

Appendix 8

Case Farm Scenarios

- **Blue Fruits Farm– A Beginning Farm Operation in the Portland Metropolitan Region**
- **Hubbard Farms – A Wholesale Vegetable Farm within the Portland Metro**
- **Muddy Boots Farm – A Small Farm Operation Serving the Portland Metro**



Blue Fruits Farm– A Beginning Farm Operation in the Portland Metropolitan Region

Brooke Horton and her stepfather, Neal, are beginning farmers in the Portland Metropolitan region. They established three acres of blueberries in the fall of 2010, which they expect to begin selling as a u-pick operation in 2013. This is the first experience in farming for both Brooke and Neil. Brooke grew up in Michigan and then lived on the Virgin Islands for several years. Brooke and her husband, Brent, both went to college in Portland and then lived in Southeast Portland prior to moving to Sauvie Island in 2006.

Neil and his wife, Kelly, lived on the Virgin Islands for 21 years, where Neil worked in construction. Kelly is an artist specializing in oil painting and illustration. Neil and Kelly came to visit Oregon for Brook and Brent's wedding in 2004. After visiting, they decided to move back to be near the grandkids. Neil and Kelly fell in love with Sauvie Island and they purchased acreage there in 2005. Brooke and Brent also moved onto the new property, a 13-acre parcel, which has about five acres available for farm use. Brooke saw a lifestyle that she wanted for her two children and had a desire to forge a connection to the food her family eats; out of that her dream of farming was born.

The family initially established a wide variety of crops, fruit, and nut trees on their acreage. Their plan was to establish a diversified farm in the first few years, which would give them time to test and determine what grew best on the land, what the family most enjoyed growing and eating, and which crop had the most potential for their business. Initially, Neil and Brooke had approximately two acres planted with plans for establishing three more in the coming season.

Business Structure

Going into business together came naturally for Brooke and Neil. They have been in business as a family before, as they ran a vacation property together on the Virgin Islands. While the three acres of blueberries are in the establishment period, Brooke is growing dahlias, sunflowers, and wildflowers to gain a small return to the business. She sells the flowers at a co-op in nearby St. Johns and at Alma Chocolate in Southeast Portland.



Risks and Threats to the Business

Brooke and Neil's farming operation is faced with three fundamental threats. The most frustrating for them is Multnomah County's restrictive zoning laws. Their property is classified for high value farm use—thus they run into challenges as they look towards their future goals of adding value to the farm site through a farm stand or educational facility. Additionally, the family initially completed an application to the county to obtain a Certificate of Occupancy for the property's second home. This house was present when they acquired the land, but turned out to be not legal for residence. Neil and Brooke first completed their application to renovate this home as a farm help dwelling, to comply with the island's zoning regulations. When discussing the application with a county employee, they were given copies of successful Farm Help Dwelling applications within Multnomah County to use as a reference. All of these applications were for blueberry farms. After discussing the farm with the county employee, they were convinced their application was unlikely to be approved unless they removed their then-current crops, and planted a high value crop on at least three acres. The farm as it then stood, with a wide variety of crops on a small acreage, was not a farm business at all, according to the county.

Brooke, Neil, and the family debated about this recommendation and finally decided to establish blueberries to help gain zoning approval and avoid fines from the county. Recognizing that planting blueberries wasn't necessarily their first choice of cropping systems, Brooke and Neil still intend to expand into other crops later on, and currently have several dozen fruit and nut trees, as well as about 40 table grape vines on the perimeter of the property which are serving as their research and development plots.

Like most developing small businesses, Neil and Brooke are challenged with barriers to financing and labor. They had the initial capital to establish the blueberries. However, they do not have adequate cash flow in the years prior to having a harvestable crop to hire an additional employee to help on the farm when needed. Brooke and Neil do occasionally hire individuals for temporary work, which occurs a couple times a year for a few days at a time. They have used individuals off the neighboring farm's call list, though without great success. One of the more difficult challenges for Brooke and Neil is their lack of knowledge and experience in farming. To help overcome this knowledge barrier, Brooke is participating in the Beginning Urban Farmer Apprenticeship (BUFA) program, which is conducted for aspiring farmers in the Portland Metro region. Though the BUFA program is primarily aimed



towards those interested in starting vegetable and CSA type farms, Brooke has still gleaned a great deal of information about farm practices. She cites that since the program isn't necessarily targeted for individuals who plan to own farmland, helpful ways to work with the county's restrictive zoning laws have been largely unaddressed in this setting. Brooke and Neil do gain a great deal of advice from others—though taking advice can be difficult as there is limited research on organic methods for growing blueberries. It also seems that everyone they talk to has differing views about the best way to grow this crop, and having no previous farm experience, Brooke and Neil never know the “right” advice to take.

Market Research and Competitive Advantages

Blue Fruits Farm has competitive advantages in its location on Sauvie Island, which is a mecca for agri-tourism during the autumn season. The other u-pick operations currently on the island are quite busy throughout the harvest season. To gain an advantage over these established competitors, Brooke aims to be the only u-pick blueberry operation that is both organic and no-spray. She believes this distinguishing factor is desired by consumers. Additionally, the only other organic u-pick operation on the island does not have a welcoming ambiance to keep drawing families back to their farm. Brooke believes her prior experience in marketing and design will allow her to establish a comparative advantage over the other u-pick farms as she aims to make Brooke's Blueberries a destination for families to come relax and enjoy farm life. Brooke feels that pulling her strengths from design and marketing will allow her to create the aesthetic of comfort on the farm that will draw people in.

Measuring Success

Blue Fruits Farm needs to generate a return large enough to provide an adequate income for Brooke and Neil, as well as pay the taxes on the property. A successful business will be one that is both economically sustainable, as well as adheres to the family's ideals of organic and local.



Future Business Changes

Ideally, in the next five to 10 years, Brooke desires to expand to two u-pick crops; though she is not yet sure what other crop may be established to complement the blueberries. Brooke feels that diversification will be helpful to the business. With the current fruit trees and vines, the family also plans to expand the orchard and vineyard once they have determined successful varieties. With her desire to make the u-pick patch a comfortable place for families to come to spend time together in mind, Brooke ultimately would like to implement a value-added educational building so customers can learn about preservation and canning. She also has considered implementing a farmstand, if she can comply with the county's restriction that 90% of produce sold through her farmstand is grown by Blue Fruits Farm.



Hubbard Farms – A Wholesale Vegetable Farm within the Portland Metro

Thirty-three years ago, Warren Stewart was a beginning farmer. At the time, he worked in Salinas Valley in California as a Grower/Manager/Pesticide Advisor for a Vegetable Production Company. When the timing was right, Warren started searching for land to start his own farm. After looking around the St. Louis, Missouri area, Warren talked to a friend who owned land in Oregon, and decided to visit the Willamette Valley and look around. He ended up purchasing 42 farmable acres in 1979 near Hubbard, and Hubbard Farms was established. Warren's experience in Salinas Valley was in lettuce, so lettuce composed a substantial portion of his early crops. Growing lettuce in the Willamette Valley, however, proved too difficult given the market and unsatisfactory weather conditions. Warren soon began to diversify into several different vegetable crops.

Business Structure

Today, half of Warren's owned acres are set up in a Limited Liability Company (LLC) with his sons, who are in their late 30's and 40's. The other half of the LLC is owned by Warren. One of Warren's sons works on the farm with him. The other sons have jobs elsewhere. Hubbard Farms has 181 acres in farm production, with 120 in production annually. Warren has multiple leases to farm the acreage he does not own. Warren wholesales all of the farm's production. Hubbard Farms has about seven year-round employees and an additional 30 seasonal employees.

Warren's original farm acreage was financed by the Bank of Oregon and through a Farm Service Agency loan. When he moved to Oregon and purchased the land, the only infrastructure was an old livestock barn. Warren had two tractors. By 1980, the farm was growing, washing, and packaging bunch carrots, among other vegetables. By 1990, approximately 90 acres were under production. By 2000, Warren had expanded to farming 140 acres and had significant infrastructure on the farm to wash, chill, and pack his produce. Throughout the years, there have been various trials and changes in markets and crops.

One example of this is during the 1990's, the rent on the land where the carrots were growing quadrupled. Warren quickly exited the bunch carrot market, and found a better cropping mix. As a farmer with multiple crops, Warren has found that it takes time to



determine the best cropping mix, and the market will constantly change as demand, pests and disease, or extraneous events such as the lease agreement, determines it necessary. Warren's leases are set up as open-ended agreements between himself and the leasers. He currently pays approximately \$100,000 rent annually which works out to be about \$500 per acre.

Risk Factors and Risk Management at Hubbard Farms

When Warren began farming he was initially, and still is, competing against established families in the north valley area who also grow vegetable crops. Those families have owned their land and been farming in the area for at least three generations. While Warren admits he brought a lot of knowledge to farming when he started, he didn't have enough cash. As a result, while his competitors in the area have had their land paid off for years, Warren is still paying for his land purchase, and in comparison, is limited financially in what he can do.

Additionally, Warren's other challenges are in acquiring adequate skilled labor, adequate and timely financing, acquiring a land base suitable to what he wants to do with it, i.e. with adequate land and water rights, and to provide education of growing practices to his employees. Warren cites the H-2A guest worker program as a potential source for acquiring scarce farm labor. The program does offer some drawbacks in being expensive and bringing the uncertainty of not knowing which employees will be able to return to work each season. In addition, Warren acknowledges securing land with good water rights is a serious challenge. There is often a long time lapse between the request of a water right and the water right being granted or denied, and the determination of granting a water right doesn't always reflect the amount of ground water available in a given area.

Future Business Changes & Goals

In the future, Warren would like to expand his cold room/storage facility. Another of Warren's ideals is to have an additional 50-100 "luxury" acres, to be able to put more land aside for cover cropping to repair and/or better manage the soil structure that farming intensively causes. Warren also believes that stricter food safety compliance laws are in the near future. He knows that when this requirement comes, additional costs will be incurred to meet regulations, and depending on what the laws constitute, potential challenges for the farm might be inflicted.



Warren has no plans to retire in the near future. Neither are there further plans to bring new family members onto the farm. Though only one of Warren's sons works on the farm currently, there is room for another to return, should he desire, when Warren decides to step out of the operation. For now, Warren plans to eventually have an employee take over some duties but otherwise will continue shared management of the operation with his son. |

Though Warren is now an established farmer in the Portland Metro region, given his history as an outsider starting up a business in an area with established farming families, he understands the challenges that beginning a farming operation with few resources entails. It is only now, after all these years, that Warren feels he has overcome most financial challenges. Like other farmers in the Portland Metro, however, Warren still faces his share of farming barriers.

The following financial information does not represent Hubbard Farms. This information is however assumed to be representative of a commercial whole vegetable operation in Oregon of similar size, scope and markets.

Financial Information:

Gross Sales \$1,800,000

Total Expenses \$1,600,000

Net Income \$ 200,000

Operation loan \$ 250,000

Loan on Land (15 years remaining) \$ 441,000

Annual Equipment Depreciation \$ 40,000

Market value of machinery & equipment \$ 600,000

Real estate Value \$ 590,000

Possible discussion areas:

-Given what you know about Hubbard Farms, what would be your suggestions for long-term success?

-Do you think Warren is missing opportunities, or perhaps has challenges that are unclear to him?



Muddy Boots Farm – A Small Farm Operation Serving the Portland Metro

Muddy Boots Farm began in 1993 after Jane Cooper transitioned from working in the San Francisco restaurant scene to begin farming near the Portland metro region of Oregon. Growing up, Jane never intended to farm. She wanted to own a restaurant. After attending Hotel and Restaurant Management school at Cornell, Jane moved to San Francisco and began working in restaurants that connected with and supplied from local farmers. She soon found a desire to supply restaurants with fresh produce and completed the UC Santa Cruz Farm and Garden Apprenticeship Program. Jane learned about the Community Supported Agriculture (CSA) model of garden-marketing and then began looking for land.

She bought six and a half acres located 15 miles from downtown Portland, and began farming alongside her friend, Teresa James. Jane began by primarily selling produce to farmers markets and restaurants in Portland. After her first two years, she had successfully developed a small client base to begin her first season of CSA.

Today the farm is 18.26 acres of cultivated land, which encompasses 40 different crops. The farm is certified organic by Oregon Tilth and the CSA makes up 75 percent of gross sales. Since 1999, the farm has not sold produce via farmers markets, opting instead to build the CSA from its original 30 boxes to 500. Jane's initial business partner, Teresa, bought her own farm in 2000, and has since moved out of the area. Muddy Boots Farm continues to diversify its marketing strategies by selling to restaurants and institutions throughout the Portland area.

What is Community Supported Agriculture?

Community Supported Agriculture or CSA is a business partnership built between a grower and a consumer. Consumers purchase a farm share or box of produce in advance at the beginning of the growing season, and in turn receive fresh farm products weekly throughout the season. Under this model, consumers receive the market value of the products received and support the farmers' operation by supplying a guaranteed market for their products and a steady, known cash flow. The farmer, in turn, makes a commitment to supply a diverse range of products at a sufficient quantity for a set number of weeks.

At Muddy Boots Farm, CSA members purchase a farm share for a 28 week growing season. The weekly produce supplied to consumers varies from week to week and month to month



depending on availability. Jane opted to develop her CSA as a primary form of marketing due to the economic stability of having a pre-sold market for her produce.

Business Structure

Muddy Boots Farm is set up as a single member LLC—Jane is the single member. Her husband works off the farm and she hires four year-round, full-time staff. She has a farm manager for the day-to-day running of the business, a field manager who oversees the mechanical operations, irrigation, and cultivation, a field assistant who is primarily the irrigation manager, and a sales and marketing director. Jane hires additional seasonal employees for field work on the farm and to make CSA and restaurant deliveries throughout Portland.

Risk Factors and Risk Management at Muddy Boots Farm

Jane's primary market is her CSA program, which makes up 75 percent of gross sales. The CSA has been a very successful risk management tool, as shares are pre-sold at the beginning of the season, and Jane has a guaranteed market for the majority of her produce. Despite its success, the current economy and increasing market competition are now making it difficult to fill up CSA box shares without doubling marketing efforts. Current CSA shares sold throughout the Portland region are stagnant, while farms offering CSA shares continue to rise. To manage her risk, Jane opts to diversify her market by also selling produce to restaurants and institutions. She works with Bon Appétit for institutional sales.

Although Jane charges only what she needs to be financially stable, she does hear complaints that local food is too expensive. Jane knows that customers who believe local, organically grown food is better are willing to pay the additional price for it. However, certification is one component of the higher cost of organic foods, and along with the practices that go along with growing organically, such as extensive labor, Jane's prices are generally higher than customers would find in a traditional grocery store.

Muddy Boots Farm was initially certified Organic by Oregon Tilth. From 2001 through 2008, however, the farm chose not to pay for certification. Farm practices during that time period did not change. Jane's reason for not being certified during those years was because she was no longer selling produce at the farmers market and had a continuously growing CSA membership; therefore her clients weren't demanding her to be certified organic. In 2009 Muddy Boots Farm was re-certified organic.



Amidst concern for the economy and saturation of the CSA market, Jane began to think about the possibility of re-entering the farmers markets to diversify her marketing outlets. There, customers demand certification for premium prices.

While Jane is never without a steady supply of qualified labor, due to her proximity to Portland, she would like to be able to offer higher wages, full-time status, and benefits to all employees. Currently 63 percent of the farm budget goes towards labor. To manage this risk, in addition to her four full-time staff who receives benefits, Jane hires 10 to 12 seasonal workers.

Land Use and Zoning Barriers

Though Jane has considered adding an agro-tourism or recreational component to her farm business to help generate additional income, she is limited by land use and zoning laws, which otherwise would allow her to hold weddings and other events on the farm. Other regulations require a great deal of time and work in following to ensure farm practices are in compliance.

Food Quality Control and Logistics

Some CSA programs partner with other local farmers to combine products such as eggs, bread, or meat to put in CSA boxes. Jane cites food safety and quality control risks as limiting factors for why she chooses not to form similar partnerships.

Threats to the Business

A large portion of the farm is located on land leased from Portland Metro—only one farmed-acre is owned. The lease is set up on a five-year rolling basis. Setting up the business this way allows for the risk that at every five-year renewal period, Portland Metro could choose to not renew the lease. Nonrenewal would severely limit production and threaten to put the farm out of business.

The current economy and lack of expansion in CSA membership also threatens profit margins. Currently the market may be saturated, as the economy makes people choose not to return or begin a CSA box subscription. Increasing consumer awareness and appreciation for this market is critical to the farm's long-term sustainability, if it is to continue to expand. One of the challenges in expanding the customer base is to figure out how to get more people to buy locally.



Comparative Advantages

Muddy Boots Farm relies on its history and reputation as comparative advantages. The farm has one of the oldest CSA programs in the Portland metro region. In 1996, when Muddy Boots Farm began offering a CSA subscription, the farm offered a weekly newsletter, which was sent out to CSA members. Over time, as Internet technology developed and access became widespread, the newsletter slowly evolved to what is now an online blog. Additionally, the CSA membership developed from a sign-up form at the farmers market to an online sign-up.

Muddy Boots Farm's diversity of over 40 crops enables it to be competitive and to meet customer desires over the course of the CSA season. Additionally, the farm has 20 different CSA box pick-up locations throughout the Portland Metro region, and deliveries take place on multiple days of the week.

In 2011, the farm began offering half-shares for families of one to two people, in addition to the original family share. The farm offers two types of pick up, either bulk or box.

Marketing Methods and Market Outlets

The marketing strategies for Muddy Boots Farm have changed over the course of the farm's history. While produce was initially sold to customers at the Portland Farmers Market and to high end restaurants, the farm began to diversify by offering a CSA subscription to 30 members in 1996, after making contacts at the farmers market. After three years of offering the CSA, growing demand allowed for the farm to stop selling produce at the farmers market in 1999. The family share for a season of CSA membership is priced at \$920 and the half share is priced at \$495. For crop planning, each share is broken down by crop so customers are receiving more produce than the market value of their \$920.

The farm currently sells produce to 33 restaurants. The Sales and Marketing Director cultivates relationships with local chefs to secure this market source. The farm works with Bon Appétit who markets the farm's produce to institutions such as Universities and OMSI. Generally, restaurant products are not pre-sold. Produce is delivered to restaurants on Wednesdays and Fridays. An email list of products available is sent out weekly, and orders are fulfilled via email. For some items, such as salad mixes, standing orders are established for an entire season. For example, some restaurants have a standing order of 20 pounds of salad from May to October.



Advertising and Promotion

Currently, the farm uses its website as a promotional tool. There, customers can read about Muddy Boots Farm, access the CSA blog, and sign-up for CSA membership.

Future Business Changes & Goals

Jane has several goals she would like to achieve in the next 10 years. The immediate goals of Muddy Boots Farm, however, are to:

- 1) **Provide higher wages and salaries to all employees**
- 2) **Provide healthcare to every employee**
- 3) **Increase salaries annually**
- 4) **Provide year-round employment**

To accomplish the first three goals, Muddy Boots Farm must increase revenues. This can be achieved by increasing either price charged for products or acreage, resulting in increased crop sales. Jane can achieve her fourth goal by lengthening the growing or marketing season, or diversifying into other business opportunities.

Jane believes the best way to achieve her first three goals are to increase acreage and crop production to increase returns. This may require additional employees. Jane believes that along with her four excellent managers already in place, the farm would only require one new manager position if acreage increases no more than 100 percent. Increased production also means the packing facilities will need to be expanded, and the current distribution chain will need revised. This new infrastructure necessary to expand will require long-term financing. Once the land and financing is in place, the main question for Jane will be how to market the increased crop production.

Jane has identified the following strategies to meet her goals:

- 1) **Increase the number of CSA customers,**
- 2) **Increase institution and restaurant customers and/or sales,**
- 3) **Sell to customers at local farmer markets,**



- 4) Sell to the wholesale and retail markets in Portland and
- 5) Provide a venue for agri-tourism opportunities.

Table 1. List of crops, acreage and their contributions to fixed costs for 2012.

Crop	Acres	% of Total	Contributions to Fixed Costs	Crop	Acres	% of Total	Contributions to Fixed Costs
Basil			😊	Parsley			
Beans			😊	Parsnips			
Beets			😊	Peas			
Broccoli			😊	Peppers			
Brussel Sprouts			😊	Potatoes			
Cabbage			😊	Pumpkins			
Carrots			😊	Radishes			
Celeriac			😊	Romanesco			
Chard			😊	Scallions			
Cilantro			😊	Spinach			
Collards			😊	Squash— Summer			
Corn			😊	Squash— Winter			
Cucumbers			😊	Tomatoes			
Dill			😊	Turnips			
Eggplant			😊				😐
Fennel			😊				😐
Garlic			😊				
Greens			😊				
Kale							😞
Leeks							😞
Lettuce							😞
Melons							😞
Onions							😞

- 😊 - Crops that generate positively to the farm's fixed costs and to profits
 - 😐 - Crops that may or may not generate positively to the farm's fixed costs and to profits
 - 😞 - Crops that do not generate positively to the farm's fixed costs but are demanded for weekly boxes by customers and/or they are required in the crop rotation
- The following financial information does not represent Muddy Boots Farm. This information is however assumed to be representative of organic vegetable operations in Oregon of similar size, scope and markets.



Financial Information:

As of January 1, 2011, the beginning cash is \$15,000 with \$2,000 in prepaid expenses and \$1,000 in investment in growing crops. The market value of machinery is \$175,000. The value of facilities and other improvements has a market value of \$50,000.

Muddy Boots Farm leases all the cropland with annual cash rent payments. They have two tractor loans. The first tractor loan has three years remaining before it expires and the second loan has two years remaining. The first loan was originally for \$55,000 with an 0% interest rate and the term of the loan was for five years. The second loan's original amount was \$50,000 with an interest rate of 0% for five years in length as well. The pickup was recently leased for a five-year period with a \$4,000 annual lease payment. There is no special buyout package when the lease expires.

As with the CSA market, customers pre-pay for boxes to be received during the course of the year. These pre-paid sales pay for all production costs throughout the year, thus no operating loans are required from a lending institution.

To keep intermediate assets current, Jane would like to continue to take out new equipment loans for the same loan amount, assuming a 3% inflation rate each year. Thus, a loan will be obtained for \$55,000 in year five and another equipment loan for \$55,000 in year eight. She also plans to continue leasing a new pickup when the current lease expires.

Jane consulted several lenders and agricultural professionals to come up with the following financial ratios and established minimums and maximums for each of these criteria:

- a) **Cash on hand cannot fall below \$25,000 in any one year.**
- b) **The current ratio cannot drop below 2.**
- c) **Working capital must remain above 40% of annual expenses, which includes loan and lease payments.**
- d) **The debt-to-asset ratio cannot exceed 35%.**
- e) **Term Debt Coverage Ratio must remain above 1.50.**

These criteria helped Jane establish the financial boundaries that were needed to develop a marketing strategy.



Given what you know about Jane's business, what would be your suggestions to Muddy Boots Farm and its long-term success?

Possible discussion areas:

Should Jane consider expanding the farm acreage?

- Is Jane in a position to acquire the capital to invest in the equipment needed to expand?
- Will she be able to pay the necessary personnel the wage she desires to, if she does expand?
- What happens if Jane has an emergency situation? What will happen to the farm?
- Where and how will Jane sell the extra produce, if she chooses to expand?

What risk management tactics should Jane consider when farming leased land?

- Is farming on primarily leased land a wise planning decision?
- What should Jane's back-up plan be, should the county decide not to renew her lease?
- Should Jane put hoophouses and/or other infrastructure on leased land?

What tactics should the farm take towards making the CSA distribution system more efficient?

- Should Jane consider less (or less frequent) CSA distribution points?
- Should the farm coordinate CSA distribution with another nearby farm—thus cutting costs?

What marketing tactics should the farm take to retain and build the CSA membership?

- Should Jane consider collaborating with other farms to incorporate a variety of products in CSA boxes to offer more than produce?
- Should Jane look at growing year-round to entice customers to retain membership?
- Should the farm actively consider returning to selling at farmers markets?