

PREPARED FOR:

MONTGOMERY COUNTY FOOD COUNCIL

PREPARED BY:

CULTIVATE VENTURES

JUNE 10, 2016

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CULTIVATE VENTURES

Launched in 2012 and incorporated in 2014, Cultivate Ventures is a boutique investment and advisory firm dedicated to catalyzing growth for promising sustainable food and agribusinesses from seed stage to scale. The Cultivate Ventures team has been investing in, and working with, food hub related investments for over 15 years. Broadly, Cultivate Venture's technical support is backed by an innovative network of forward-thinking investors, technicians and partners dedicated to a dynamic thesis of investment activism. For more information, visit www.cultivateventures.co.

ANALYSIS OBJECTIVES, STRUCTURE AND METHODOLOGY

OBJECTIVES

On behalf of the Montgomery County Food Council (MCFC), Cultivate Ventures is pleased to offer the following analysis, "Framing Food Hub Investment and Programming Opportunities in Montgomery County". This brief study provides a framework of analysis for MCFC (as well as for other committed county practitioners) to determine the applicability and feasibility of possible investments in a food hub and/or related programming and infrastructure in Montgomery County (MOCO). MCFC is committed to providing the right level and type of support for its dynamic farming community. This report puts forth Cultivate Ventures' recommendations for the optimal programmatic and infrastructural support for small- and medium-farmers.

This report acknowledges that there are many differing models for technical and financial support for small- and medium-sized farms — a food hub being just one available option. Food hubs were chosen as the focus for this analysis, as launching a "Food Hub" has been at the forefront in recent MCFC discussions as a potential optimal solution to increase economic opportunities for the County's small- and medium-sized farms. MCFC also viewed a food hub as a system to help these farmers increase their prominence in regional food markets.

STRUCTURE

This analysis is structured around four strategic questions that are important when considering the possible design and/or investment in food hub programming and infrastructure. The guiding questions used to frame this report are as follows:

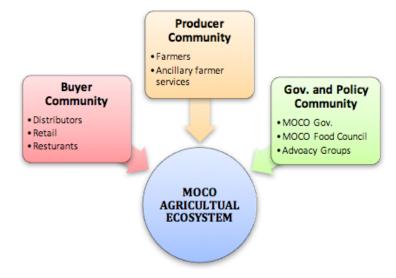
- 1. What is a Food Hub? What are relevant national food-hub models, lessons learned and best practices currently available for MCFC to leverage for its own programmatic purposes?
- 2. How can MCFC (and the County government) best leverage its own past policy, programmatic and infrastructure investments to support the design of food hub-centric programing?
- 3. What are the gaps in support identified by select County stakeholders across the agriculture value chain (especially for emerging and mid-sized producers, distributors, processors, etc.)? Is the Food Hub model an optimal programmatic response for addressing these gaps?
- 4. Assuming a Food Hub is the optimal programmatic model for addressing the above-noted gaps, what then are the specific design options available given current budget, technical, bandwidth and other political realities? How should fiscal and technical capabilities investments be prioritized to create sustainable impact and maximize returns over the short-, medium- and long-term?

METHODOLOGY

To answer these noted critical questions, this report focused on information collection in three key areas:

- Internal reviews of MCFC materials, reports, action plans, etc. related to current and past programmatic support for and investment in agriculture across the County. This allowed the report to frame out what foundations are available to build upon.
- A desk study of best practices of food hubs nationally, highlighting specifically case studies that apply best to the County, as well as practices to avoid from other cases. This allowed the report to combine the contextual history of agriculture-related work done by the MCFC with national best practices to frame different options for future programing (see Appendix 1 for details on desk study).
- A series of stakeholder meetings with key value chain players from the core of the County's agricultural ecosystem. Stakeholders were segmented into three groups (see Figure 1 below) to garner the in-depth perspectives on current/past support, needs and gaps.

Figure 1 – Stakeholder Segmentation



FRAMING QUESTION 1: What is a Food Hub? What are relevant national Food-Hub models, lessons learned and best practices currently available for MCFC to leverage for its own programmatic purposes?

THE FOOD HUB

WHAT IS A FOOD HUB?

According to the United States Department of Agriculture (USDA), an institutional Food Hub is defined as, "a centrally located facility with a business management structure facilitating the aggregation, storage, processing, distribution, and/or marketing of locally and regionally produced food products". Market-oriented food hubs characteristically:

- 1. Garner significant revenue from local food and / or local product sales;
- 2. Have a primary or singular focus on maximizing revenue/price opportunities for producers;
- 3. Have physical infrastructure and/or human capital devoted to aggregation, distribution, food storage, agriculture-focused marketing, sales and/or administration;
- 4. Focus on multiple market channels including retail, direct-to-consumer, institutional, and wholesale;
- 5. Have capability to work with multiple suppliers within a 100 mile radius; and
- 6. Have resources to engage full time employees.

Food hubs may also engage in non-market-focused activities, including:

- 7. Programming focused on food insecurity/healthy food access such as local food campaigns, food donations, soup kitchens, etc.;
- 8. Community engagement, outreach and training around local food/healthy eating; and
- 9. Farm/local food focused labor and skill development including internships/apprenticeships and farmer training programs;

Food hubs are diverse in structure, focus, and defining model. Therefore, there are a range of options for possible investment and support. There are already hundreds of active institutional food hubs operating across the U.S. with many more that have launched and failed. Additionally, a variety of for-

and non-profit producers, aggregators, retailers, business service providers, etc. are also actively offering local food focused services and support without technically being food hubs. Table 1 below highlights five common food hub models and provides examples of each particular model in operation.

Table 1 – Samples of Existing Food Hub Models

| Model Type: | Selection of Existing Examples: |
|--------------------------------|--|
| Non-Profit | Charlottesville Food Hub (VA), Alba Organics (CA), Intervale Center (VT), Growers |
| | Collaborative (CA), Red Tomato (MA), Appalachian Sustainable Development (VA). |
| Producer / Entrepreneur | Grasshopper (KY), Good Natured Family Farms (KS), Tuscarora Organic Growers (PA), |
| Driven | New North Florida Cooperative (FL), Eastern Carolina Organics (NC). |
| Retail Driven | La Montanita Food Coop (NM), Wedge's Coop Partners (MN). |
| | |
| Consumer Driven (Online Buying | Oklahoma Food Coop (OK), Nebraska Food Coop (NE), Iowa Food Coop (IA), Relay Foods |
| Clubs) | (multiple states). |
| Virtual Food Hubs (Online | Ecotrust (OR), FarmsReach (CA), MarketMaker (multiple states). |
| Matchmaking Platforms) | |

For more information or to obtain full report, check out NGFN.org/resources.

VIABILITY OF FOOD HUB MODELS

Historically there has been a common market perception from operators and investors alike that food hubs are inherently riskier or less successful than other small businesses. However, the recent March 2016 USDA Rural Development presentation "Why Food Hubs Fail?", stated that food hub success and failure rates mirror the survival rates of any small business category. In addition, the presentation suggested that "the survival rate for current food hubs is around 90%", much higher than industry standards, though also noted that this statistic may be high as many failures are never reported. Importantly, the results noted that there was no statistically significant difference in failure rates between for- or not-for-profit food hubs.

This food hub survival rate, even adjusted downward for failed food hubs that were never reported, is interestingly higher than survival rates for all start-up businesses. To quote directly, the report notes:

"While the U.S. Small Business Administration (SBA) estimates that about 600,000 new small businesses are launched each year, a 2007 study reported in the U.S. Bureau of Labor Statistics' Monthly Labor Review indicates that two-thirds will only survive two years, 44 percent survive four years, and 31 percent survive for at least seven years."

The recently published "2015 Food Hub Survey" by Michigan State University's (MSU) Center for Regional Food Systems (in collaboration with the Wallace Center at Winrock International) supported these positive market trends, reporting that:

- Seventy-five percent of food hubs currently in operation are "breaking even or better", an increase of 7% over the past two years.
- The majority of all food hubs surveyed expected their businesses "to continue to grow" over the next year and beyond.

ATTRIBUTES FOR DEFINING SUCCESS.

Given the diversity of the food hub landscape, understanding what specifically defines a successful food hub model is critical when considering possible investments. According to USDA and other publications on food hub viability, the following attributes are most critical to food hub success:

- A history of positive and active participation in the "local food" value chain (average successful hub has 9.6 years of operating history).;
- A "strong, identifiable brand" and a clear mission of expanding access to "good food" and "helping farmers";
- A "clearly defined" and a "well capitalized business model" from inception, with diverse consumer and/or institutionally driven revenue channels;
- "Sufficient and strong talent" across key positions (a successful hub employs at least six full-or parttime staff on average and uses volunteers regularly);
- Although over 50% of food hubs note that supply is a constant and critical issue, a sufficient and "committed supplier base" with diverse, multi-season offerings is key (on average a successful hub has access to at least 40 suppliers); and
- "Sufficient access to key consumer markets" coupled with a "lack of direct competition from other food hubs" (on average a successful hub is at least 28 miles from another similar entity).

Table 2 provides a list of five food hubs that exhibit these characteristics and may be considered as potential positive examples for any future MOCO food hub model or related programming.

Table 2 - Profiles of Possible Model Food Hubs

| FOOD HUB | LOCATION | FORMED | PRODUCERS | Est. Rev | HEADCOUNT | Түре |
|---------------------------|------------|--------|-----------|---------------|-----------------|------------|
| Fifth Season Cooperative | Wisconsin | 2010 | 25 | \$400K (FY14) | 1FTE, 3 PT | CO-OP |
| Red Tomato | Mass | 1996 | 40+ | \$3.7M (FY13) | 6 FTE | Non-Profit |
| Eastern Carolina Organics | NC | 2004 | 50+ | \$3.5M (FY12) | 13 (FT & PT) | LLC |
| Local Food Hub | Virginia | 2009 | 80+ | \$985K(FY13) | 10-12 (FT & PT) | Non-Profit |
| Capay Valley Farm Shop | California | 2007 | 45 | \$1M(FY14) | 10 (FT & PT) | S-Corp |

^{*} All data from table 2 is from USDA report – Running a Food Hub – cited in Appendix 1.

WHY FOOD HUBS FAIL

Understanding why some food hubs fail is also important. Five of the most common failures are:

- Lack of a secure financial foundation coupled with an inadequate understanding of key requirements of financial viability and short- to medium-term capitalization needs;
- Lack of an overall business plan, coupled with a clear misunderstanding of customers and markets, as well as the institutional value-add the food hub is trying to provide in the market;
- Lack of expert staff at inception, especially in production, aggregation and retail;
- Lack of focus/specific mission. Failed hubs tended to "try being everything for everybody" and misunderstand the financial and human costs this poses to the organization; and
- Lack of strategic location leading to too much competition or inadequate access to supply, demand or human capital.

Table 3 is a list of five food hubs, which for the purposes of this report, provide good case studies of failure. All case studies below will be documented in USDA's upcoming report on "Why Food Hubs Fail", and can be found at the National Good Food Network (NGFN) 2016 Conference website noted under Table 3.

Table 3 - Profiles of Possible Model Food Hubs

| FOOD HUB | LOCATION | FORMED | Producers | HIGHEST REV. | CLOSED | Түре |
|------------------------------|----------|--------|-----------|--------------|--------|--------------|
| Grasshopper Distribution | KY | 2007 | 70 | \$1m | 2013 | LLC |
| Organic Renaissance / FoodEx | MA | 2010 | 500 | \$2.75m | 2014 | LLC |
| Growers Collaborative | CA | 2004 | 180 | N/A | 2011* | Non-Profit |
| Producers and Buyers Co-op | WI | 2009 | 18 | \$300k | 2011 | Соор |
| Arganica Farm Club | VA | 2009 | 250 | \$2.9m | 2012** | LLC / B-Corp |
| Pilot Mountain Pride | NC | 2010 | 60 | \$300k | 2015 | Non-Profit |

^{*} Program merged with California based Community Alliance with Family Farmers (CAFF)'s Farm to Market Program.

LEVERAGING NATIONAL BEST PRACTICES

For any future food hub operator or investor, there is an ample foundation of resources, lessons learned and best practices available to support conceptualization, operation, and sustainability of a food hub. From the vast pool of resources available on food hubs nationally, this report notes below some examples of the excellent resources that should be the focus of any toolkit:

- 1. USDA Agriculture Marketing Services (AMS) has dedicated a tremendous amount of analytical, technical and financial resources for food hub operators. The <u>USDA AMS Website</u> is a strong resource generally; the following reports highlighted are a sampling of extensive resources available: <u>Running a Food Hub A Guild to Food Hub Financial Viability</u>, <u>Running a Food Hub Lessons from the Field</u>, the <u>Regional Food Hub Resource Guide</u> and <u>Know Your Farmer</u>.
- 2. Winrock International's Wallace Center works closely with USDA and has established itself as one of the preeminent non-profit authorities on food systems and in particular food hubs. Additionally, Wallace Center's National Good Food Network (NGFN) recently also published an excellent online training entitled "What's the Big Deal? Accessing and Financing Regional Food Enterprises" designed to help funders and investors better understand and assess regional food businesses. A webinar can be found at http://bit.ly/fhviability.
- 3. Wholesome Wave is a non-governmental organization (NGO) committed to improving food systems nationally and offers important work / resources on local food systems and financial sustainability. Similar to the USDA and the Wallace Center, they have a comprehensive Food Hub Business Tool Kit focused on food hub development, financial viability and management.
- 4. The <u>Michigan State University's (MSU) Center for Regional Food Systems</u> (supported by the Wallace Center) recently published "<u>2015 Food Hub Survey</u>" is an excellent resource. It is accompanied by a useful operator and funder toolkit.

^{**} Arganica bought by Relay Foods (<u>www.relayfoods.com</u>). http://nafn.org/resources/food-hubs/2016-conference

These represent just a portion of the materials available for food hub operators but they provide a comprehensive view, a playbook and a variety of case studies that must be read prior to embarking on a food hub initiative. For MCFC and MOCO, these resources will provide context, best practices and specific approaches for structuring and refining a food hub concept.

FRAMEWORK FOR FUTURE ANALYSIS AND MODEL DEVELOPMENT

This section distills the key lessons learned, best practices, and critical success factors into a simple Food Hub Analytical Framework (see Table 4 below) that should be utilized when designing any future food hub model. The Food Hub Analytical Framework will help MCFC, or any other investor, partner or operator, ensure that the market needs and validity for a food hub are understood, and that there is a clear action plan for determining and allocating human and capital investments. Additionally, this analytical framework should inform how to structure competitive solicitations to select vendors for food hub programming.

Table 4 - MOCO Food Hub Framework Analysis

| Key Factor | Key Questions To Be Considered, Vetted And Approved. |
|--------------------------|---|
| Existing Market | Who are the initial customers (suppliers, institutional and consumer buyers)? Why would the proposed Food Hub services be demanded, and what price are they willing to pay? |
| Future Market | At scale, who are the potential customers of the food hub (suppliers and buyers)? Is there a rational market/buyer as the food hub reaches operational capacity and will this change the original business model/mission? |
| Value Chain Constraint | What core market/value-chain bottlenecks will be the primary focus of the food hub and how will these constraints be resolved/alleviated? How will this be monetized? |
| Product Offering / Focus | What core products will the food hub focus on and why? How will this differ at scale? Is there sufficient demand to meet supply? Who will be the suppliers? |
| Operational Identity | What will be the defining business model and corresponding mission? Does this match the core offering and consumers targeted above? |
| Business Case and Plan | Is there a defined business case to justify the financial and intangible investments that need to be made? What types of human capital will be required to institute the plan? How will talent be financed/identified? |
| Viability Strategy | What is the capitalization strategy over the short to medium term? If services are to be offered that are not profit oriented, how will these be sustainably financed? |

FRAMING QUESTION 2: How can MCFC (AND THE MOCO GOVERNMENT) BEST LEVERAGE ITS PAST POLICY, PROGRAMMATIC AND INFRASTRUCTURE INVESTMENTS TO SUPPORT THE DESIGN OF FOOD HUB-CENTRIC PROGRAMMING?

REVIEW OF MCFC AND MOCO AGRICULTURE SUPPORT

GENERAL OBSERVATIONS FROM MOCO AG-CENTRIC PROGRAMMATIC REVIEW

Discussions with MCFC and other agriculture-centric MOCO officials indicated that there is institutional commitment for expanding opportunities for emerging and established farmers across the County. This commitment is driven in part by the need to support emerging farmers, effectively use farmland under farm easement legislation, and promote market access and consumer demand for local food products.

The County currently allocates budget and programs for a variety of sustainable agriculture and food access programming, which has driven interest in establishing a food hub to consolidate these efforts.

From the brief review of MOCO-based agriculture-centric programming and discussions with key stakeholders, this report offers the following observations:

- The collective progress made to date on developing local food ecosystems (including laying the groundwork for a possible future food hub) is commendable. To date, most of the focus has been on food access and security, with some investment in resources/programs focused on market development for local farmers. The MOCO Agriculture Services website is the best resource found, especially the New Farmer Project, Farm Directory, Buy Local Challenge, and Wholesale Buyers Guide. It is unclear how dynamic the content of this website is or to what extent this content is being utilized by relevant stakeholders.
- MOCO has excellent visualization of local producers, which includes clear spatial realities of MOCO
 Agriculture Reserve utilization. Understanding is highest in regard to the relationship between local
 production and food access and security, and less so related to market development opportunities.
- There seems to be a clear theoretical understanding and connection made between macro-level food trends, opportunities and constraints, and MOCO designed and proposed programs. Again theories need more market testing/validation and a common framework that expands beyond food access and security priorities.
- MCFC's Member-led <u>Working Groups</u> seem to be effective mechanisms for convening passionate local citizens interested in improving the food system. It remains unclear how this type of structure would be effective in overseeing or managing more complex "agriculture economy" projects. MCFC

may need to design a new project management structure if oversight of larger programs falls under its direct purview, funding, and/or management.

Although this report was requested specifically to fill gaps in current food hub related thinking, it is important to highlight some of the knowledge gaps identified during stakeholder discussions that need to be addressed internally before future food hub investments can be made.

- From an overarching perspective, the commercial agriculture community is thought of as a somewhat monolithic industry group. In reality, even at the producer level, local MOCO value chains are highly diverse with differentiated financial and operational needs. Although programs should not be hyper-fragmented, a greater understanding and acknowledgement of the specific and unique needs across the group could lead to better tailored programming and targeted investment.
- There seems to be a general lack of overall understanding of the required investment (both short-/long-term and financial/non-financial) required for an institutional food hub and understanding of non-institutional food hub models remains nascent.
- There does not seem to be a complete understanding of the available public investment for future food hub programming or how funding can be allocated beyond food security/access related programming. Furthermore, it is not clear if public financing will be allocated only for early stages of food hub programming development or if it can be structured as a long-term public investment, nor if this investment would be leveraged by private capital.
- It is generally understood that the success of any future food hub would require deep regional and intercounty coordination from a variety of public sector initiatives. Although ideal from a theoretical perspective, it is unclear if the proposed coordination is feasible.

POLICY / REGULATORY / POLITICAL ENVIRONMENT

Our cursory review of the county's regulatory and policy environment (specifically <u>Chapter 2B</u>. <u>Agriculture and Land Preservation</u> and <u>Chapter 59 – Zoning</u>, <u>Use and Usage</u>), revealed that it is not yet clear how amenable the county and/or local regulatory environment is to a commercially oriented food hub. Our review indicates a formidable governmental and legal and regulatory bias towards programming food access and food security, though this is unconfirmed from a regulatory analysis standpoint. As an example, in *Regulation O2B.O0.01.02 Agricultural Easement Program (AEP)*, where applicable land use policies are defined (*D. Permitted Activities - Lands Subject to AEP Easements*), "Farm Markets" are noted, but Food Hubs specifically (or farm aggregation generally) are not. Similarly, in <u>Chapter 59</u>, <u>Article 59-3.3.6 Farming</u>, land use policy is more open, but again inconclusive if a food hub would be allowed. It is unclear if there is the regulatory framework for the local government to be able to finance, participate directly in and/or indirectly support a commercial food hub. More analysis in this

area is required.

MOCO local government would struggle to launch and sustain a viable commercially oriented food hub program without proper regulator support. The need for a strong policy framework and broad public support is even more acute given the County's focus on the preservation of pastoral views and landscapes, and the impact of this on shaping local and regional commercial agriculture regulation.

This report hypothesizes that issues that have been avoided to date around food hub programming include: (a) there does not seem to be a clear public level understanding of what a food hub is; (b) most people associate them with farm markets, which are generally perceived as positive; and (c) most of the investments and programming to date have avoided commercial projects and focused on serving at risk local populations (which again is generally perceived as positive). Although admirable and needed, as programming expands or shifts into more commercially focused programs, especially ones that have any negative externalities related to spoiling the idyllic nature of the country side, this report remains unsure if the regulatory environment (and political will) will continue to be supportive.

OPPORTUNITIES FOR INTER-COUNTY COOPERATION AND ENGAGEMENT

Regionally, there is positive activity and exploration in surrounding Maryland counties around food hubs that could be explored and considered for future collaborative efforts. A selection of this activity includes:

- The Southern Maryland Agricultural Development Commission (SMADC) (focusing on five Maryland Counties: Anne Arundel, Calvert, Charles, Southern Prince George's and St. Mary's) has undertaken significant research and investment in a diverse set of programs to support agricultural growth. SMADC is coordinating some regional produce aggregation and distribution, as well as planning their first significant infrastructure investment in food processing. These activities will eventually be layered into a broader Food Business and Innovation Center that eventually will also have distribution capacity.
- Howard, Prince George's, and Fredrick Counties are each undertaking similar feasibility studies to MOCO around food hubs and programmatic options to better support each county's respective agricultural community.
- USDA has invested in a regional supply chain strengthening initiative with the <u>Metropolitan Washington Council of Governments</u>. Led by a recently appointed Regional Food System Value Chain Coordinator, the initiative will attempt to coordinate regional investments under a broad "Region Forward" plan. The plan focuses on improving communication and coordination between regional suppliers/buyers, food aggregators and distributors. It also functions as a forum for disseminating agricultural information to local leaders, businesses, and citizens. MCFC is already an active member.

Recognizing this regional momentum, future food hub or related programming development in MOCO should seek to leverage these efforts. Furthermore, it will also broaden MOCO's commitment to rural agriculture development and integration, which is a notable best practice.

Despite this optimism, it is important to acknowledge the potential pitfalls of any strategy that is overly reliant on intercounty and regional coordination, as differing programmatic and budget priorities and political/operating environments may not be surmountable. Integration and coordination is key to optimizing regional investment, but the long-term viability should be ensured by a more MOCO-centric operation and investment strategy.

GENERAL CONCLUSIONS

The review of previous and current work and investments made by MCFC (and the County Government) is positive and the following general conclusions can be made:

- Building on work already completed and currently planned by MCFC specifically, and MOCO generally, there is a strong foundation for future food hub related investment(s).
- MCFC needs to continue to develop and accelerate advocacy around an expanded food hub vision that moves beyond food access and insecurity into commercial, market development.
- Determining a clear and politically achievable plan for long-term food hub related investments combined with building the required political will and regulatory framework will be critical to both secure private sector partnership and investment, and clear any potential regulatory hurdles that could stymie any nascent effort.
- Continued regional coordination is key and if possible, MCFC should focus on leveraging any currently available food hub investment money into its broader capital investment strategy. That said, program success should not be determined by regional coordination, only bolstered by it.

STAKEHOLDER ANALYSIS

FRAMING QUESTION 3: What are gaps in support limiting key agriculture stakeholders (especially small and mid-sized producers, distributors, processors, etc.) across the value chain?

STAKEHOLDER ANALYSIS METHODOLOGY

The report conducted a brief stakeholder analysis of 45 key actors from throughout the value chain — organized in two main sub-categories: supply-oriented (farmers/producers); and demand-oriented stakeholders (buyers, distributors and retailers). The primary focus of our questioning was to:

- 1. Garner an overall market perspective of the critical supply-side and demand-side opportunities and constraints affecting day-to-day business.
- 2. Determine the general market understanding of local food and agriculture related policies and regulations to determine if, and how, these policies and programs affect day-to-day business.
- 3. Determine the market understanding of what a "food hub" is, the purpose a hub could serve, and if this type of market actor (in whatever form) is something potentially beneficial to business.
- 4. Determine if there were any value chain outliers such as the <u>Crossroads Community Food Network</u> that have the constituencies or political capital to affect future design of food hub programming and how.

Please refer to Appendix 2 for a complete list of stakeholders engaged and Appendix 3 for a complete list of interviewee guiding questions.

SUPPLY-ORIENTED KEY STAKEHOLDERS (FARMERS / PRODUCERS)

KEY ATTRIBUTES

Supply-oriented producers across the County are diverse and there was no single, notable collective problem or opportunity identified. By grouping identified and prioritized needs, realities, opportunities, and challenges, three main sub-categories of producers were identified: *emerging farmers, enterprise farmers*, and *traditional commodity farmers*. Table 5 summarizes the key attributes of each group.

Table 5 – Supply Oriented Producer Grouping Attributes

| EMERGING FARMERS | ESTABLISHED ENTERPRISE FARMERS | ESTABLISHED TRADITIONAL AG FARMERS |
|---|---|---|
| New(er) to farming. | Typically, legacy land / farm owners. | Typically, legacy land / farm owners. |
| • Typically leases land: < 20 acres. | Works on 20-500 acres of land. | Works on 500+ acres of land. |
| Typically has income streams outside farming. | Produces majority of local fruit / vegetable products available. | Typically focused on commodity products, notably soy, wheat, corn. |
| Leverages low level of resources, capital, machines, transport, etc. | Has production capacity outside of fruits and vegetables, most typically in meat, poultry and commodity crops. | Business done principally through buyers' contracts. |
| Adoptive and supportive of new / organic ag techniques and markets. | Existence of mature and developed sales channels – on farm, wholesale, direct to store, CSA, etc. | Sales channels via contracts mature, and generally secured. |
| Have indefinable issues with product | Existence of additional revenue | Openness to look at higher yielding |

| Emerging Farmers | ESTABLISHED ENTERPRISE FARMERS | ESTABLISHED TRADITIONAL AG FARMERS |
|--|--|--|
| placement and market access generally. | streams beyond crop production – picking, farm tours, value add product production, etc. | product options – decision solely driven by strong business case. |
| • Limited market channels, mainly their own CSA, market stands, farmers markets. | Questions potential value of a food hub for their business. | Questions potential value of a food hub for their business. |
| Engages occasionally in small value - add production. | | |
| Generally supportive of Food Hubs and would engage / utilize if one was available. | | |

Emerging farmers had the broadest set of concerns, had the most favorable view of a food hub, and demanded the broadest range of possible programmatic support. Enterprise and traditional commodity farmers shared collective concerns about the overall strength and size of market opportunities despite operating in different parts of the market. Neither viewed a food hub as something particularly important to their business now or in the future, unless it could be a vehicle for assisting them with possible regulatory issues. Access to markets and buyers was critically important, although they did not see how a food hub could play a specific role in this regard.

PRODUCTION VOLUMES AND OUTPUT

Using MOCO market data available from the "MOCO Agriculture Fact Sheet" published in June 2015, the report estimated the existing and potential vegetable and fruit product volume that could be applicable to a locally based food hub.

Table 6 summarizes the assumed revenue distribution of products across farmer categories. These numbers were derived by taking the average farm revenue (\$89k), and multiplying it by the number of recorded fruit, vegetable and nut farms (51). The report estimates that MOCO producers generated an estimated gross revenue of roughly \$4.5m in 2014, accounting for roughly 9% of the overall revenue generation from all traditional agricultural sales (\$48m) in the county that year. The majority \$4.5m in fruit and vegetables revenue came from the enterprise farmer group. The table then compares this output against other key production outputs — commodity crops and value added products. The table does not include revenue for animal related production.

Table 6 – Assumed Revenue Distribution

| Product | EMERGING FARMERS (AVE. \$ ANNUALLY) | ENTERPRISE FARMERS (AVE. \$ ANNUALLY) | COMMODITY FARMERS (AVE. \$ ANNUALLY) |
|--------------------------------|-------------------------------------|---------------------------------------|--------------------------------------|
| Table Fruit and Vegetables | Less than \$1M | \$1M-\$4M | Less than \$1M |
| Traditional Commodity Ag Crops | N/A | Less than \$1M | \$40M + |
| Value Added Products (Various) | Less than \$100K | Less than \$250K | N/A |

Looking deeper, if the assumption is that the majority of the \$4.5m fruit and vegetable category comes from farms such as Homestead, Lewis Orchard, Kingsbury Orchard, Butlers Orchard, etc., this would mean that there is a low level of surplus product locally grown that could be "sold" through a locally focused food hub. Enterprise farms typically sell their products through established channels such as onfarm market sales, on-farm 'picking', farm CSAs, or through direct relationships with retailers and distributors. Emerging farmers offload production mostly via farmer's markets and on-farm retail. Therefore, emerging farmers have the most to benefit from a new market access point to more commercial or institutional buyers (e.g., food hub), which they currently are not equipped to access.

This report is not suggesting that production and distribution patterns will not change if a food hub is available and successful, nor is the report suggesting that a food hub could not actually generate more local production (using pull through market demand). However, taking into consideration these current market realities there does not seem to be sufficient supply of local fruits and vegetables to justify an institutionalized food hub at this time. An initially scaled-backed entity or even partner focused on market linkage development and collective sales for the emerging and enterprise level farmers may be a better use of the county's focus and investment. More on this below.

DIVERSITY OF KEY SERVICES DEMANDED

Stakeholder discussions revealed a variety of possible services requested and/or subsequently valued by each producer subgroup. Table 7 below: (a) highlights key areas of support identified as being "potentially useful" or "value-added" and (b) provides a simple heat-map of the perceived demand for that service or support.

Table 7 - Services Demand and Valued

| PROPOSED SUPPORT | EMERGING FARMERS | Enterprise Farmers | TRADITIONAL AG FARMERS |
|--|---------------------|-----------------------|------------------------|
| Production support (technical assistance) | | | |
| Access to finance / loans. | | | |
| Production support (equipment) | | | |
| Logistics support. i.e. product transportation pickup/delivery | | | |

| PROPOSED SUPPORT | EMERGING FARMERS | Enterprise Farmers | TRADITIONAL AG FARMERS |
|--|---------------------|-----------------------|------------------------|
| Sales and marketing | l | | |
| Collective buying / distribution | | | |
| Less restrictive business / regularly environment. | | | |
| Access to value add processing facility | | | |
| Loosening of on farm agriculture tourism restrictions. | | | |
| Food Hub | | | |

| Strong Demand | |
|---------------|--|
| Medium Demand | |
| Weak Demand | |

In terms of service provision, it seems that most of these services were either: (a) sought, but not accessed; (b) provided indirectly by private sector actors; or (c) provided through local government resources. Although most agreed that they have a willingness and ability to pay for such services, it was unclear how much they were spending now or would spend theoretically. Information was also sparse on any specific key value private sector ancillary service providers that were providing support, if any, as any service noted was fragmented and/or indirect (e.g., receiving technology support from an equipment manufacturer).

In terms of specific reactions to MOCO government agriculture programs, it was not surprising that support provided by MOCO Office of Agriculture was most popular. For emerging farmers, the most popular and notable support was either technical or crop maintenance support from programs like the New Farmer Project, and basic information access from sources such as the Farmers Market Guide, Farm Directory, and Wholesale Buyers Guide. Enterprise and traditional growers noted receiving undefined "legislative support" as well as market access support (mostly for commodity growers).

There was notable interest in a "food hub" (broadly defined), almost solely from emerging farmers. When asked to define and prioritize what they needed from a food hub specifically, farmers offered that they would prefer either an "entity" or "available service" that addressed:

- Logistical challenges: "getting product more efficiently to marketplaces / customers".
- Broader and diverse market access: "better and more secure customers".
- Business development: "new client development".
- Value added product development/support: "technical assistance".

The diversity of demanded services noted in this section suggests that any policy or programmatic effort should acknowledge the unique challenges and opportunities facing each producer category rather than attempting to develop a "one size fits all" solution.

VIEW / REACTIONS TO LOCAL POLICY

Stakeholder responses related to which local policies had the "most effect on their business" and/or "business generally", both positively and negatively, primarily focused on land use policies. Policies most noted as "of concern", "limiting" or "burdensome" were ones that generally applied to:

- On-farm events (especially for wineries).
- On-farm food handling and processing.
- On-farm building and code restrictions.
- General limitations on agriculture tourism (especially for bed and breakfasts).
- On-farm payment options (SNAP in particular).
- General regulations effecting wineries.
- Meat processing.

Although no stakeholder could cite regulations by name or number, our cursory analysis indicated that concerns fell generally under <u>Chapter 2B. Agriculture and Land Perseveration</u> and <u>Chapter 59 – Zoning</u>, Use and Usage.

To highlight an example and provide additional context, below is a summary of one stakeholder interaction. The name of the farm has been left out for privacy reasons.

A popular 30-acre destination farm and winery in Montgomery County, MD described itself as having a "holistic agriculture model" – growing / selling produce, meat and wine plus using their farm for events. They noted attempting to bolster their very profitable event business by investing in upgrading a "big barn" that would be used for tastings, selling products and hosting weddings. They noted that because of MOCO land use and building codes, they were "forced" to invest over \$500k in additional capital to reach the required building standards (which they felt were unnecessary). These additional expenses were coupled with further regulations that limited "on farm events" to 20 or less per year, when a property is deemed to be a winery (which this property was). The farmer felt that this limitation severely limited their largest potential revenue source that "was critical" for paying back what they perceived was large capital expenditures driven wholly by "unfair regulation."

This selection is a summary of a single, qualitative discussion and all figures and inferences noted above are shared without comment or independent verification. This story highlights the unique policy issues the County faces when it tries to balance the preservation of idyllic landscapes and a public desire for strict land use with programs that support broad scale and diverse agro-enterprise economic development. Similar stories were heard numerous times.

Although competing land versus farm issues noted above remain omnipresent, balanced against a County-wide desire for promoting rural development, there may be opportunities for MOCO to develop a clear framework for policy dialogue around reducing legislative barriers to allow farmers to diversify on-farm revenue beyond crop production. Movements in Hudson Valley, New York, and to some extent from Fauquier, Rappahannock, Culpeper and Madison counties in Virginia, could be used as possible models of successful policy frameworks that balance similar concerns.

DEMAND ORIENTED KEY STAKEHOLDERS (DISTRIBUTORS / RETAILERS)

KEY ATTRIBUTES

There is a robust and mature network of hundreds of food distributors and retailers in the DMV and Baltimore areas, many of which are already playing critical roles in the local agriculture value chain. This report focused on summarizing the experiences of a few best-in-class distributors and retail outlets as a representative sample of the current landscape of regional market demand for Maryland sourced products. Market players interviewed already sourced a diverse set of products from Maryland, and represented a possible future channel partner for any food hub or market linkage program.

This analysis focused on providing a representative sample only and does not include all retail entities

and distributors in the area. A number were omitted due to either a lack of tangible interest in local produce / product (e.g., Trader Joes), or if they had procurement processes that favored more centralized buying (e.g., Sysco, US-Foods, Performance Food Group). Table 8 below provides a summary of key attributes for each producer. Information on an additional 25 companies can be found on the MOCO Agriculture Services website.

Table 8 - Demand Landscape Analysis

| FIRM | LOCAL FOOD FOCUS | Markets Served | # OF LOCAL GROWERS SOURCED | LOGISTICAL CAPABILITY | LEVERAGING TECHNOLOGY | | |
|---|---------------------|-------------------|----------------------------|--------------------------|--------------------------|--|--|
| | | | | | | | |
| Produce Distributors (Selection) | | | | | | | |
| Coastal Sunbelt | Y | Mid-Atlantic | 50+ | Strong | Y | | |
| Keany | Υ | Mid-Atlantic | 50+ | Strong | Υ | | |
| Baldor | Υ | Mid-Atlantic | 50+ | Strong | Υ | | |
| Class | Υ | Mid-Atlantic | 50+ | Strong | Υ | | |
| Lancaster Foods | Υ | Mid-Atlantic | 50+ | Strong | Υ | | |
| Brick and Mortar (Selection) | | | | | | | |
| Mom's Organic | Υ | DMV | N/A | Strong | N | | |
| Whole Food Market | Υ | DMV, National | 20+ | Strong | Υ | | |
| Glens Garden | Υ | DC | 20+ | Low | N | | |
| Dawsons | Υ | MD, VA | 20+ | Low | N | | |
| New Generation Retailers – Online Grocers, Digital CSAs, etc. | | | | | | | |
| Relay Foods | Υ | DMV, Balt. | 20+ | Strong | Υ | | |
| Washington Green Grocer | Y | DMV | 10+ | Medium | Υ | | |
| 4P Foods | Υ | DMV | 5+ | Medium | Υ | | |
| From the Farmer | Υ | DMV | 5+ | Medium | Υ | | |

Given the diversity of each group, the report below dives into specific attributes by category:

Produce Distributors. The most relevant category for a farm hub to consider is regional produce distributors operating in the DMV and Baltimore markets. Most interestingly:

- All above-noted stakeholders perceived themselves, with strong conviction, to be "food hubs";
- Each cited that expanding a local catalog offering for their clients (including restaurants, grocery retailers, and other institutional food service companies) was "important" and/or "part of a longterm growth strategy";
- Each noted "existing and strong logistical capability" to "handle all aspects of local food

procurement", including available infrastructure (trucks, warehouses, etc.), point of sale delivery and consolidated pick-up capacity, as well as backhauling;

- Each already noted the importance of leveraging technology, on both the buy side and sell side, to identify, source, transport and/or sell local food; and
- Each noted that typical margins on local food ranged from 5% to 50%.

Brick and Mortar Retailers, Digital Grocers, Large CSAs. The DMV and Baltimore have dozens of traditional food retailers with a strong commitment to local produce and meat. Most interestingly:

- Many retailers noted relying "heavily" on Coastal, Baldor or Sysco for the "vast majority" of their produce even if they promote and offer a significant selection of local food;
- Most retailers have decentralized buying systems at the store level for selection of their produce offerings, allowing individual farms to have individual relations with single or a small number of stores (e.g., Kingsbury Orchards has a direct purchasing relationship with two local Whole Foods Markets);
- Generally, even the smallest retailers worked in volumes more realistic for enterprise level and above
 emerging farms, though exceptions exist, especially for higher end, unique, and/or harder to find
 local products such as ramps, morel mushrooms, or white asparagus; and
- All retailers noted that the biggest barriers for working with local and smaller farms include lack of steady volumes, inconsistent pricing, overall quality assurance, and buying logistics.

New Generation Retailers – Online Grocers, Digital Community Supported Agriculture (CSA)". The DMV and Baltimore have been fertile ground for a number of new generation, online retailers that use web-based, business-to-business (B2B) and direct-to-consumer (B2C) e-commerce platforms to offer local food to customers. Most interestingly:

- Many new entrants (Relay Foods, 4P's, From the Farmer, Big City Farms, Smucker Farms) and older players (Washington Green Grocers, Peapod) source significant amounts of locally produced food, meat, and value added products;
- All entrants noted local sourcing to be "critical" to their offerings. One such partner even noted: "... we could take three times the product coming out of MOCO if it was available";
- Most new entrants consider themselves "digital food hubs", with defined missions and branding strategies clearly associated with the food hub movement;

- Although it could not be independently verified, all digital retailers noted offering "better margins" to local farmers than traditional retailers (due to "shorter supply chains"), and used this as part of their branding or marketing;
- All noted similar challenges with volumes, pricing, quality assurance, and logistics of working with local farms, but tended to be more flexible and open-minded, as online business models tend to be more dynamic and adaptive to the unique nature of local farmers;
- All noted using distributors (such as Coastal, Baldor, or Keany) for organic and standard produce selections if they were offered; and
- Some noted leveraging regional food hubs (most notably the Local Food Hub in Charlottesville) when necessary to fill supply gaps or deal with seasonality sourcing issues (especially in winter). A few respondents noted leveraging local food hubs for training and community engagement events.

It is also important to note the specific growth of a subset of next generation retailers — "Digital CSA". Digital CSAs are diverse, but tend to be where local farms sell weekly or monthly CSA shares (i.e. local produce and sometimes meat / value add "boxes" or "kits") and a la carte produce and products directly from simple e-commerce portals hosted on their own websites. These direct-to-consumer sales channels are popular as they are generally cheap to launch and manage yet they garner similarly high retail margins to farm stands and farmer's markets. The sites do require some level of sophistication with online commerce and digital marketing / communication.

Logistically, products are either distributed directly to the consumers via home delivery or pick up spots (where consumers show up to a specific location at a set date and time generally each week), via channel partners with established retailers (e.g., True Value Hardware stores), or in some cases via from innercity boutique brick and mortar retailers (e.g., <u>Smucker Farms</u> or <u>Pleasant Pops</u>). <u>One-Acre Farm</u>, out of Boyds, Maryland, is a perfect example of this type of digital CSA retailer.

VIEW / REACTIONS TO LOCAL POLICY

Generally, stakeholders did not note any specific "reaction to", "interaction with", or "effect from" MOCO regional or local policy and/or regulations. That said, all tended to be "very positive", "willing" and "open" to actively participate in local or regional "Buy Local" initiatives (public or private sector led) as long as local farms met standards and their pricing requirements. "Local USDA Organic" initiatives were especially sought out if available, especially for higher end, more sustainably focused brick and mortar retailers such as Whole Foods Markets or Mom's Organics.

GENERAL IMPRESSIONS OF THE OVERALL DEMAND MARKET LANDSCAPE

The stakeholder analysis of demand oriented players solidified initial presumptions that the MOCO food shed is integrated with a highly mature and sophisticated distribution and retail landscape for both produce and value added products. This sophistication drives a highly competitive landscape that puts intense focus and value on price, scale and quality, which is challenging for even the most mature agriculture producers. Positively:

- There is clearly no shortage of markets for local / produce products to be sold farm stands, other on farm stores, regular and digital CSAs, restaurants, retailers, distributors, etc. with each demanding and placing value on local, high quality produce and related value added products.
- Market opportunities for local growers will continue to expand as price, scale, and quality improves.
- Regional demand (including Mid-Atlantic and greater East Coast markets) for produce (especially
 organic) remains high, although this demand is typically applicable to larger farms.
- There are strong and growing demand opportunities and new markets for higher value added and specialty products, which are open to and attainable by farmers of all sizes.
- Although markets are still nascent in terms of volume demanded, the emerging online produceoriented B2C and B2B marketplaces and new e-commerce platforms (e.g., digital CSAs) represent solid opportunities for smaller and emerging farmer groups.

GENERAL CONCLUSIONS

MOCO producers — regardless of size, sophistication or product — operate in a highly competitive market environment that demands high quality product delivered on a consistent basis. This marketplace provides challenges and increases barriers to entry, but it also results in a market place that currently has unmet demand for local product. Local produce that is entering the market is finding buyers readily, either hyper locally (e.g., farm stands), or from one of the myriad of market retail, wholesale or institutional channels noted above.

This suggests that the focus of any food hub related program needs to concentrate resources on developing and expanding market linkages that will allow smaller, emerging farms to capitalize on these diverse market opportunities, rather than directly participating in the supply chain as an institutional buyer or seller. Where the addition of another layer in the value chain in the form of a food hub may be useful in some markets, in MOCO it will simply make the products less competitive due to probable price increases. Where MCFC and MOCO can add value is in developing and expanding market linkages to allow smaller, emerging farms to capitalize on existing market opportunities. This could include service and support focused on volume maximization, crop diversification, value added production, packaging and branding, e-commerce and general support on achieving market standards.

FRAMING QUESTION 4: WHAT VIABLE FOOD-HUB CENTRIC PROGRAMMATIC OPTIONS ARE AVAILABLE FOR ADDRESSING IDENTIFIED MARKET DEMANDS FOR SUPPORT; AND HOW SHOULD THESE FISCAL AND TECHNICAL INVESTMENTS BE PRIORITIZED TO MAXIMIZE SUSTAINABLE IMPACT AND OUTCOME OVER THE SHORT-, MEDIUM- AND LONG-TERM.

PROGRAMMATIC OPPORTUNITIES

OVERARCHING PROGRAMMATIC OPPORTUNITIES

The financial and human capital resources invested to date by MCFC and MOCO have demonstrated clear commitment to expanding economic opportunities for the local farming community. Anecdotal evidence indicates this commitment is paying off in terms of the quality of the product the farmers are currently producing and the products they produce as well as the local and regional demand for these products.

Although County volumes of table crops are still limited in comparison to overall agriculture output in the region, the quality and volume of these goods seem to be improving, while demand for these products, especially high quality varieties, is also increasing. In parallel, the general perception at the consumer level of the importance of local food is also strong and growing. This is all reflected in both the rapid expansion of unique market actors (e.g., online grocers; digital CSAs; specialty local-centric, brick and mortar retail), and the integration of major "local components" in everyday grocery retailers.

This report is not suggesting that County-focused agriculture programs are directly responsible for all these successes, as market drivers are critical in pushing these market shifts throughout the value chain. However, it does suggest that MCFC and the County are clearly creating a policy, technical, and overall market environment conducive to these positive local food markets. This is very positive and needs to be continued and expanded.

What this means tangibly in terms of recommendations toward future programmatic efforts, and financial and human capital investment, is highly dependent on the following key factors:

- Do key stakeholders in the government / regulatory community support an expansive focus and new investment beyond food access, food insecurity, and nutrition towards commercial agriculture focused activities?
- If yes, will this support translate into tangible resources available for financial and human capital investment? What is the time frame for this investment? How/where will this be managed?

- Does the county and local land use regulatory framework have enough flexibility to allow for increased commercial food hub aggregation and distribution activities without significant changes in local code? If no, could the policy environment improve this?
- Is there enough demand and volume from emerging and enterprise farmers to warrant these investments, and if yes, in what areas should this investment be prioritized?

This stakeholder-based analysis anecdotally verifies that the answers to each of these question is a "conditional yes". Conditionality is noted, as it is not yet definitively clear the level of actual support, investment, capacity, flexibility, and demand that is present. That said, there is clearly enough supply and demand, value chain stakeholder support, and current overall momentum to warrant MCFC and its partners to advocate and plan for a comprehensive expansion of current "MCFC Food Economy" programming and technical support to include direct "Food Hub"-oriented support.

FOOD HUB PROGRAM OPTIONS

Based on need, demand, regulatory environment, and the perceived level of resources available, this report offers two possible tracks of programming to consider for investment: *Institutional Food Hub* and *Market Linkage Facilitation*. Each model is described in detail below with justifications, structure, and estimates for investment required.

Regardless of the size, structure, or design, this report strongly recommends that future food hub programming prioritize these overarching best practices to ensure success. Any programming should:

- Have a core focus to increased producer level market linkages and logistical support as broadly as
 possible, fostering in particular deeper relationships with regional food distributors;
- Be designed financially and technically to engage the private sector as much as possible in the management of the model to ensure that both market based incentives are driving growth, and that long-term financial viability remains a core-focus from day one;
- Be supported by a tangible, well-funded, long-term, and committed ecosystem of technical resources that can provide the technical assistance required for expanding capacity at the farmer level to meet requirements demanded by new/expanded market linkages. This ecosystem does not need to be housed in one entity, but it needs to be available, sustainable and priced accordingly;
- Have the mandate and capacity to promote collaboration wherever possible / feasible, ensuring that
 any effort leverages regional programming, investment, and support for its own future Countyspecific success;

- Be integrated with programming and advocacy support that is focused on improving the
 competitiveness of the local agriculture policy environment, most importantly making policy more
 conducive to diversified on-farm commercial activities (including agriculture tourism related to onfarm events, bed and breakfast building codes, and on-farm food services); and
- Ensure, where feasible, that expanded programming continues to increase access to local food and the local food economy by vulnerable MOCO residents (e.g., low-income seniors).

The below subsections describe *Institutional Food Hub* and *Market Linkage Facilitation* models in detail:

A. INSTITUTIONAL FOOD HUB

The Institutional Food Hub model would be a centrally-located aggregation, storage, processing, and distribution facility for MOCO and other regionally produced food products. Its mission would be to provide the key aggregation, logistics and distribution infrastructure and support required to foster deep producer level market linkages between emerging farmers and the broader regional food economy. Based on producer and market demand and available investment, this mission and service offering could be broadened to also include providing infrastructure and services focused on value added production and/or commercial food service.

The model described below draws heavily from work done by James Matson, Jeremiah Thayer, Jessica Shaw and others, titled *Running a Food Hub – Assessing Financial Viability (Volume Three)*, and has been tailored to MOCO's value chain stakeholder service demands and market dynamics.

Operational Model

Although food hubs tend to focus on sourcing and aggregating produce and other value-added local food, their operational models are dynamic, determined by where in the market they decide to focus. At the macro level, food hubs tend to be either direct-to-consumer, or wholesale oriented. Direct-to-consumer channels can be pick up spot or home delivery focused. A wholesale model can focus on produce/local food wholesalers only, or focus on direct-to-wholesale clients (which may include restaurants, online or brick and mortar food retailers, or institutional buyers such as schools or hospitals).

The operational model selected will have a direct correlation with, and be the determinant of, all other aspects of the MOCO Food Hub, including the required physical infrastructure, staffing, and total capital investment required. In order to make the decision of which model to choose, it is imperative to understand / decide where in the local food system this food hub is trying to make the most positive impact. As noted, the MOCO Food Hub should strongly avoid trying to be everything for everybody as this is an almost certain recipe for failure.

This report recommends that the MOCO Food Hub stay operationally focused on a core distribution and aggregation competency, including being able to serve as a facilitator, broker, coordinator, logistics manager, and distributor. Resources could be extremely tight, so it is better to avoid trying to build competency and expertise beyond these areas (at least initially). If other non-market facilitation services are demanded / required by stakeholders, the food hub should build strong partnerships with other key service providers for these offerings.

Given the overall, and typically unforeseen, complexity of the food hub business model, ensuring access to strong expertise from day one is critical. Staying focused will allow the MOCO Food Hub to properly allocate financial resources in as many expert staff from the beginning as possible. This food hub should focus specifically on identifying appropriate talent in aggregation, production, logistics/transportation, and business management. If financial resources and/or talent are not available from day one, short- to medium-termed staffing priorities must be directly linked with the overall growth strategy of the company. The technical resources noted above offer a strong planning tool for this.

Given the production capacity and product mix of the MOCO producer community most interested in leveraging a potential food hub, combined with the dynamic market realties in MOCO and regionally, this report strongly recommends avoiding building a direct-to-consumer food hub. There are already many consumer-oriented market actors in the region, from CSAs to the online-grocer community, investing in and focusing on this market segment.

This report recommends the MOCO Food Hub operational model focus on wholesale clients, ideally regional produce distributors. This operational model will give the County's emerging producers the collective market access they demand, while at the same time provide a model flexible enough to diversify overtime into a broader array of wholesale clients if demanded. This model could be expanded to a direct-to-consumer model later if the supply and market demand warrant such an expansion.

Until overall commercial viability is achieved, this report recommends that community-based, non-fee generating services (such as food distribution, community nutrition or SNAP education, health training or services, or environmental services) be avoided by a Wholesale Food Hub model. Although the report acknowledges these types of service as critical to any broader food ecosystem, it avoids any recommendation that may take this food hub's focus away from its core aggregation and distribution scope. Mission creep toward non-income focused activities tends to divert human and capital resources that could put the food hub at risk. It is recommended by this report that if MCFC (or the County) requires a large component of this type of support, that it design such programs separately from the food hub.

Market Orientation and Legal Structure

Although current data offered by USDA suggests the legal structure of a food hub (non-profit, for-profit or cooperative) does not change the potential longevity, food hubs founded by public sector actors rather than the private sector have a reduced overall chance of long-term success. Therefore, the recommended best practice for any public sector actor interested in a food hub is to take the direct role as an investor, advocate, and champion rather than attempting to be a direct implementer or manager.

In terms of specific legal structure, this report advocates strongly that the MOCO Food Hub legally registers as a for-profit, benefit corporation (B-Corp), which will give the entity the ability to clearly align mission its broader social mission with the commercially oriented business model. It is critical that the food hub be built upon an overarching business model that is self-sustaining over the long term, regardless of whether it is for- or not-for-profit.

Infrastructure

The required infrastructure for a wholesale-oriented food hub, in a conventional sense, would include a dedicated piece of industrially-zoned land, physical building, and other key assets that, at a minimum:

- Provide a physical location for aggregation and distribution, including a space with cold storage capacity and loading docks. Space must have the capacity to pass a USDA <u>Good</u> Handling Practices (GHP) audit;
- Provide the size and footprint required for a wholesale focused hub, which should be around 6,500 sq. ft. at no more than \$3.38 per sq. ft. if possible;
- Include logistical assets and freighting/delivery transportation capacity. Wholesale operations typically require at least two vehicles at inception; and
- Provide office space for administration, procurement, finance, sales, marketing, and staff.

If financial resources are available and services are demanded, additional physical considerations may include:

- A convening space for training and provision of other educationally focused services.
- An internal or external retail space for a farm stand and/or farmers market.
- A USDA-certified commercial kitchen space for food prep and value added production.

The physical location of such facilities should be centrally located with easy access to suppliers, the MOCO Agriculture Reserve, and key transportation corridors (such as I-270, I-370 and I-70). The space should also be accessible to buyers, key staff, and service / training users. Although some smaller towns such as Poolesville, Clarksville, and Laytonsville were all mentioned during stakeholder meetings as possible sites for a food hub of this nature, this report suggests keeping the space as close as possible to Gaithersburg. The space should be located on land leased privately or donated by MOCO, secured at the most flexible 5-10 year lease / lowest cost basis possible (see above), and have the ability to expand overtime as demand grows (specifically to avoid having to move the facility near term).

Market Strategy

A food hub's operational viability is wholly determined by the direct relationship between quality, accessibility, and available supply and true, viable market demand. Wholesale focused food hubs require interest from a broad selection of demand side customers. Although this report recommends initially focusing on the broad array of regional produce distributors, developing direct linkages with the broader wholesale market (e.g., institutions, restaurant groups, retailers, other wholesalers) will also be critically important. Misunderstanding this market and the competitive landscape (especially as food hubs move upstream) are typically fatal mistakes.

Given the maturity and size of regional markets, it does not seem that market demand will be a problem for a MOCO-based food Hub. The challenge will be that even in the wholesale market, the food hub will have to compete from day one with a mature set of existing players. Although current enterprise level and commodity demand seems to be satisfied with existing channels, this report found that there remains an opportunity for growth and participation of local, emerging farmers in these existing channels.

Therefore, to be successful, the MOCO Food Hub must develop a compelling and unique brand of high value products available from the MOCO foodshed. Coastal, Baldor and Keany have each expressed initial interest in being a potential market for our illustrative food hub's products, if this entity can secure a four-season, diverse product set clearly tied to dynamic farmers and their stories. This will be the key to market differentiation and eventual success.

Financial Model

Using excellent industry financial viability benchmarks from *Running a Food Hub – Assessing Financial Viability (Volume Three)*, the MOCO Food Hub will require least \$1.2m in annual sales

to achieve operational break even at operating margins between 20-30%. At breakeven, the food hub will be able to cover all variable and fixed normal business operation expenses, including management salaries, but not be able to achieve a profit or be able to engage in any forward oriented capital expenditures. More importantly, the MOCO Food Hub must have a business model designed to grow as quickly as possible with a goal of \$1.7m to \$2.4m in annual sales, which should cover operational viability plus generate returns between 3-5% gross sales (\$50 to \$150k) annually. Table 9 below summarizes an illustrative *pro forma* that can be used for future modelling.

Table 9 – Wholesale Food Hub Pro Forma

| | Breakeven | Growth | Viability |
|-----------------------------------|-------------|---------------|---------------|
| Revenue | \$1,210,000 | \$1,750,000 | \$2,400,000 |
| Total Variable Operating Costs | (\$950,252) | (\$1,351,977) | (\$1,857,308) |
| Variable Margin (Loss) | \$259,748 | \$398,023 | \$542,692 |
| | | | |
| Total Equipment Costs | (\$34,377) | (\$38,649) | (\$44,693) |
| Total Facility Costs | (\$43,280) | (\$44,578) | (\$45,916) |
| Total Selling and Marketing Costs | (\$5,000) | (\$5,150) | (\$5,305) |
| G&A Expenses | (\$128,263) | (\$172,425) | (\$218,175) |
| Contingency Expenses | (48,400) | (\$70,000) | (\$96,000) |
| Baseline Earnings EBITDA (Loss) | \$429 | \$67,220 | \$132,604 |
| | | | |
| Interest Expense | (\$4,252) | (\$6,149) | (\$8,433) |
| Depreciation Expense | (\$9,000) | (\$9,000) | (\$16,071) |
| Net Income (Loss) | \$12,823 | \$52,071 | \$108,099 |

Running a Food Hub – Assessing Financial Viability (Volume Three)

If the assumption is made that the approximate gross value of MOCO table crop vegetables is around \$4.5m annually and potential wholesale margins to be approximately 25%, this illustrative food hub, to achieve these above noted benchmarks, would have to:

- Capture a large percentage of the existing table crop product, much of which currently resides with the County's enterprise farmers (many of which already have the direct distributor relationships this report is suggesting this hub focus on) very quickly;
- Expand beyond produce at inception to tap into local meat and value added agriculture products to supplement revenue opportunities beyond table crops;

- Support expansion of available volume by working within a broader County-wide effort to provide market channels that pull more new farmers into fruit, vegetable and nut production (adding to the 50 currently in operation); and work with current emerging farmers to continue to expand volumes (currently still estimated to be under \$1m annually);
- Coordinate regionally with public and private sector players to pull regional supply interested in the DMV and Baltimore markets through the MOCO-based hub;
- Develop ancillary services and support specifically targeted to enterprise farmers (see bullet one) to possibly shift their volume through the food hub; and
- Develop ancillary non-aggregation/distribution income streams from training (certifications, food safety, value added production, etc.), business management consulting, branding/marketing support, certification, etc. to add to overall revenue base.

Capitalization

Having a long-term capitalization plan for any institutional food hub is as critical as a solid business plan. At a minimum, the MOCO Food Hub needs to have funding scenarios mapped out throughout the first critical phases of its development — preferably the first five years after launch. Although a mixture of equity, debt and grants will be identifiable pieces of any capitalization plan, the food hub must have a rapid, defined path to financial independence and market driven operational sustainability.

Furthermore, the MOCO Food Hub must have a secure financial foundation *before* launch. It is critically dangerous to assume this foundation can be built over time. Additionally, the hub should identify the right amount and the right kind of capital to support its business, allow for growth, and account for inevitable challenges or shortfalls. It is also important to understand and integrate an income diversification strategy from day one. To firm up the solid capitalization structure, this successful food hub needs to be able to make money from beyond just food sales. Understanding where this ancillary income may come from is important.

Finally, as the model above notes, capitalization plans must have identifiable resources to attract as many expert staff from the beginning if possible, especially in distribution, aggregation, logistics and transportation. This is one area of the food hub that should not be "bootstrapped".

Assuming a three-year achievement of \$2.5m in revenue, this wholesale oriented food hub should expect to conservatively identify at least \$800k to \$1m in capital sources to be able to achieve operational viability (see Table 10 below for an estimated breakdown). This estimate uses industry benchmarks for a fully viable, commercial institutional food hub with regional aggregation and

distribution capabilities. This may not assume other major potential capitalization needs, especially for example if the food hub identifies a large scale commercial kitchen or co-packing operation as a priority, or diversifies into environmentally focused services such as composting. These examples would be a major additional capital expenditure that would be beyond what is estimated as required below.

Table 10 - Estimated Capitalization Requirements - Sources and Uses

Variable Margin (Loss)

| | i otal Amount (\$) |
|------------------------|-----------------------|
| Working Capital | \$450,000 - \$600,000 |
| Equipment and Vehicles | \$155,000 - \$190,000 |
| Line of Credit | \$100,000 |

Est. \$795,000 - \$990,000

Capital for this required investment should be identified from a mix of potential sources, including equity (founding entity/partner or outside investors), debt (credit cards, lines of credit, and short-, medium-, long-termed loans), and grants / donations (public or private). Other forms of below market or subsidized financing such as zero interest loans or loan guarantees (to entice broader commercial financing) are also very effective forms of potential capital that should be identified.

The structure and mixture of these sources can vary widely depending on availability and priority. Although it is not required that all capital is raised or deployed at inception, it is critically important that as much of the capital has been identified and lined up as early as possible, preferably before operations have begun. Food hubs without an adequate capital base are at the highest risk for potential failure.

Although USDA reports that over 49% of food hubs nationally cite "grant support" as "highly" or "somewhat" important to their overall long-term viability, this type of funding is not necessarily best for a food hub's success. That said, medium- to long-term public sector financial support, provided via MCFC or others, could be considered an important capital source as this illustrative food hub drives toward profitability and viability. This support, depending on the mechanisms available, could be direct grant support, or as noted above, could be provided indirectly through, for example, a loan guarantee program. Regardless, the support should be targeted, and designed to limit long-term dependency on this type of capital.

Risks and Challenges

Despite the obvious opportunities that a thriving, successful MOCO-based food hub could offer to emerging and possibly enterprise farmers, there are significant risks and challenges to creating and

sustaining a wholesale-oriented, institutional food hub in the County. To summarize the most critical:

- There is an overall lack of sufficient short-to-medium term production volume available of county-produced high quality produce.
- The food hub would be located in a highly competitive market with many well-capitalized, sophisticated aggregators/distributors vying for supply and market share.
- Although anecdotal, there seems to be regional donor / investment fatigue for additional food hubs, which may limit required sources of short- to medium term capital.
- Given the lack of required supply volumes, there may be a need to rely on and coordinate with regional governments and neighboring food hubs to survive, which may be feasible, but not ideal.

B. MARKET LINKAGE FACILITATION

An alternative to an institutional food hub is to design and invest in a platform of market linkage and facilitation oriented programming that is impactful, cost effective, and pragmatic, while also broad enough to achieve key MCFC, and County-wide priorities for expanding market opportunities for emerging farmers. Priorities include:

- 1. Leveraging pull and push market factors to continue to work with emerging farmers to increase volumes of viable, high value crops;
- 2. Increasing market access for, and overall competitiveness of, MOCO-based emerging farmers and their crops;
- 3. Expanding investment in, and access to, value-adding production opportunities for local producers and food purveyors; and
- 4. Increasing opportunities for farm-level income diversification, especially by expanding market opportunities for agriculture related tourism.

Although not exhaustive of all programmatic options, below is a select list of market linkage programing options that been specifically identified and prioritized to achieve these broad MOCO priorities.

Market Linkage Support Model

Given the potential market demand available to emerging and established MOCO farmers, the first key area of investment should be made specifically in building and expanding local market linkages. Similar to an institutional food hub, this programmatic model would focus on building market linkages and moving supplies of local food. Rather than do this through a centralized production facility, this model would do so through broad scale market coordination.

A model of this nature can be implemented in a variety of ways. It could be as simple as MCFC investing in basic human capital (1-2 persons) to serve as brokers for the local producer community, or as sophisticated as having an aggregator engaged in providing broad market linkages. In either case, the person or organization will essentially serve as a "one stop shop" for MOCO-based produce (and possibly other local food). The central focus of all facilitation is to maximize market penetration of available supply in local markets, as well as eliminating communication, information, and market bottlenecks between the buyers and the farming community.

Below is an illustrative scope of activities that could be provided under this linkage model:

- Identify, track and monitor available producer supply (emerging and enterprise) by product and quality;
- Develop and manage an active forecast of available product by season and work with growers to match supply with demand;
- Coordinate a market push and branding strategy for certain products where MOCO is most competitive;
- Negotiate price and facilitate transactions by maintaining the vendor management process;
- Manage aggregation and distribution requirements to ensure local products are aggregated and picked up as cost effectively as possible;
- Communicate market requirements (volume, standards, packaging, etc.) and product trends
 to emerging farmers, and link farmers to cost appropriate training and technical resources
 as necessary to meet these requirements; and
- Coordinate buy/sell opportunities with other regional supply chain strengthening initiatives, especially with the <u>Metropolitan Washington Council of Governments</u> Regional Food System Value Chain Coordinator.

Resource requirements for this type of programming would depend on of the breadth and depth of the scope of work noted above. The budget should be limited to between \$100k and \$200k a year and be housed either under MCFC or provided via a third party partner. The investment would cover 1-2 full time sales/brokerage staff as well as cover basic operations, training and marketing costs. Additional revenue would come from a percentage transaction fee charged on each order facilitated. This fee should range from 5% to 15% depending on aggregation/distribution services provided. This means for every \$1m in product moved, an additional \$50k to \$150k in annual revenue would be generated to support this program.

There is confidence in this model as a low cost investment with strong potential for success. The Maryland Farm Linkage Program, focused on Anne Arundel, Calvert, Charles, Prince George's and St. Mary's counties, is similar to what has be described above and claims to have moved \$5m worth of produce and product just over the past year. More information can be found at the So Maryland, So Good website (http://www.somarylandsogood.com).

Both supply and demand for this type of program/service seem strong. From the supply side, emerging farmers (and some enterprise farmers) already noted interest in participating in any program that increases potential access to markets. From the demand side, this report garnered strong evidence that a program of this nature would be highly demanded by local buyers if it is successful in identifying high quality, consistent and price competitive supply.

Coastal, Baldor and Keany all noted loosely that they could find value in a program of this nature, as well as a number of the online digital CSAs — One Acre Farm and From the Farmer being two excellent examples. The local online and traditional brick and more grocer community has also expressed interest, with buyers like Washington Green Grocer and Glen's Garden Market expressing interest in all local products, and MOM's Organic Market expressing interest in locally grown organic produce.

Market Aggregation Support Program

Integrated with the market linkage model or facilitated separately, MCFC should consider a type of "Mobile Aggregation Program" that would identify a third-party partner to provide local aggregation support to emerging farmers. Although this report advocates strongly using distribution and aggregation channels and resources already available whenever possible, for emerging farmers that can demonstrate an inability to effectively reach market with their products, this program could potentially fill that gap.

The scope of services should be focused on a few main areas:

- Coordinate weekly pick up of products from emerging farmers 3-4 days a week;
- Identify locations for centralized pick-ups of aggregated goods by regional buyers; or
- Coordinate and facilitate weekly drop offs in the DMV or Baltimore markets on a set and scheduled basis (if resources are available).

The selected partner would have to have the capacity (e.g., trucks, staff, aggregation points) to effectively and safely pick up, aggregate, transport, and distribute the food. Payment for this service should come from a percentage of the above noted transaction fee. MCFC may need to budget a small subsidy in the first year to get the program started, but the investment needs to be designed to avoid dependency and needs to be communicated as temporary from the very beginning. Blue Ridge Produce, from Culpepper, VA, is an example of the type of aggregator that has noted interest in supporting this type of program.

If resources are not available to house this program under a single entity, an alternative model could focus on leveraging next generation transportation services, such as Zip Car Van, to begin to develop an on-demand transportation service for MOCO farmers. This service could enable emerging farmers to be able to access a vehicle (ideally a van or pick-up truck) to use for food and farm related distribution needs without having to invest significant capital up-front. MCFC, or a partner, would structure/design the overall program: negotiate the agreement with the potential service provider (ideally at a subsidized rate); coordinate, communicate and train producers on how to use the service; and cover the subsidized contribution, if necessary.

Value Added Processing Program

Conversations have already identified increasing "value added processing opportunities" as a core focus of MCFC and the County. This report supports this type of investment with conditionality. The current focus on engaging commercial kitchen partners (e.g., Union Market, Mess Hall) to bring additional commercial kitchen services to the County could be highly valued by the broader food economy, especially for food purveyors focused on consumer focused products, and/or commercial food service providers (e.g., caterers). However, this type of commercial kitchen facility and support does not seem to be highly demanded or even highly valued by local MOCO emerging or enterprise level farmers.

This report recommends a targeted focus on identifying and linking producers to more suitable value added processing infrastructure in either the form of a "co-packer", or an on-demand commercial kitchen space designed appropriately for tasks such as produce cleaning, basic prep and possibly some value-add packaging. For example, this space could be used for cleaning and bagging ready to eat spinach, cutting / prepping carrots, building "snack packs" for local schools or even more

advanced production such as prepping and packaging "fajita" or "stir fry" kits using local products. The facility may also provide space and equipment for production of such products such as soup, salsa, or pasta sauce. This model could also seek to link local suppliers with product companies doing value added production with large local requirements, including <u>Cava Mezze Brands</u> (Rockville) and <u>SouperGirl</u> (Washington, DC).

This report recommends again that MCFC focus on identifying established partners to provide this space, support and investment and this model could even be integrated with the commercial kitchen program noted above. MCFC would have to identify resources to design, coordinate, and launch the program and play a lead role in securing the space, possibly co-guaranteeing the lease. If necessary/required, a third party partner (or MCFC) should also be tasked with general site maintenance/management, coordinating access, and collecting fees. Farmers that wish to use the space would be charged an on-demand fee for space utilization, and possibly a percentage of total sales from products developed in the space if more than just the space is provided.

Expand MCFC Advocacy Work

Under MCFC's current mission "to bring together a diverse representation of stakeholders in a public and private partnership to improve the environmental, economic, social and nutritional health of Montgomery County", this report recommends that the council leverage its convening powers and political / community level clout to design and manage specific advocacy campaigns to improve the regulatory operating environment for MOCO farmers. This advocacy campaign, facilitation and support should be targeted with clear, tangible goals and markers of success (e.g., increase consumer awareness, influence policy changes).

One tangible area where advocacy should be initially focused is on improving the policy/regulatory environment around on-farm income generation and "agriculture tourism". This report found that the current legal restraints to on-farm land use are limiting income diversification opportunities for farmers, particularly in areas such as on farm events (e.g., weddings, on-farm dining), and providing established on-farm accommodation (e.g., bed and breakfasts). There are many areas where policies in this area can and should be improved, the four below are areas suggested for initial focus:

- Ease or remove on-farm dining restrictions and barriers;
- Ease or remove on farm accommodation restrictions and barriers:
- Modify building codes and regulations to conform to unique situations (e.g., a commercial property in Rockville should not be treated the same as an 150 year old on farm structure); and

• Increase or remove event caps for wineries.

This report suggests that MCFC's capacity to convene and push for the improved policies noted above will lead to more diverse opportunities for spurring additional on-farm entrepreneurship and investment; improve farm financial sustainability; and may serve as an important pull factor that attracts new farmers into production.

RECOMMENDATIONS AND CONCLUSIONS

This report specifically attempted to provide an intellectual framework, an analytical tool kit, and a selection of potentially viable models that MCFC (or any other committed county practitioner) can leverage to determine the applicability, feasibility and design of investments in food hub related programming and infrastructure in the County.

As noted repeatedly, the work that MCFC, MOCO's Office of Agriculture, and other committed stakeholders continues to provide for its dynamic emerging farming community is paying off, and the sector has a strong foundation for additional investment. With information provided by this report, the hope is that there is a clear rationalization for continuing the expansion of investments beyond current programming.

The development of the analytical framework and programmatic models was determined from four strategic questions deemed as important to any entity committed to the design of, and investment in, food hub programming and infrastructure. By understanding the diversity of options available under food hub centric models; by understanding what current programs could be best leveraged for programmatic expansion; by understanding the identifiable needs of key value chain participants and demands of the broader market; and by understanding national best practices and tools available for ready adoption; this report developed two broad models that are feasible given current financial resources and broader policy / market environments, and viable for achieving broad MCFC and County agriculture market expansion goals.

This report clearly acknowledges that there are many available models for technical and financial support for small- and medium-sized farmers — a food hub being just one available option. Regardless of programmatic options selected, this report recommends that any future food hub programming prioritizes six overarching best practices to ensure success:

- 1. Focus on increasing producer level market linkages and logistical support as broadly as possible, especially fostering deeper relationships with regional food distributors;
- 2. Engage the private sector as much as possible in the management of food hub and related commercial activities to ensure both market based incentives are driving growth as much as possible, and long-term financial viability remains a core-focus from day-one;
- 3. Integrate all programming into tangible, well-funded, and long-term focused ecosystems of technical resources that can both provide required technical assistance for expanding capacity at the farmer level, and support market linkages that increase access for this increased production;

- 4. Encourage regional collaboration wherever feasible, ensuring that models are leveraging regional programming, investment and support for its own future county-specific success;
- 5. Integrate market strengthening programming with targeted advocacy support that is focused on improving the competitiveness of the local agriculture policy environment, most importantly making it more conducive to increase on-farm commercial activities; and
- 6. Ensure that expanding market oriented programming does not reduce the overall MOCO focus on improving access to at-risk and impoverished MOCO residents to local food. These programs can and should be designed to be mutually supportive.

This reports stakeholder analysis highlights that County-level volumes of table crops remain limited compared to regional production output, but importantly the quality of these goods is improving and the volume will continue to grow. Demand for these products, especially the high quality varieties, is also increasing. Consumer awareness and interest in local food generally, especially local produce, is also strong and growing, reflected both by the rapid expansion of unique market actors (e.g., online grocers, digital CSAs, specialty local-centric, brick and mortar retail) to the integration of major "local components" in everyday grocery retailers.

These critical market conditions are supported by a relatively flexible County and local land use regulatory environment that seems to be conducive for increased commercial food hub aggregation and distribution activities without significant changes in local code; and key stakeholders in the government/regulatory community do seem to support an expansive focus and new investment beyond food access, food insecurity and nutrition towards commercial agriculture focused activities.

The report therefore strongly recommends that there is clearly enough supply and demand, value chain stakeholder support, and current overall momentum to warrant MCFC and its partners to advocate and plan for a comprehensive expansion of current MCFC "Food Economy" programming.

This report *does not recommend* that MCFC and the County focus initially on designing, developing and launching a full institutional food hub. The lack of available County-centric volumes of produce, combined with a highly competitive regional landscape of produce aggregation, distribution and retailing, does not suggest there is an operating or market environment to justify another similar player entering the market. Additionally, it is not clear if the capital investments required to make an institutional investment of this nature is available.

The report therefore *recommends* that MCFC advocates strongly that the County takes an incremental approach. MCFC should design a set of market-led programmatic interventions under a broad mission: to improve overall competitiveness of MOCO-based emerging and enterprise farmers; to

increase/diversify farm income and the overall market environment; and to expand the supply of available farmers (especially from disadvantaged and low-income groups).

This non-institutional food hub related programming should concentrate time and resources on developing and expanding the market linkages that will allow smaller/emerging farmers to capitalize on these diverse market opportunities, rather than directly participating in the supply chain as an institutional player. Given producers seem to already have direct access to the markets that they hope to access (if they meet market requirements), and regional/County logistical support seems to be available and cheap, any food hub market oriented program should focus on linkages to leverage rather than direct distribution/aggregation. Additionally, any service and support should also focus on volume maximization, crop diversification, value added production, packaging and branding, e-commerce and general support on achieving market standards.

The recommended "Market Linkage Facilitation" model (Page 37) therefore is designed to facilitate and spur investment in market oriented, fee-based services centered around "Market Linkages" and "Product Aggregation" broadly. Services spawned via these programmatic investments should focus on increasing supply of, and market access for, MOCO table crops, meat and other value added, locally produced products in the broader DMV and Baltimore markets. If financial resources are available, programs should also be designed to spur additional investment in, and access to, produce centric value-adding production and co-packing opportunities for local producers. Finally, market expansion programming should be bolstered by targeted advocacy, managed by MCFC, focused specifically on removing policy barriers currently limiting farm-level income diversification beyond production.

All above noted programmatic investments need to be designed without the requirements for long-term financial investment by MOCO, MCFC or any non-market actor. All programming must have long-term financial sustainability and viability as core requirements, effectively managed by mission-aligned, third party for- and/or non-profit partners that are leveraging other capacities and resources wherever possible. MCFC and the County government should invest in design and project roll out, as well as possibly targeted investment to reduce initial barriers to entry, but should not plan on managing the projects directly if at all possible.

APPENDIX

- I. Desktop Document Review
- II. Stakeholder List
- III. Guiding Questions for Interviews

APPENDIX I — DESKTOP DOCUMENT REVIEW

Montgomery County Contextual Documents/Reports

Frantz, Susan: Food Hub Study, Montgomery County Maryland, May 2014

Liu, Briana: Montgomery County Sustainable Community Food System: Community Farm and Food Hub, August 1, 2013

Southern Maryland Agricultural Development Commission (SMADC): Existing and Emerging Food Hubs in Maryland, September 15, 2014

Montgomery County Food Council: Food Access Working Group Report, 2015

Montgomery County Agricultural Services: Montgomery Agricultural Reserve Fact Sheet, July 2014

Power Point Presentation; What do we know about MoCo's Food System. Compiled Data and Preliminary Mapping from the MOCO Food Council and its Partners, April 17, 2013

National/Regional Food Hub Contextual Documents and Reports

United States Department of Agriculture: Regional Food Hub Resource Guide, April 2012

United States Department of Agriculture: Running a Food Hub, Lessons Learned from the Field Volume One, April 2015

United States Department of Agriculture: A Business Operations Guide Volume Two, July 2015

Illinois Department of Commerce and Economic Opportunity, University of Illinois Business Innovation Services, Illinois Department of Agriculture, FamilyFarmed.org: Building Successful Food Hubs - A Business Planning Guide for Aggregating and Processing Local Food in Illinois, January 2012

Farm Credit East, Wallace Center at Winrock International, Morse Marketing Connections and Farm Credit Council: Counting Values – Food Hub Financial Benchmarking Study, 2014

Dane County Planning and Development Department: Southern Wisconsin Food Hub Feasibility Study, September 2011

Central Oregon Intergovernmental Council: Central Oregon Food Hub 2014-2016 Operating Plan, 2014

National Good Food Network: It's Viable...Now What? From Feasibility Study to Business Plan, http://ngfn.org/resources/ngfn-cluster-calls/its-viable-...-now-what-from-feasibility-study-to-business-plan/webinar

National Good Food Network: National Food Hub Survey 2015, http://ngfn.org/resources/ngfn-cluster-calls/food-hub-survey-2015

National Good Food Network: Starting a Food Hub: Successful Hubs Share Their Stories, http://ngfn.org/resources/ngfn-cluster-calls/starting-a-food-hub-successful-hubs-share-their-stories/webinar

APPENDIX 2 — STAKEHOLDER LIST*

| Person | Title | Organization |
|---------------------|-------------------------------------|---|
| Jeremy Criss | Manager | Office of Agricultural Services, Montgomery County |
| Doug O'Brien | Senior Policy Advisor Rural Affairs | White House |
| Jeremy (John?) Fisk | Director | Winrock |
| William Grey | Program Manager | Winrock |
| Jim Barnham | Director | USDA |
| Sherlin Jimenez | Wholesale Sales | Coastal Sunbelt Produce |
| Ben Walker | BD Manager | Baldor |
| Jeff Patterson | Buyer | Whole Foods - Mid Atlantic |
| Jonathan Steffy | Sales | Four Seasons |
| Margie Diven | Sales | Keany |
| Ryan | Owner | From the Farmer |
| Danielle | Owner | Glens Garden Market |
| Priscilla Wentworth | Food Programs Coordinator | Southern Maryland Agricultural Development Commission |
| Tom McDougall | Founder | 4P Foods |
| Kelly Dudeck | Marketing Manager | Grow & Fortify/Grow Maryland |
| Mark Mills | Owner | Chocolates & Tomatoes Farm |
| Sophia Maroon | Founder | Dress it Up Dressings |
| Caroline Taylor | Executive Director | Montgomery Countryside Alliance |
| Christie Balch | Executive Director | Crossroads Community Food Network |
| Bart Yablonsky | Director of Operations | Dawsons Market |
| Tony Marciante | Owner | Chef Tony |
| Courtney Bucholtz | Owner | From the Earth Farm |
| Michael Protas | Owner | One Acre Farm |
| Ali Badda | Owner | Alibaada Farm |
| Linda Lewis | Owner | Lewis Farms |
| Lisa Zichel | Owner | Washington Green Grocer |
| Gene Kingsberry | Owner | Kingsberry Orchard |
| Robert Butts | Owner | Windridge Farm |
| Greg Glenn | Owner | Rocklands Farm |
| Mike Jamision | Owner | Jamison Inc (largest Landowner in MOCo) |
| Tyler Butler | Owner | Butler Orchard |

| Person | Title | Organization |
|-------------------------|-------------------------|---|
| Steve | Owner | Potomac Farmers Market |
| Ben Allnutt | Owner | Homestead Farm |
| Mary & John Fredrick | Owner | Rock Hill Orchard |
| Halie Johnston | Co Founder | Common Market Philadelphia |
| Phil Gottwals | Founder | Friends & Farms Howard County |
| Kathy Zimmerman | Manager | Howard County Agricultural Economic Development Manager |
| Kim Lynch | Marketing Consultant | PG County Ag |
| Will Kreamer | Owner | Chesapeake's Bounty |
| Lindsey Smith | Value Chain Coordinator | Washington Council of Governments |
| Woody Woodruff | CEO | Red Wriggler |

^{*} Above noted stakeholders do not specifically endorse any sections of this report and were used for information collection purposes only.

APPENDIX 3 — GUIDING INTERVIEW QUESTIONS

PRODUCERS - SUPPLY SIDE

What are the greatest challenges you are facing in your business/farm?

Where do you see collective problems/challenges in your peers in MOCO?

Do you think a food hub in MOCO could be viable overall and directly useful to your business and MOCO?

How do you think MOCO could provide additional support to the ag community in MOCO?

Where/how are you currently selling your food?

Do you have surplus in your production and/or lack of sales channels?

If a food hub existed (i.e. facility version) would you leverage it and how?

What factors would cause you to shift a focus on the products you produce?

Where do you see the biggest growth opportunities for your business?

To date, in what way has MOCO helped or hindered your business?

BUYERS - DEMAND SIDE

Do you currently source produce from MOCO?

How important is 'local' produce to your business/customers?

Do you use Food Hubs to source product and if so, what have been your experiences?

How do you define 'local'?

Would you leverage a MOCO food hub if it existed and in what way?

What are your challenges with sourcing product from MOCO?

How are your relationships developed and managed with MOCO growers?

POLICY / ADVOCACY

What is your view on the notion of 'food hub' in MOCO?

How can MOCO better help the agricultural community?

What issues have your organization focused on in support of the ag community in MOCO?

Where do you see greatest opportunities for ag community in MOCO?

What are the biggest challenges to ag community in MOCO and in surrounding regions?

How do you envision inter-county coordination working with respect to a food hub concept?

FOOD HUBS

How was your food hub formed?

What were the collective needs/opportunities that were identified prior to creating your food hub?

How was your food hub capitalized?

Is your food hub financially profitable / sustainable without government support?

What have been your main challenges/wins/learnings to date?