SOUTHERN KENNEBEC COUNTY FOOD HUB FEASIBILITY REPORT

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Funded By:

HEALTHY COMMUNITIES OF THE CAPITAL AREA

And

WESTERN KENNEBEC ECONOMIC DEVELOPMENT ALLIANCE

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Executive Summary:
Southern Kennebec County Feasibility Report

Healthy Communities of the Capital Area (HCCA) and the Western Kennebec Economic Development Alliance (WKEDA) commissioned a study to assess the feasibility of establishing a food hub in Southern Kennebec County. The purpose of the study was to assess if the supply and demand for locally produce would support a centralized facility for the aggregation, processing and distribution of food.

Methodology:

- Survey of local farmers to determine their productivity levels and their interest in there being a local food hub. All surveys were conducted in person at the local farms.

- Survey of local institutional buyers to determine their purchasing practices and their interest in a local food hub.

- Site-visits and interviews with representatives of other facilities and programs that provide offer some or all of the services typically offered by food hubs.

Key Findings:

- Food hubs are a relatively recent and fast-growing part of the food system. The majority of food hubs included in a national survey has been in operation for less than 5 years. There is little research on long-term financial viability.

- Local growers and local buyers share a strong interest in there being a food hub to serve the needs of Southern Kennebec County.

- There appears that the supply and demand for locally sourced produce could support a food hub.

- There is an unmet need to align the interests and the expectations of farmers and buyers regarding issues related to quantity and type of produce available, reliability of the supply chain, pricing of produce, and expectations for certifications.

- The competitive environment is rapidly changing. One large and well-respected distributor has long-standing relationships with many local growers and buyers of locally sourced produce. There has been some significant penetration of the high-end retail and restaurant market. It appears that a new food hub is poised to enter the market. This hub has targeted five counties, including Kennebec County.

- A food hub owned by a farmers' cooperative would be a unique addition to the Central Maine food system. It would empower farmers and exert downward pressure on the cost of locally sourced food.

- HCCA and WKEDA are uniquely positioned to be the catalyst for facilitating the formation of a farmers' cooperative within Southern Kennebec County.

Recommendations:

- HCCA and WKEDA should view their roles in developing a food hub within the Southern Kennebec County as improving the food system and developing a unique business model for supporting farmers through the development of a farmers' cooperative.

- HCCA and WKEDA should seek grant funding to secure the staff/consultants and other resources necessary to convene and to work with farmers in the Southern Kennebec region to fully explore the potential benefits of a farmers' cooperative that would own and operate its own food hub in the Southern Kennebec region. National and State leaders of the farmers' cooperative movement meeting should be brought to this region to participate in this session and to consult at key times throughout the process.

- Given the unique nature of the undertaking being proposed here, it is recommended request to support this next phase of development be made to Maine-based foundations. The request should be to provide support to HCCA and WKEDA to undertake the organizational work necessary to develop a cooperative. The public health aspect of the proposed work also should be stressed. (The foundations will not be asked to fund the cooperative should one be created.)

- The work that should be undertaken during this phase of the project should include an analysis of existing food hubs with a farmers' cooperative business structure; a proposed organizational structure for a local cooperative; development of a detailed business plan; development of organizational bylaws and operating principles. Engagement of representatives of the farming community must be partners throughout the process

- Similarly, HCCA and WKEDA should convene large institutional buyers, including but not limited to schools, colleges, medical facilities and state agencies in the market to explore and to promote the benefits of a farmer's cooperative model for the region.

- Since most food hub mission statements do not reference “human health”, and health is an important and integral part of HCCA’s and WKEDA’s interest in a local food hub, it is important that the two organizations in their future endeavors emphasize health benefits of locally grown food along with the economic development benefits.

SOUTHERN KENNEBEC COUNTY FOOD HUB FEASIBILITY REPORT

A. *Project Background*

1. Sponsoring Organizations

Healthy Communities of the Capital Area (HCCA) and the Western Kennebec Economic Development Alliance (WKEDA entered into a formal affiliation agreement in July, 2013 for the specific purpose of conducting a study of the feasibility of establishing a centralized facility for the processing and distribution of locally grown produce. Initial funding for the project was provided the Broadreach Foundation of Maine in response to a grant proposal developed by HCCA. Since HCCA indicated in the application to the Broadreach Foundation that matching local funds would be secured to conduct the feasibility work, the Western Kennebec Economic Development Alliance was approached and agreed to so-sponsor the project.

The affiliation of the two organizations for this particular project is based on the complementary strengths each brings to the task as well as a common interest in promoting community development initiatives within an overlapping geographic target area. HCCA views the availability and accessibility of fresh, locally grown food as a critical component of its public heath mission. WKEDA views the development of a processing and distribution facility as a potential opportunity to develop a new business enterprise and to create new jobs within the region. Moreover, a "food hub" would provide infrastructure essential to ensuring that small farms, which essentially are small businesses, will continue to be an integral part of the local economy in the Southern Kennebec region.

The map in *Figure 1* depicts the geographic area HCCA and WKEDA have targeted for consideration for this project

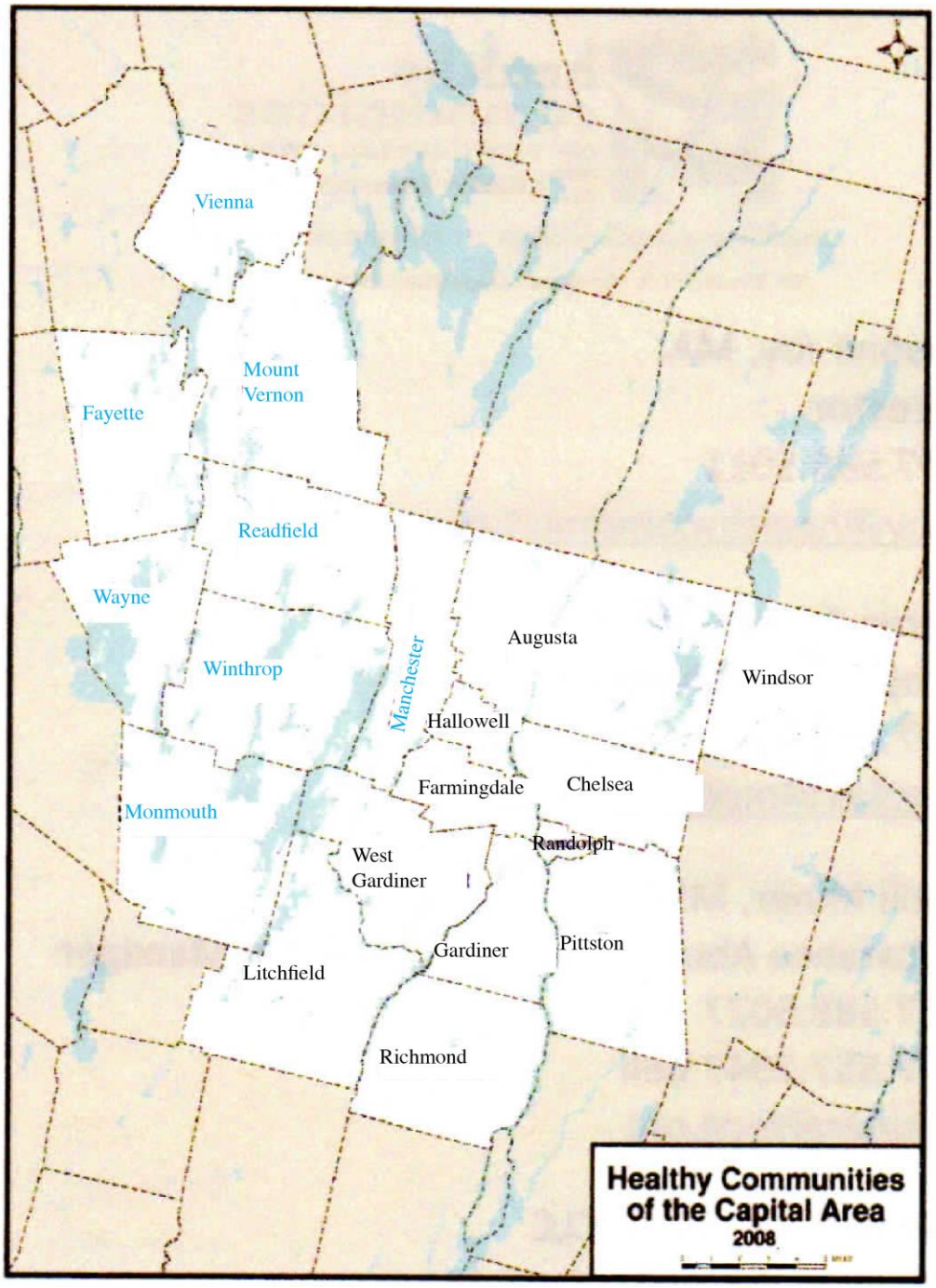
Appendix A contains a more detailed description of the mission, goals and project activities of both organizations.

2. Food Hub Definition

The first and most obvious step in determining the feasibility of a food hub is defining what the term means. The U.S. Department of Agriculture defines a food hub as

"…**a *centrally located facility with a business management structure facilitating the aggregation, storage, processing, distribution, and/or marketing of locally/regionally produced food products."***

Figure 1 - Towns in Service Area
All towns highlighted are the HCCA Service Area,
Towns in Blue represent the WKEDA Region



This definition, while succinct, raises a number of important issues that need to be addressed in considering the feasibility of a food hub.

First among these is understanding what is meant by the type of ***"business management structure."*** Based on its database of 168 food hubs, the USDA has classified business management structures into 5 categories. A recent survey of 107 food hubs conducted by the Michigan State University and the Wallace Center also used the USDA classification to identify food hubs by business management structure. The breakdowns from both sources are summarized here:

Type of Management Structure:	**USDA** (n=168)	**Wallace Center** (n=107)
• **Privately held business:**	**40%**	**47%**
• **Nonprofit:**	**32%**	**34%**
• **For profit cooperative:**	**21%**	**13%**
• **Publicly owned:**	**5%**	**4%**
• **Loosely organized/Other**	**2%**	**2%**

Each type of business structure has different implications for raising capital, decision-making, goals, and relationships with suppliers and customers as well as with the community at-large. Within Maine, most discussions have focused on food hubs as privately held businesses. However, a different type of business structure might be more appropriate if the goals of a hub were to encompass goals other than supporting farmers because they produce the fuel that keeps an economic engine running.

Determination also needs to be made regarding the ***"aggregation, storage, processing, distribution, and/or marketing"*** services a food hub will provide. It may include a facility that simply aggregates and distributes produce that is farm-packed. Or it may include a facility that aggregates raw products and processes or prepares them prior to distribution. The preparation or processing services typically include some combination of washing, grading, packaging, warehousing, and cold storage. Depending on the buyers' needs and the facility's capabilities, processing might also include a variety of pre-packaging preparatory procedures necessary to produce value-added products such as relishes, soup or salad mixes, etc. These procedures require some or all of equipment for cutting, chopping, pureeing, fermenting, pre-cooking and flash freezing. The determination of the services a food hub provides will depend in large part on a number of external factors such as farmers' on-site capacity for product processing, buyers' requirements, federal and State regulations as well as services available from other existing sources.

An especially difficult matter in evaluating the feasibility of a food hub is determining what is meant by ***"locally/regionally"*** produced food. One of the major benefits of a food hub is that it shortens the food chain. In order to preserve the nutritional value of food products, a food hub reduces the distance and time required to deliver fresh products from farm to consumer. The 2008 Farm Act defines a "locally or regionally produced agricultural food product" as one that is marketed less than 400 miles from its origin. The Food Safety Modernization Act, enacted in January 2011, defines local as food purchased within 275 miles or the same State where it was produced. In reality, however, locally or regionally produced is in the eye of the beholder. For some buyers, local means purchasing directly from the farmers at farm stands or community farmers' markets. For distributors who may need to meet a specific need of a commercial buyer the only source of "local" fresh products may be from out-of-state producers. This report does not draw geographic boundaries that include some farms to the exclusion of others if there were to be a food hub in Southern Kennebec County. It did, however, limit the geographic range for those who would be surveyed to growers whose farms were located in the HCCA target area. (This area subsumes the WKEDA service area.) A limited number of farms in communities contiguous to Kennebec County were included during the course of the study either because they regularly interact with the area's farming community or they were identified through community referrals.

In assessing the feasibility of a food hub for the southern Kennebec County the determination was made that the ***food products*** to be considered would be restricted to vegetables and fruits. Meat, poultry and dairy products were not included due to the added costs for processing these types of products as well as the cost required to meet established federal and State regulatory processing standards. This decision does not mean that these latter products could not be distributed through a food hub were one to be established. Rather it is means that the determination of the feasibility of a food hub would not be based on the products' availability or market demand. The determination would be made solely on the basis of fruits and vegetable products. Fresh produce is the single most important line of business for food hubs. Again, drawing upon the Michigan State University/ Wallace Center national survey (herein referred to as the MSU survey), the findings indicate fresh produce and herbs account for 68% of the gross sales of the 93% (100 of 107) of all food hubs that carry that product line. Meat and poultry on the other hand, account for only 21% of gross sales for the 65% (70 of 107) of food hubs that deal in those products. And processed produce accounted for only 9% of the gross sales for the 38% (41 of 107) of the food hubs that provided processing service. The availability and the demand for fresh produce are the most significant variables in assessing the feasibility of a food hub.

B. Objectives and Methodology

1. Objectives

The objectives of this project are:

a. To determine if the supply of locally grown produce is sufficient to support a food hub.

b. To assess local farmers' interest in using a food hub were one to be established within the Southern Kennebec County region.

c. To determine if the market for locally grown produce is of the magnitude required to support a food hub.

d. To identify other resources within the region that provide storage, processing, and distribution services similar to those being considered in this assessment.

f. To recommend criteria for the geographic location of a food hub.

g. To explore financing, organizational, and management options for a food hub.

h. To recommend the role that HCCA and WKEDA might assume if a decision is made to move to the next stage in project planning and development.

2. Methodology

Standardized survey questionnaires were developed to determine both supply and demand. (The two survey questionnaires are attached as **Appendix B**.) The growers to be included in the feasibility study were identified through a "food scan" which was being conducted simultaneously by HCCA. The food scan inventoried the sources and access to local foods within the region. Growers were identified through a compilation of lists, including Maine Organic Growers' Association, Cooperative Extension, Department of Agriculture and HCCA. Additional names were added through a series of stakeholder meetings sponsored by HCCA for the purpose of discussing the food scan initiative and the feasibility project. These sessions were attended by farmers and representatives of a variety of public and nonprofit organizations that had a strong interest in locally grown foods. These four meetings were held as follows:

March 14, 2013, Ladd Center, Wayne
March 27, 2013, Gardiner Public Library, Gardiner

April 1, 2013, Mount Vernon, Community Center, Mount Vernon
April 3, 2013, Viles Arboretum, Augusta

a. Survey Population: Farmers

A total of 53 farmers were identified through the food scans and public meetings. In the final analysis, 14 of the 53 farmers were interviewed. The interviews were conducted in late spring (after the stakeholders meetings) through late summer. The disposition of the 53 growers selected for interviews is as follows:

14 Completed the survey and are included in the analysis.
15 Did not respond to repeated requests to participate
10 Excluded because they were primarily because they were grain or dairy farmers
7 Not interested in participating
5 No longer in business or were phasing out of business
2 Interviewed but not included in the analysis

The major reasons given by those not interested in participating were:

- time constraints, especially since the project was being undertaken in prime growing season;
- satisfaction with current methods for selling produce; and,
- "Surveyitis", meaning that farmers who have been surveyed multiple times for other purposes were skeptical of participating in yet another one.

Two farmers were interviewed but not included in the analysis. One was interested in leasing part of his dairy farmland to a produce grower, but had yet to do so. The other was primarily a hay farmer and provided only partial responses to the survey questions regarding his produce production.

The 14 growers interviewed represent 39% of growers identified as being eligible. While the number of participants is less than hoped for, 15% of the 79 food hubs responding to the MSU national survey relied on 15 or fewer farmers. Due to the number of responses we received the data presented should be viewed as descriptive.

All interviews were conducted in-person on the farm sites.

b. Survey Population: Buyers

A total of 34 buyers were identified as potential purchasers of locally sourced food. The buyers selected for interviews are primarily large volume buyers. Smaller buyers were added either because they expressed an interest in being included or they were participants in the public meetings convened by HCCA. The disposition of the 34 buyers selected for interviews is as follows.

14 Completed the survey
16 Did not respond to repeated requests to participate
4 Not interested in participating

c. Site-Visits/Interviews with Other Buyers and Processors/Distributors

In order to identify the region's other resources that provided the storage, processing and distribution services associated with food hub operations, site visits and/or in person interviews were conducted with Coastal Farms (Belfast), Maine Harvest Company (Topsham), Crown O' Maine (Vassalboro), The Grainery and The Pick-up (Skowhegan), Barrels (Waterville), and two local food buying clubs, one in Gardiner and one in Readfield.

C. Findings and Discussion

1. Farmers' Survey

A total of sixteen (16) farmers participated in the survey. One was not included in the analysis because he was primarily a dairy farmer who has an interest in leasing acreage to someone to develop a produce farm. Another farm primary crop is hay and he provided only partial responses to survey questions regarding his produce crop. A total of fourteen growers are included in the response tabulations.

a. Farm Characteristics

- **Farmers Who Own/Lease Farm:**
  Own: **9**
  Own and Lease: **2**
  Lease: **3**
  (Note: One of the lessees is actively looking to purchase farmland.)

- **Farmers Whose Home Is on Land Being Farmed:**
  Home on Farm: **12**
  Home Not on Farm: **2**

  (Note: All of the farmers who own their farms also live on the farm. House is included with one of the leased farms.)

- **Farm Acreage:**
  Total Acreage for 14 Farms: **93 acres**
  Range: **1 - 32 acres**
  Median Farm Size**:** **3.5 acres**

- **Availability of Additional Farm Land:**
  Number of Farms with Additional Land Availability: **10 farms**
  Total Acres Available (10 farms): **145.5 acres**
  Median Acreage Available (10 farms): **11.0 acres**

- **Utilizing Methods to Extend Growing Season (e.g., tunnels, hoop houses, etc.):**
  Yes: **12 farms**
  No: **2 farms**

Top Ten Crops Grown by Farmers:

	Crop	Pounds
1.	potatoes	44,850
2.	kale	36,100
3.	pickling cucumbers	20,000
4.	carrots	19,200
5.	tomatoes	8,780
6.	beets	8,150
7.	mixed greens	5,050
8.	string beans	4,400
9.	broccoli	3,800
10.	cucumbers	1,500

b. Current Food Processing Practices

- **On-Farm Cold Storage**
  Yes: **11 farms**
  No: **3 farms**

(**Note:** Approximately 30% of those with cold storage volunteered that they needed additional capacity)

- **On-Farm Washing and/ or Packaging of Produce:**
  Yes: **14 Farms**
  No: **0 Farms**

- **On-Farm Production of Value-Added Food Products:**
  Yes: **5 farms**
  No: **9 farms**

(**Note:** Value-added products include jams, relishes, salad mix, sauces, and baked goods.)

- **Use of Off-Farm Processing Facility for Products to be Sold By Farmer:**
  Yes: **0**
  No: **14**

(**Note:** Excludes produce sold to distributors who may process and sell product.)

c. Farm Certifications

- **Organic Certification:**
  Organic – Certified: **4 farms**
  Organic Non-Certified: **6 farms**
  Non-Organic: **4 farms**

- **Good Agricultural Practices (GAP) Certification: 2 farms**

- **Hazard Analysis and Critical Control Points (HACCP): 0 farms**

d. Market Outlets

The percentages presented below represent the average of all farms' sales (and donations) through each outlet.

Farmers' Markets:	**33.5%**
Farm Stores/Retail:	**24.5%**
CSAs:*	**17.4%**
Distributors:	**3.0%**
Charitable Donations	**2.8%**
Buying Clubs:	**2.0%**
Other:**	**16.8%**
	100%

*Community Supported Agriculture

**Other includes direct sales to restaurants, local retail grocery stores, summer camps, food banks, and health food stores.

e. Farmers' Perception of Needs

- **Help in Developing a Business Plan:**
  Yes: **5**
  No: **9**

- **Problems Encountered in Trying To Develop New Markets:**
  7 Time constraints
  6 Consumer perceptions about costs
  5 Transportation
  2 Complications caused by food vendor contracts

(Problems Encounter, continued)

1 Cold storage
Other:
- availability of labor/interns
- retail location
- management of farmers market
- competition among farmers for CSA customers
- educating public re: crop cycles and effect on pricing
- advertising/marketing
- access to institutional buyers
- access to wholesale market

- **Obstacles to Farm Being More Profitable:**

- No economy of scale/low margins
- Lack of equipment
- Need retail location
- Need more land
- State government regulations
- Government supported enterprises
- Price competition from "cheap" food sources
- Competition from other farmers

(**Note:** This was an open-ended question and no clear pattern emerged from the responses. However, there was some repetition of responses from the closed-ended question regarding **Problems Encountered in Trying to Develop New Markets**, specifically with reference to competition among farmers and pricing of fresh produce.

- **One Thing of Most Value in Making Farm More Profitable**

3 Farm equipment
2 Reliable labor
Other:
- Storage
- More land
- Retail location
- Farm manager
- Hoop house
- Educate consumer on food preparation
- Access to wholesale market
- Other organizations' support for "buy local"

(Making Farm Profitable, Continued)

- Fair payment for produce

(**Note:** This also was an open-ended question.)

f. Food Hub

- **Interest in Selling to Processing/Distribution Facility Within Reasonable Driving Distance from Farm:**
  10 Interested
  3 Not Interested
  1 Not Certain

- **Distance Willing to Transport Produce If There Were a Food Hub :**
  5 1 - 25 Miles
  4 26 - 50 Miles
  3 51 -100 Miles
  2 Not willing to travel

- **Preference for Transport Service Provided By Food Hub:**

Yes:	**9**
Does Not Matter:	**2**
Uncertain:	**1**
N/A	**2**

2. Discussion: Findings from Farmer Survey

Many of the attributes of the southern Kennebec County farming community appear to support the feasibility of a local food hub. The majority of farmers responding to the survey own their farms and live on them, indicating that small farms are a stable part of the local economy. Moreover, the fact that there is more land available within this group than currently is in productive use indicates that there is the potential for farming to have an even larger economic role within the region.

Local farmers face a number of challenges, however. These challenges also would have an effect on a food hub that would depend on them to meet the needs and expectation of buyers. Farmers cited need for equipment, labor, storage, and transportation, competition from other farmers and large retailers, as well as consumer perceptions regarding pricing to be barriers to reaching new markets and becoming more profitable. Growers indicated

that time and finances as impediments to pursuing organic, GAP, or HACCP certifications. Many do not carry grower liability insurance.

The majority the local farmers interviewed are very supportive of there being a local processing and distribution facility. They view a food hub as a key element in attaining financial stability. Food hubs are seen as the solution to accessing new markets and allowing them to scale-up their farm operations. The USDA casts food hubs in this role. It identifies the functions of food hubs to include the following:

- Market access for local producers;
- Information sharing;
- Transportation and distribution;
- Brokerage services;
- Product bundling and aggregation;
- Season extension;
- Maintaining producer-consumer connections; and,
- Producer-oriented technical assistance.

There appears to be compatibility between farmers' expectations and food hubs' mission as portrayed in USDA literature. Given the newness and the rapid growth of the food hub "industry", their ability to meet multiple and diverse expectations remains to be seen.

The effect a food hub might have on the marketing and pricing of produce also needs to be taken into account. The growers participating in this study also are the primary retail link to the consumers of their products. "Middlemen" play a very small role. Seventy (77%) of the produce of these growers is sold directly to the consumers through farmers markets, on-farm retail outlets, and CSAs. An additional 17% is marketed directly by farmers to local restaurants, grocery stores summer camps, etc. Even the small percentage of produce that is sold to distributors usually is not discounted. The time and costs required to grow and to sell food directly translates into high cost food. Farmers recognize that consumer's perceptions of the cost of locally sourced food are a problem. In fact, it was listed as being second only to "time constraints" as a major obstacle to profitability. While it is an accepted belief that in order for food hubs to gain the loyalty of grower, the hubs must pay farmers the same prices they receive from their direct sales outlets (e.g., farmers markets, CSAs, etc.). In a recent webinar focusing on the MSU survey, the Director of the Wallace Center indicated that most food hubs pay farmers 80% of full pricing since the hubs cannot pass on to their customers the full cost for food plus the added costs for processing and distribution, not to mention a profit margin. Whether local farmers would be willing to divert some part current retail sales to a wholesaler remains to be seen. If food hubs do pay farmers full retail prices and add 20% to the food hub customers, consumers' negative perceptions regarding the high cost of local produce will be exacerbated. Healthy food may be out of reach for a large segment of the population. This is an issue which may be of less concern to some food hubs than one would care to think. A plan for the development of a food hub outside the northeast

includes the statement that "the company should seek the highest end customers it can reach efficiently." The plan goes on to state that the company should seek customers that are "less price-sensitive." This may be a wise business strategy but it does not meet the public health goals of HCCA. The MSU survey's analysis of value themes in 107 food hub's mission statement found that 55% included "farmer support" while only 13% mentioned "human health."

Balancing farmers' expectations, the economics of running a food hub as a profitable business, and meeting public health needs is a difficult balancing act.

3. Buyers' Survey

A total of 34 buyers were identified as possible survey participants. A total of 12 participated in the survey.

a. Purchasing Policies and Practices

- **Reason Produce is Purchased:**

Retail Sales:	**4**
Restaurants:	**0**
Institutional:	**7**
Food Bank/Charity:	**1**
Other:	**0**

- **Purchasing Decision Maker:**

  Manager/Respondent: **12**

- **Written Policies Regarding Purchase of Fresh Produce:**

Yes:	**2 buyers**
No:	**10 buyers**

- **Percentage of Fresh Produce Purchased Locally:**

0 - 25%:	**7 buyers**
26 - 50%:	**0 buyers**
51 - 75%:	**0 buyers**
76 - 100%:	**5 buyers**

- **Produce Sources:**

Directly from Farmer:	42%
From Distributers:	48%
Other:	10%

b. Fresh Produce Types and Volume

- **Top Crops Purchased:**

	Crop	Annual Purchase (lbs.)	Whole/Processed
1.	Apples	41,340	Whole
2.	Carrots	34,060	Processed
3.	Beets	25,740	Whole
4.	Broccoli	24,320	Processed
5.	Asparagus	23,920	Whole
6.	Tomatoes	18,720	Whole
7.	Pears	18,460	Whole

(Top Crops Purchased continued)

8.	Cucumbers	18,200	Whole
9.	Potatoes - Russet	16,900	Whole
10.	Strawberries	16,120	Whole/Frozen
11.	Potatoes – Red	15,860	Whole

- ***Produce that would be purchased if available off-season or year round:***
  Fruit
  Tomatoes

- ***Dollar Range of Total Annual Produce Purchased:***

$10,000 - $25,000:	**2 buyers**
$25,001 - $50,000:	**2 buyers**
$50,001 - $75,000:	**3 buyers**
$75,001 - $100,000:	**1 buyer**
$100,001 - $150,000:	**1 buyer**
$150,001 - $200,000:	**0 buyers**
$200,001 - $250,000:	**2 buyers**
More than $1 million:	**1 buyer**

c. Purchasers' Requirements for Growers

- **Certified Organic:**

Very Important:	1
Somewhat Important:	5
Not Important:	6

- **"Traceability" of Produce:**

Very Important:	11
Somewhat Important:	0
Not Important:	1

- **GAP Certification:**

Very Important:	3
Somewhat Important:	3
Not Important:	6

- **HACCP Certification:**

Very Important:	4
Somewhat Important:	3
Not Important:	5

- **Growers' Liability Insurance:**
  Very Important: 3
  Somewhat Important: 2
  Not Important: 4
  Not Sure: 3
  Other:
    -price
    -quality
    -USDA approved
    -organically grown
    -ability to fill orders/packaging

- **Interest in Purchase Contracts:**
  Very Interested: 7
  Somewhat Interested: 2
  Not Interested: 3
- **Interest in Pre-Season Crop Planning:**
  Very Interested: 7
  Somewhat Interested: 2
  Not Interested: 3

- **Interest in Displaying Growers' Labeling:**
  Very Interested: 9
  Somewhat Interested: 3
  Not Interested: 0

- **Interest in Attaching Purchaser's Organization's Label:**
  Very Interested: 2
  Somewhat Interested: 2
  Not Interested: 3
  No Response 5

d. Interest in Local Food Hub

- **Knowledge of Food Hubs That Could Meet Organization's Needs:**
  Yes: 8
  No: 4

- **Interest in Buying Produce from a Centrally Located Food Hub:**

Very Interested:	6
Somewhat Interested:	2
Not Interested:	2
Don't Know:	1
Disqualified:	1

4. Discussion of Findings from Buyers' Survey

The buyers interviewed purchase more than $2 million dollars of produce annually. Forty two percent of this total is purchased directly from farmers. As was the case with the farming community, there is strong support among the buyer community for a food hub. Half of the buyers are "very interested" being able to purchase from a local food hub. Support for locally grown products also is reflected in the fact that all buyers would be interested in labeling products as locally sourced.

While expressing support for buying locally, more than half of the buyers purchase less than 25% of their produce locally. Our limited sample indicates that there may be a mismatch between what buyers need and what growers produce:

Crop Needed		Grown by Farmers Surveyed
Apples	41,340 lbs	0 lbs (No growers interviewed)
Carrots	34,060 lbs	19,200 lbs
Beets	25,740 lbs	8,150 lbs
Broccoli	24,320 lbs	3,800 lbs
Asparagus	23,920 lbs	0 lbs
Tomatoes	18,720 lbs	8,780 lbs
Cucumbers	18,200 lbs	1,500 lbs
Pears	18,460 lbs	0

While this data needs to be viewed cautiously, buyers did express their concern that the supply of local produce is not adequate or available on a consistent basis. Their interest in addressing these issues was evident in the discussions regarding buyers' interest in participating in crop planning and in having purchasing contracts with sellers. In both instances, the majority of buyers expressed that they were "very interested" or "somewhat interested.

There also appears to be a disparity between buyers' expectations regarding certifications and the growers' practices. For example, 50% of the buyers stated that organic, GAP and HACCP certification are important or somewhat important, but only 4 farms are certified

organic, 2 have GAP certification and 0 farms are HACCP certified. Five (5) buyers stated that liability insurance is either very important or somewhat important, but few of the farms included in the survey have growers' liability insurance.

The differences between buyers' expectations and farmers' practices indicate that a food hub can have a significant role in aligning the interests of both groups. Improving information exchange and managing the economic links between buyers and growers by brokering crop planning and purchasing contracts are standard roles for food hub managers.

D. Site-Visits/Interviews with Other Buyers and Processors/Distributors

The feasibility of a food hub within the Southern Kennebec County requires an understanding of the opportunities for collaboration and the potential for competition posed by other business entities that buy, process, and distribute local food. To this end, the representatives of several organizations were interviewed. While all of these meetings these meetings were helpful in providing insights into these organizations' relationship with growers, three were especially relevant to this project.

1. Sites Visited

Crown O' Maine (Vassalboro) is a Maine-based, family-owned, for-profit large-scale buyer, processor and distributor that has long-standing relationships with growers both large and small throughout Maine and in other New England states. It customer list includes both retailers and restaurants throughout the state. It has strong loyalty from the growers with whom it works. It is committed to paying farmers a fair price for produce and, in return, appears to have developed strong ties with farmers within this area with whom it does business. A few of the farmers interviewed for this study or who attended the public meetings sponsored by HCCA offered their opinion that it would be unfair if a new food hub were to be a grant-supported nonprofit that unfairly competed with Crown O' Maine. This is a well-respected company, known for working well with farmers and delivering quality products.

Maine Harvest Company (Topsham) is a developing for-profit company that plans to work with growers in the Cumberland, Sagadahoc, Androscoggin, Kennebec, and Lincoln Counties. Its intention is to provide services typically associated with food hubs. According to its website these will include:

- A processing service whereby producers may retain ownership of their produce, pay a fee for service and receive a value-added product that they can offer their existing customers with a co-branded label, helping to build their farm brand and quality recognition.
- An aggregation service that takes first quality produce and aggregates it to enable smaller producers to enter larger retail markets such as Hannaford and Shaws with a co-branded label.
- A wholesale service where the facility will purchase second quality produce to aggregate and repack or process under their own name in order to get more local food into our institutions, schools and to our regional distributors - while also capturing value from produce that is currently being composted or used for pig feed.

Maine Harvest has identified a 12,000 square foot site at the Brunswick Station in Brunswick as the site for operations and the site developer has received the necessary approvals to begin renovations of the facility. Maine Harvest plans call for securing start-capital through private investors, Community Development Block Grant support, and

commercial lenders. Based on discussions with this company's co-owners as well as others involved with the project, it appears likely that Maine Harvest will succeed in establishing a multi-county food hub.

Coastal Farms (Belfast) is a large (55,000square feet) investor-owned facility that provides a very broad range of services to growers, distributors, and makers of value-added products. It has a large amount of cold storage space it rents to growers, the capacity and equipment to process produce for commercial distributors that sell on a nationwide basis and commercial kitchen facilities available on a rental basis to producers of value-added food products. The facility does not function as a food hub inasmuch as it does not function as a wholesale distributor.

2. Discussion: Other Buyers, Processors/Distributors

Crown O'Maine is a reputable and respected presence within Maine's farming community. It has successfully penetrated the most profitable markets for produce distributors, i.e., restaurants and high-end retailers. It is difficult to predict the effect a food hub would have on COM's operations overtime, but it is unlikely that COM's existing relationship with growers or buyers would suffer serious disruption. There are sufficient numbers of growers and potential buyers to accommodate the addition of a food hub in the Central Maine area. In fact, it is conceivable that COM and a food hub could collaborate in order to reduce operating costs in areas such as transportation.
However, if a food hub such as the one planned by Maine Harvest Company is successful in securing the start-up capital it requires, it would not be prudent to consider establishing another privately held for-profit food hub in Kennebec County. HCCA and WKEDA, as non-profit organizations, do not view competing with private sector business as being compatible with their mission statements. As will be discussed later in this report, this does not mean that ongoing discussion of a Kennebec County initiative should be off the table.

The time required to transport produce to the **Coastal Farms** location make it costly and difficult for routine use by small farmers in the Southern Kennebec region. However, its flash-freezing equipment (also available on a rental basis) may be a cost-effective alternative for a food hub whose need for flash-freezing is not large enough to justify purchasing and maintaining the necessary equipment.

The buying **clubs in Gardiner and Readfield** are both relatively new entities and each has its own mission. Both have leadership and membership which is dedicated to promoting the value of locally grown food. Buying clubs are assuming an important role in Maine's food system. The MSU survey of national food hubs indicates that 24% of all food hubs sell to buying clubs and that these sales account for 7 % of revenues. Since buying clubs, much like food hubs, are gaining in popularity, their role in food hubs sales and revenues will grow. Even more significant is the role played by food cooperatives.

Twenty four percent (24%) of all food hubs have relationships with these outlets and the sales account for up to 27% of revenues. Both of the local buying clubs have strong personal ties to local growers and, to varying degrees, to existing distributors. It will be important to any new entrant into the local market to nurture relationships with these buying clubs and to encourage the development of food coops within the region.

E. SITE SELECTION CRITERIA

At this early stage in the discussion of a food hub, the criteria for site selection focuses on location, not a specific building site. Following are criteria that should help guide the decision-making regarding the appropriate location for a food hub:

- Proximity to clusters of growers who are likely to be major users of the facility. While growers overwhelmingly favor a pick-up service in order to reduce the cost and time necessary to transport their own products, the cost for pick-up might be prohibitive for a food hub.

- Access to major transportation corridors.

- A community's infrastructure, especially with regard to access and costs for public utilities such as public water and sewer lines.

- Access to public safety services, e.g., fire, police, hospital or other healthcare facility.

- The economic development assistance a community is willing to commit to the project. This could include tax incentive financing (if appropriate), active support for community Development Block Grant funding or other funding agencies, zoning variances, establishing close working relationships with the site developer, serving as an intermediary between the food hub operated and federal and State regulatory agencies, and access to technical assistance available that may be available within the town or municipal government.

- Reasonable accessibility to a work force.

- A community's reputation as a "destination location." This may be important should a food hub want to add a retail component.

F. FOOD HUB FINANCE

1. National Perspective:

In looking at the financial performance of food hubs from a national perspective, it is important to recognize that they comprise an immature and unproven industry. Sixty two percent (62%) of all food hubs have been in operation for less than 5 years. More than half this group has been operating 2 years or less (MSU survey). The survey indicates that 58% of food hubs' annual sales are less than $500,000. This relatively low dollar volume, no doubt, is affected by the large percentage of hubs that have yet to reach full, steady state sales.

Given the relative newness of the food hub industry and the steep earning curve required to reach breakeven, securing start-up capital from traditional lending sources is difficult at best. Business loans were the least cited source of loans for start-up financing for food hubs, with only 8% of the hubs in the MSU survey reporting having accessed this source for start-up. The largest source of start-up capital for the hubs currently in operation was reported to be the founders' capital or capital from a parent organization (46%). Foundation grants also were an important source for a significant portion of hubs (40%). Inasmuch as only 13% of the food hubs responding to survey were non-profit, this would seem to indicate that a number of facilities began as nonprofits and later developed into for-profit businesses. Other major sources of start-up support include in-kind support, donations, federal and state governments.

In looking at this secondary data, it is clear that a food hub must look to a number of sources other than commercial lenders for start-up capital. Once food hubs become operational, the majority of revenues (86%) are derived from income generated by the services it provides.

2. Local Perspective

Based on fixed operating costs and staffing needs, we have calculated that a food hub ideally should generate gross revenue of $1.5 million dollars annually at a steady state of operations in order to reach the economy of scale required to breakeven. This does not include the amount of initial capital investment or the working capital required to reach a steady state of operations. While the $1.5 million base exceeds the level of buyers' demand from the Buyers' Survey, this seems to be an attainable target for a hub that targets a mix of buyer types, including the region's large volume institutional buyers. As was noted in the Discussion of the Buyers' Survey, there is a strong interest in local buyers' interest in increasing the amount of locally sourced food they purchase.

The following pro forma that follows summarizes a food hub's profit and loss statement when operating at the level necessary to generate $1.5 million in gross revenue.

Pro Forma

Revenue from Sales	*$ 1,500,000*
Cost of Good Sold	*$(1,200,000)*
Gross Margin	*$ 300,000*
Salaries/Benefits	*$ (183,800)*
Facility Costs	*$ (75,000)*
Operating Costs	*$ (20,000)*
Earnings (EBIDT)	*$ 21,200*

Notes:
Gross revenues calculated at 120% of cost of good sold.

Salaries are for Director, QA Manager, Warehouse Manager, and part-time seasonal workers.

Facility costs are based on 5000 sf @$15/sf triple net

General Administrative costs include professional fees, bookkeeping, maintenance, office equipment, liability insurance, marketing, etc.

The Earning of $16,200 represents earnings before interest, depreciation, and taxes.

The P/L is intended to demonstrate that $1.5 million in gross revenue is a necessary and a feasible target. A detailed business plan will be required should a decision be made to Proceed to the next level of project development.

3. Discussion:

Based on the gross revenue requirement of $1.5 million and the absence of another food hub serving the region, we believe that a food hub in the Southern Kennebec County is feasible. However, the potential for reaching this target is greatly diminished by the potential for Maine Harvest to enter the market in the near future. The start-up of Maine Harvest also would make it difficult to raise the investment capital required starting a privately held, for profit food hub in Southern Kennebec County. Moreover, if Maine Harvest were to enter the market before another food hub were to get underway, it might prove difficult for the later entrant to build a supplier or customer base. This concern notwithstanding, a food hub which offers an alternative to the privately held company business model could offer growers a stronger role in determining their economic future and add an important component to the region's food system.

G. SUMMARY AND RECOMMENDATIONS

In many respects it appears that food hub movement is an idea whose time has come. The concept is at the head of the USDA priority list. A food hub addresses both public health and economic development issues. The value of an abundant supply of fresh produce on the health of the community is evident. The health benefits of a shortened food chain are undeniable. The less distance food travels from producer to consumer and the less time in transit greatly enhances its nutritional value. Consumption of fresh produce has been proven to lower incidences of obesity, diabetes, heart disease and a number of other chronic diseases, thereby lowering the cost of health care. A food hub, depending on how it views its mission, also can address the issue of food security. From an economic development perspective, a food hub would add to the economic base of Southern Kennebec County and would preserve and encourage the growth of farming as an important part of the region's small business economy. Spending locally and supporting the local economy also are concepts that have broad public appeal. While much will have to be done to align the interests and needs of growers and buyers, there is a reasonable supply and demand base for concluding that a food hub is feasible. However, from a strictly economic point of view, investing in a food hub warrants careful consideration. This is especially true in Southern Kennebec County at this particular time.

As has been noted, one well-established distributor has captured a significant portion of the profitable restaurant and retail trade. Another company appears poised to move from a planning phase for a multi-county food hub to the construction phase of development. Both of these organizations see their mission as providing local farms in Maine with the opportunities to be more successful and to ensure that locally sourced produce is a larger part of the local food economy. While yet another entrant into the aggregation, distribution, and processing business would give farmers even greater options in marketing, it is unlikely that there is adequate produce or a large enough number of buyers to support another privately held, for profit food hub. Three entities vying for the business of local farmers no doubt would drive up the cost of locally sourced food. This is not a situation that either HCCA or WKEDA wants to encourage. Moreover, neither organization should use its nonprofit status and its eligibility for grant funding to compete with the private sector businesses. There is, however, a role that is appropriate for both organizations to assume in working with local farmers to address their public health and economic development objectives.

A business model which has proven to be highly efficient and which ***empowers*** farmers rather than ***supports*** them is a farmers' cooperative. In this model farmers provide their products to a food hub which they own. They also share in the profits generated by the sale of their own products. In other words, farmers expand their roles in the food system by collectively becoming their own wholesaler. Being a member of a farmers' cooperative does not preclude growers from selling through their traditional outlets or to other distributors and food hubs. It does, however, give local growers a strong incentive to support a farmer-owned food hub that is situated in the region in which they live and

work. A cooperative, if successful, provides small farmers as a collective with the benefits of economy of scale not currently available to the individual small grower. It opens up options for group purchasing, equipment sharing, managing a shared labor pool, and collaborative crop planning. A food hub with a co-operative business structure is an n alternative to privately held businesses and would exert the kind of market pressure that would control, rather than inflate the cost of food.

It would be appropriate for HCCA and WKEDA as nonprofit organizations to be the catalysts for convening all farmers within the Southern Kennebec County region for purposes of fully and analytically exploring the potential benefits of a farmers' cooperative with the specific goal of creating a food hub. Securing grant funding for purposes of building the organizational capacity of farmers as a group is also an appropriate role for both organizations to pursue. The complementary goals of public health and the community and economic development both HCCA and WKEDA bring to the task could lead to the development of unique addition to region's business community and food system.

Recommendations:

1. HCCA and WKEDA should view their roles in developing a food hub within the Southern Kennebec County as improving the food system and developing a unique business model for supporting farmers through the development of a farmers' cooperative.

2. HCCA and WKEDA should seek grant funding to secure the staff/consultants and other resources necessary to convene and to work with farmers in the Southern Kennebec region to fully explore the potential benefits of a farmers' cooperative that would own and operate its own food hub in the Southern Kennebec region. National and State leaders of the farmers' cooperative movement meeting should be brought to this region to participate in this session and to consult at key times throughout the process.

3. Given the unique nature of the undertaking being proposed here, it is recommended request to support this next phase of development be made to Maine-based foundations. Specifically, it is recommended that the Broadreach Foundation and the Harold Alfond Foundation be asked requested to underwrite this activity. The request should be to provide support to HCCA and WKEDA to undertake the organizational work necessary to develop a cooperative. The public health aspect of the proposed work also should be stressed. (The foundations will not be asked to fund the cooperative should one be created.)

4. The work that should be undertaken during this phase of the project should include an analysis of existing food hubs with a farmers' cooperative business structure; a proposed organizational structure for a local cooperative; development of a detailed business plan; development of organizational bylaws and operating principles. Engagement of representatives of the farming community must be partners throughout the process.

5. Similarly, HCCA and WKEDA should convene large institutional buyers, including but not limited to schools, colleges, medical facilities and state agencies in the market to explore and to promote the benefits of a farmer's cooperative model for the region.

6. Since most food hub mission statements do not reference "human health", and health is an important and integral part of HCCA's and WKEDA's interest in a local food hub, it is important that the two organizations in their future endeavors emphasis health benefits of locally grown food along with the economic development benefits.

CITATIONS:

The Role of Food Hubs in Local Food Marketing, January 2013, USDA Rural Development, Service Report 73.

Findings of the 2013 National Food Hub Survey, September 2013, Michigan State University, Center for Regional Food Systems, and the Wallace Center, Winrock International.

APPENDIX A

SPONSORING ORGANIZATIONS

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1) **Healthy Communities of the Capital Area**

Healthy Communities of the Capital Area (HCCA) is a Maine-based 501 (c) 3 not-for-profit corporation whose mission is "to convene people, organizations, and communities to collaborate on quality of life and public health issues."

As a State designated local Healthy Maine Partnership agent, HCCA works with other community organizations, State agencies, and Maine's other 26 Partnership organizations to promote and sponsor a broad range of public health initiatives in the 17 communities it serves. The objectives of HCCA's several ongoing programs are to:

- *Reduce tobacco use and exposure*
- *Increase physical activity*
- *Improve nutrition*
- *Prevent alcohol and drug abuse*
- *Link people to health screenings and community resources to prevent and reduce the impact of chronic diseases*

Among the projects currently conducted by HCCA is the Supplemental Nutrition Assistance Education (SNAP-Ed) program (formerly food stamps). The goal of SNAP-Ed is to improve the likelihood that persons eligible for SNAP will make healthy choices within a limited budget and choose physically active lifestyles consistent with the current *Dietary Guidelines for Americans*. In recognition of the fact that poor nutrition is a public health issue of concern affecting all aspects of society, HCCA has directed its efforts to expanding its role in making healthy food more available and accessible throughout the region. To this end, HCCA has established a Food Advisory Committee comprised of local farmers, public officials, and community representatives. This Committee advises the HCCA Board and senior staff on opportunities and impediments to ensure that locally produced fresh products are available to local consumers. HCCA also has been conducting "food scans" of clusters of communities within the HCCA service area in order to identify, on a systematic basis, the sources and access points to local foods, as well as determining other ongoing efforts to increase access to local foods across southern Kennebec County. An outgrowth of this work has been the initiating of two Community Food Councils within the region. These councils bring together stakeholders from diverse food-related sectors in order to examine how the food system is operating and to develop recommendations on how to improve it. Examining the feasibility of establishing a centralized food processing facility in the southern section of Kennebec County is an extension of HCCA's ongoing work in improving the health status of communities through greater availability of and accessibility to healthy food.

2) **<u>The Western Kennebec Economic Development Alliance</u>**

The Western Kennebec Economic Development Alliance (WKEDA) is a 501 (c) 4 not-for-profit corporation whose mission is to promote the overall economic development of the Western Central Maine region, to encourage and support the retention and the expansion of existing businesses, and to achieve vibrant communities.

Since the 1980's, WKEDA has been providing professional expertise and educational resources to bring a collaborative, tailored and cost-effective approach to business development in the region. The corporation may, from time to time, recommend to the town governments in the region, plans for strengthening or increasing the tax base and the industrial, commercial and employment growth of the region and in general to carry on a vigorous program for the industrial and commercial growth of the region.

WKEDA helps towns or new or existing businesses:

- *Tax increment financing*
- *Grant application proposals*
- *Business planning and new business checklists*
- *Site selections for new and expanding businesses*

WKEDA has assumed major roles in projects as diverse as assessing the feasibility of solar power for the Town of Winthrop, collaborating with officials in Monmouth to develop a tax increment financial policy and working with the Town of Readfield to develop a plan for a revolving loan fund for local small businesses.

APPENDIX B

SURVEY QUESTIONNAIRES