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Beginning Farmer Policy Options for the Next Farm Bill

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Conversations about the way we grow, process, and consume our food are increasing in America. As the public's interest has grown, so too has the infrastructure to support such things as "farm to table" supply chains, a growing organic food market, and sustainably produced meats and dairy products. Federal policies have begun to respond to the public's growing interest in more sustainable food systems, yet major impediments remain. Some of the biggest obstacles to overcome are those faced by young and first-time farmers, particularly the challenge of accessing the land and capital needed to enter and establish themselves in the field. As the 2018 Farm Bill approaches, Congress will have an extraordinary opportunity, coming only once every five years, to level the playing field for beginning farmers and break down the barriers holding back the growth of sustainable agriculture in our country.

The high start-up costs of entering farming mean steep barriers to entry. This may mean the industry's potential for growth and innovation is stunted. As of 2012, beginning farmers made up only a quarter of all farmers in the United States (USDA-NASS, 2014) . While it is not clear what is an appropriate share of beginning farmers, we do know that this has been a declining share of the nation's farmers since at least 1982 (Ahearn, 2013). Today, the average American farmer is over 58 years old—a number that has been slowly but steadily climbing for the last 30 years (USDA-NASS, 2014). Farm operators 65 years and older now make up the fastest growing group of farmers.

A majority of our current agricultural policies and support programs are targeted by default toward an older generation of farmers, many of whom may soon face retirement and begin to grapple with questions of farm succession or transfer. Farmers and ranchers entering the field today have specific needs and face new challenges, different from those of their older peers. Beginning farmers are younger on average than more established farmers, (USDA-NASS, 2014) and generally have less access to credit and capital. They also tend to operate smaller farms, have more diversified operations, and are likely to increasingly come from non-farm backgrounds. Many beginning farmers also struggle to find available land, even if they have the credit and capital to purchase it (Shute, 2011). To ensure a successful future for U.S. agriculture, policymakers need to take these differences into account and tailor programs and resources to meet the needs of our country's next generation of farmers.

Beginning farmers have rarely been at the center of Congressional debate on U.S. agricultural policies. We have seen increased attention to this important issue in each of the last five farm bills, however, and it is not unreasonable to expect even more in the next round. (Note: The interested reader can learn more about the existing programs described below by visiting the U.S. Department of Agriculture's or the National Sustainable Agriculture Coalition's website.) If Congress is to make real progress in paving the way for America's future farmers and ranchers, they will have to tackle serious issues in the 2018 Farm Bill, including:

- access to affordable farmland;
- access to appropriate credit options and relevant training resources; and
- lack of adequate risk management options for new farmers.

Increasing Access to Land

Nearly 100 million acres of U.S. farmland are set to change hands over the next five years, according to the latest data released by USDA's National Agriculture Statistics Service (USDA-NASS, 2015). Of this, just 21 million acres, or 23%, is expected to be sold to a non-relative, meaning that only a very small portion of our nation's farmland will be available for new, non-heir farmers.

According to a recent report released by the Economic Research Service (ERS) (Bigelow, Borchers, and Hubbs, 2016), landowners not actively engaged in farming currently own 30% of U.S. farmland. Some of these non-farming landowners are retired farmers, farmers' widows, or non-farming relatives, the majority of who choose to hold onto their inherited farmland and rent it out instead of selling the land to an aspiring or beginning farmer.

Compounding the difficulty of an already tight real estate market is the rising value of farmland over the past decade. Farmland inflation rates have increased by nearly 150% over the past 15 years, rising to well over $10,000 per acre in some states that are facing high development pressure or investor interest (USDA-NASS, 2016).

A surge of interest in farming coupled with the escalating cost of and competition for productive land has made access to land the top challenge identified by new and young farmers nationwide. If we are to make real progress on improving access to farmland, the 2018 Farm Bill will need to include policies that encourage and support the timely transfer of farm businesses and properties in ways that support both retiring farmers and our next generation of young and beginning growers.

Following are just a few of the potential approaches to land access and transition that may receive consideration in the next farm bill:

Transition CRP Land to New Farmers

With the Conservation Reserve Program (CRP) fully subscribed, we can expect a significant amount of currently enrolled land to come back into production as contracts expire each year. If past trends continue, the land coming out will be among the more productive, less marginal acres enrolled in the program, suitable for livestock and in some cases cropping. In the 2018 Farm Bill, Congress will have an opportunity to continue to enhance incentives that can help get this land into the hands of new farmers and ranchers. While the past two farm bills have provided resources to incentivize the transfer of expiring CRP acres to new conservation-minded farmers through the Transition Incentives Program (TIP), high demand for the program has consistently outstripped available funding. TIP could be scaled up in the 2018 Farm Bill, both in size and scope, in order to better connect retiring and beginning farmers in CRP-rich states. Existing funding rests at $33 million for the current farm bill cycle, though the Congressional Budget Office (CBO) projected full demand for the option at $83 million (CBO, 2011). Doubling TIP funding or simply including TIP in the CRP baseline in the upcoming farm bill would help ensure that no farmer is turned away from the program due to insufficient funding.

Engage Land Trusts in Protecting Affordability of Farmland

Significant opportunities exist to engage our country's land preservation organizations in prioritizing farmland conservation easements that protect the affordability of farmland and encourage farmland transition. A conservation easement allows a land trust or other similar entity to purchase the

development rights on a specified property to protect the farmland from being sold for purposes other than farming. To achieve this, farm bill programs such as the Agricultural Conservation Easement Program, could be amended and expanded to prioritize conservation easements that protect the affordability of farmland, have an identified successor or succession plan, or involve a transfer of a farm to a young or beginning farmer. These policy changes could create a new, powerful tool to increase access to affordable farmland for the next generation of farmers, while ensuring our nation's farmland remains productive into the future.

Incentivize Sale of Farmland through Tax Incentives

While changes to the federal tax code are not normally included in the farm bill, the 2008 Farm Bill did include a tax title. The precedent set by the 2008 Farm Bill could set the stage for the inclusion of new tax policies to support beginning farmers in the next farm bill. There are a number of potential tax policies that, if included, would create significant opportunities for young and beginning farmers, including: capital gains breaks for farmland sales to qualified beginning farmers; tax credits for long term, conservation-friendly leases to new farmers; and improvements in the long-standing first-time farmer state "aggie" bond program.

Expanding Credit and Training

Access to credit, along with developing strong financial and business skills, is critical for any farmer—particularly those just beginning their careers in agriculture. Rarely do new and aspiring farmers have enough liquid assets to purchase or lease all the equipment, inputs, and land they need outright; more often they must seek credit and loans to get their businesses started. Federal and commercial loan programs are critical because they allow farmers to purchase the supplies they need when they need them, which means they can get their crops in the ground and begin reaping the fruits of their labor sooner.

Historically, new farmers have faced greater difficulty in accessing credit than more established farmers, who can boast greater assets and collateral, and a more predicable production and revenue history. Just as with any "start up" business, private lenders in the agriculture sector often consider beginning farmers to be a risky investment not worth taking. Congress established both the Farm Credit System (FCS) and USDA's Farm Service Agency (USDA-FSA) in order to service farmers who may not be able to easily access other loan and credit services.

Congress first made serving the credit and loan needs of beginning farmers a priority in 1980, when they enacted a statutory requirement that the Farm Credit System prioritize lending to young, beginning, and small (YBS) farmers. One hundred years since its creation, the Farm Credit System now holds roughly 40% of all farm business debt in the country, with 22% of its farm loans servicing beginning farmers in 2015 (FCS, 2016; Koenig, Iannetta, and Potter, 2016).

Both the 1990 Farm Bill and 1992 Agricultural Credit Act included major policy initiatives to expand the focus of FSA loan programs on beginning farmers. Since then FSA has made great strides in servicing beginning farmers; today over 70% of total FSA direct real estate loans and 64% of FSA direct operating loans support new farmers and their farm businesses (USDA-FSA, 2015). One program, in particular, that has seen significant success has been the public-private partnership Down Payment Loan Program (DPLP). DPLP has financed over 12,000 new and beginning farmers as of 2015, helping aspiring farmers to buy their first farmland and creating opportunities for beginning farmers to expand (USDA-FSA, 2015).

More recent changes to FSA programs have further opened doors for new farmers—especially those pursuing "non-traditional" markets or production methods, including organic, grass fed, value-added or direct-to-consumer/retail. The establishment of a new FSA Microloan Program**,** which better meets the needs of new farmers with smaller financial expenses, and the expansion of Farm Storage Facility Loans so that they can better serve beginning farmers growing for local markets, have created new credit options that reflect the changing face of agriculture.

Of course, there is still progress to be made in expanding credit to new farmers and providing them the tools, training, and products they need to launch and sustain successful farm businesses. Of particular importance given the recent downturn in the farm economy, access to appropriate and reliable credit options are likely to be topics of much debate in upcoming farm bill. Among the many policy options that may be considered are:

Index USDA Farm Ownership Loans to Reflect Farmland Inflation Rates

With the recent surge in agricultural land prices, moderated only slightly by lower commodity prices more recently, many farmers are struggling to find adequate loan financing options. The current statutory cap on FSA direct farm real estate loans is $300,000—a figure that has not been adjusted for inflation since 2008. Farmland real estate values, on the other hand, have increased by nearly 40% since FSA loan caps were last raised (USDA-NASS, 2016). This mismatch has significantly hindered the ability of FSA to provide appropriate levels of credit that adequately reflect the reality of how expensive farmland has become. Since farmland, as in most real estate markets, differs and fluctuates to different degrees by region and state, the next farm bill could potentially address this issue by adjusting and then indexing the maximum loan amount to regional farmland inflation rates.

Preserve USDA Loan Funding for Small and Beginning Farmers

Given the recent downturn in the farm economy and lower commodity prices, many banks and other lending institutions are looking to USDA to provide federal guarantees on the loans they make to more established farmers. As Congress continues to work on how best to target federal credit resources, it will be imperative that beginning farmers are not left out of the conversation. Demand for loans already far outstrips available funding, and the average size loan is just a fraction of the current loan caps for both direct and guaranteed loans. That suggests that raising the caps could entice larger, more established farms to dominate the resource pool, potentially blocking access to credit for many small and beginning farmers. Congress will therefore need to proceed very carefully on this issue.

Enhance the Farm Credit System Mission to Serve Beginning and Diverse Farmers

As the FCS begins its second century, Congress might consider some expansions to improve the System's mission to serve beginning farmers. For instance, the 1980 statute does not include minority farmers or returning veterans. In farm bills since that time, many FSA lending provisions have incorporated those underserved borrowers as priorities, and a parallel change is perhaps overdue in the FCS's YBS mandate. Given the substantial interest among beginning farmers in the expanding local and regional food market, consideration might also be given to making it a declared objective of the FCS to serve the credit and related needs of YBS farmers and the businesses upon which they rely that are necessary to the growth and vitality of local and regional farm and food systems. Going even a step further, Congress might encourage the FCS to support its borrowers by helping to build, expand, or improve infrastructure and markets for locally or regionally produced agricultural products.

Expand Support for Beginning Farmer Financial and Business Training

Agriculture is a knowledge-intensive and experience-driven occupation, one which can take a lifetime to completely master. Many aspiring farmers entering the field today are first generation farmers, those who come from non-farming backgrounds and may not have had the opportunity to acquire important

farming skills and techniques through hands-on experience. With increasingly complex food safety regulations and financial and marketing environments, farmers today are required to obtain much more specific expertise across a broader portfolio of issues. In order to ensure that beginning farmers and ranchers can develop and maintain successful farm businesses, training and support programs will be essential in ensuring that they have the necessary technical skills and business acumen.

The Beginning Farmer and Rancher Development Program (BFRDP) is USDA's most substantial program targeted at providing these critical resources and training for new farmers. The program has invested $124 million into 252 beginning farmer training initiatives in every state across the country over the past eight years (USDA-NIFA, 2016).

In the 2018 Farm Bill, advocates may seek support for a doubling of funding for this unique and critical program. An even more ambitious option that may gain traction during the farm bill debates would be to double funding for BFRDP's core training program and triple total funding so that the program could also support advanced initiatives linking retiring farmers to young and beginning farmers. Such an initiative, if funded, could also offer a public-private savings incentive to provide new, low-income farmers with the chance to save enough to acquire their first farm assets. It would not be surprising to see these and other related options receive increased attention as the farm bill reauthorization approaches.

Improving Risk Management Options for New Farmers

Adequate risk management strategies are critical to any farming operation and are especially important in a farmer's first few years, during which they may have few assets or savings to fall back on in case of a crop failure or lower than anticipated revenues. Beginning farmers need to consider the full gamut of risk management techniques from production, enterprise, and market diversification to resource-conserving farming practices. Access to federal crop insurance products is also critical.

The federal crop insurance program has been around since the 1930s, and over the course of the last decade it has become the keystone of our nation's farm safety net. Unfortunately, federal crop insurance has not adequately served all of U.S. agriculture; particularly underserved groups include beginning farmers, farmers of color, and those pursuing local, value-added, organic, and other rapidly growing markets.

As of 2014, federal crop policies covered 233 million acres of farmland across the country. Of those 233 million acres, however, only 1.3% were owned and operated by beginning farmers (USDA-RMA, 2016). Because most crop insurance policies are based on a five-year production history, beginning farmers often struggle to obtain coverage that accurately reflects their current and projected production levels as they incrementally scale up their operations over the course of 5, 10, or even 15 years.

The 2014 Farm Bill took some first steps toward expanding risk management options to beginning farmers and other traditionally underserved farmer groups. One was to increase premium subsidies by 10% for those with five or fewer years of farming experience. Another notable change was the introduction of Whole Farm Revenue Protection (WFRP). WFRP is a new type of revenue-based coverage designed to provide coverage for diversified farming systems and to expand risk management options for small and mid-scale, diversified, organic, local food producers, and integrated crop and livestock farms. Currently, however, WFRP requires farmers to provide four years of production history in order to be eligible to purchase the insurance—effectively blocking new farmers from utilizing the coverage in their first few years of production—when they are arguably the most in need of insurance coverage.

Reforms to our nation's crop insurance programs have already been a hot item of debate this year (Barnaby, 2016), and it will surely come up in discussions around the next farm bill. Some of the crop insurance reform policy proposals we expect will receive attention during the farm bill debate cycle include:

Expand Crop Insurance Benefits

Changes to crop insurance programs made in the last farm bill, including discounts on crop insurance premiums, waiving fees for catastrophic coverage, and the option for new farmers to utilize production histories from farms they take over, have increased access to crop insurance for many beginning farmers. Unfortunately, these benefits only last for the first five years a farmer is in operation, a divergence from all other USDA programs, which consider anyone farming 10 years or less to be eligible for beginning farmer benefits. Given the difficulties that beginning farmers face in accessing revenue-based insurance policies, which generally require five years of production history, Congress might consider extending crop insurance benefits for beginning farmers to at least the 10-year mark used by other USDA programs.

Improve Risk Management Assistance Payments for Beginning Farmers

For beginning farmers who cannot access crop insurance through other means, USDA offers basic risk management coverage through FSA's Non-Insured Disaster Assistance Program (NAP). In the past, farmers have often referred to NAP as the "not a penny" program because it hardly ever paid out for any losses claimed on their farms. This stemmed from the program providing such a low coverage level that a farmer had to demonstrate the loss of over half of their crop before receiving a NAP payment.

Significant improvements were made to NAP in the 2014 Farm Bill, including new buy-up coverage levels. One option Congress might consider in 2018 would be a premium discount for NAP buy-up coverage for beginning farmers. An even more fundamental change that Congress may consider during the 2018 Farm Bill debate would be to model a new FSA-delivered on-ramp to federal crop insurance after the existing NAP, making the new program available to all beginning farmers at highly subsidized rates while they build their production histories and become better candidates for federal crop insurance.

Level the Playing Field for New Farmers

The federal crop insurance program serves as a critical part of our nation's farm safety net, but the benefits of this public investment have not been shared equitably amongst all farmers, nor have the consequences of the rapid expansion of crop insurance policies impacted all farms equally. The availability of unlimited, deep premium subsidies in recent years has dramatically reduced the risk for the country's largest farms, freeing up capital for these large operations to further increase their size by purchasing land at higher prices than would be possible without the subsidies (Duffy, 2016).

The capitalization of program benefits into land values has been well documented as it relates to farm programs payments (Ifft, 2015), however research directly pertaining to crop insurance's influence has been less prevalent (Duffy, 2016). The overall effect of the competitive advantage created by unlimited crop insurance subsidies has been that smaller and more diversified farms and beginning farmers are less able to compete with their larger counterparts for land, further exacerbating the difficulty beginning farmers face in gaining access to farmland.

Debates on farm program reform have always been extremely contentious. Some in agriculture advocate for no changes to be made to the federal crop insurance program. These constituencies often warn that any changes to the program may cause destabilization, weakening the farm safety net for all farmers. Others in agriculture, however, believe change is not only possible, but also inevitable. They

have grown increasingly critical of the unlimited subsidies to our nation's largest and wealthiest farms by the federal crop insurance program (Land Stewardship Project, 2014). They believe that reform is not only needed to create a fair and level playing field for farmers, but also that it is necessary for establishing a new generation of farmers and to secure broad public support for agricultural risk management programs. The issue of crop insurance reform, including beginning farmer impacts, is sure to come to the forefront during the 2018 Farm Bill debate.

A Farm Bill for the Future

The latest Census of Agriculture shows that the number of Americans in farming has decreased by 20% in less than ten years. With an updated Census coming out next year, it is anyone's guess whether the ongoing aging-out of our nation's farmers will continue, or if we might finally witness a reversal in the trend. In any event, if we are truly concerned with the future of U.S. agriculture, policymaking must focus far more than it has to date on supporting our future generations of farmers and ranchers.

The 2014 Farm Bill took many positive steps toward better supporting young and beginning farmers; perhaps most importantly, USDA was provided with new and strengthened means by which they could provide much-needed credit, training, and technical assistance. Unfortunately, the investments made in the 2014 bill were nowhere near enough to trigger a reversal in the declining numbers of beginning U.S. farmers and ranchers.

Building on the policy strides made by recent farm bills, the 2018 Farm Bill could become a "farm bill of the future" by adopting an ambitious agenda to support the next generation of farmers. The tools provided in previous farm bills have made a dent in slowing the aging of U.S. agriculture, but it is very clear that greater investment and a more coordinated national strategy is needed to buck the trend and ensure that beginning farmers have the necessary support to successfully pursue a farming career. This next farm bill presents an opportunity to go beyond just making a dent; it represents an opportunity to dismantle barriers for beginning farmers, leaving a legacy that will reshape the future of U.S. agriculture. The opportunity exists, but only if we seize the moment.

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