibility of funds for innovative pilot programs that can be utilized by multiple producers and beneficial for Wisconsin's entire livestock industry.

Mr. Hamm asked Chair Guse about the current mood in ag lending. Chair Guse confirmed there is a lot of stress and hard conversations. Mr. Accola added that there is a lot of uncertainty in the

economy, which also impacts agriculture. Chair Guse added that the ag lending community does share information and work to help each other.

Set a conference call

The sub-committee chose to have their conference call on February 18, 2019 at 9:00 a.m. Submit all action items to Ashley Andre by Friday, February 8, 2019 so they can be distributed to the group.

Adjournment

The sub-committee adjourned at 2:57 p.m.

Minutes drafted by Ashley Andre.

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