



DEPARTMENT OF COMMERCE

## Rural Development

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### Value-added Loan Program Guidelines

The Agriculture Value-added Loan Program provides financial support for the creation and expansion of producer-based alliances and Value-added businesses. Dollars from the program may be used by agricultural producers and entrepreneurs for such things as business planning, product development, marketing and product sourcing. Loan applications will be reviewed looking for a “big picture” or long-term approach to the project. Successful applications will demonstrate significant investment on the part of the applicant, as well as an approach that encourages sustainability of the business.

All loans offer two (2) years interest free financing, with an interest rate at 1% over Kansas City prime interest rate after the two year interest-free period. The interest rate is locked in at the time the contract is signed and an amortized schedule for repayment is provided. Quarterly reporting on the Value-added project is required. Applicants are eligible for no more than two (2) loans within a four (4) year period and are limited to one loan per fiscal year (exception given for feasibility study loans). Commerce will take first lien position on any assets purchased with loan proceeds.

The deadline for submitting applications is **May 25<sup>th</sup>**. All applications received after that date will be considered in the following fiscal year (July 1 – June 30), with loan proceeds available after **July 25<sup>th</sup>**.

Three competitive loan programs are available for ag producers:

- **Agritourism Attraction Development Loans**
- **Diversified Farm and Specialty Production Loans**
- **Standard Agriculture Value-added Loans**

## Loan Application Guidelines

- **Agritourism Attraction Development Loans**

The Agritourism Attraction Development Loan Program is designed to assist new and existing agritourism operators to further expand their business operations.

Agritourism attracts tourists who participate in activities on a working farm, ranch, winery or any agricultural operation or active agricultural heritage site. These activities may include outdoor recreation, activities, education, shopping, dining or lodging and help generate income for the Kansas operators. This helps sustain the rural way of life and keep more producers on our Kansas lands. Applicants must be a registered with the Kansas Department of Commerce as an Agritourism Operation.

Although Commerce is encouraging creativity of projects, demonstrating the major limiting factors to the growth of the business is a key consideration.

### **Application Details:**

#### **Requirements:**

- Must be registered agritourism operation
- Must have proof of liability insurance and liability signage
- Substantial financial match
- Complete application, including business and marketing plans

#### **Eligible expenses include but are not limited to:**

- Bricks and mortar—investment in long-term viability of business, increasing capacity
- Upgrades to meet Accessibility for ADA regulations
- Outside Contractor fees (corn maze development, construction, etc.)
- Marketing—maximum of 20% of total loan—must display how the marketing activities serve as part of the bigger picture
- Event space

#### **Areas that the loan will NOT cover:**

- Production costs (seed, labor, chemicals, livestock, retail inventory or other inputs)

#### **Matching:**

- Minimum 20% cash match required; higher match amounts increase the probability of funding approval.
- Maximum of 20% of total matching can be in-kind (labor, mileage, etc.)
- Consulting fees—can be used as matching if recommendations are utilized in the further development of the operation. Those recommendations must be submitted if planning to use the fees as matching.

- **Diversified Farm and Specialty Production Loans**

The Diversified Farm and Specialty Production Loan Program assists Kansas agriculture producers to wholly or partially transition to non-traditional crops or livestock as a means to diversify the farm. Non-traditional crops or livestock are defined as those not currently tracked by the [Kansas Agriculture Statistics Service](#) (KASS). Projects cannot be an expansion of an existing operation. Applicants must demonstrate that the project will generate additional revenue streams for the farm operation.

**Application Details:**

**Requirements:**

- Project must add value to farm operation with non-traditional crops or livestock. Non-traditional crops or livestock are defined as those not currently tracked by the Kansas Agriculture Statistics Service (KASS)
- Applicants must derive a substantial portion of their income from the farm operation
- Substantial financial match
- Complete application, including business and marketing plans
- A high probability of return on investment

**Eligible expenses include, but are not limited to:**

- Building construction, purchase or improvements
- Equipment
- Professional service costs (including, but not limited to, architectural, engineering or other consulting fees)
- Other supplies and materials

**Areas that the loan will NOT cover:**

- Production costs (seed, labor, chemicals, livestock, retail inventory or other inputs)
- Land acquisition
- Paying off existing debt

**Matching:**

- Minimum 20% cash match required; higher match amounts increase the probability of funding approval.

- **Standard Agriculture Value-added Loans**

The Agriculture Value-added Loan Program is designed to assist agriculture producers in Kansas with any Value-added venture not qualifying for either the Agritourism Attraction Development Loan Program or the Diversified Farm and Specialty Production Loan Program. “Value-added agriculture”, simply defined, is a process of increasing the economic value and consumer appeal of an agricultural commodity. Three types of loans, detailed below, are available through this program.

- Marketing Development Funds may be used for market research, feasibility studies (\*\* See requirements below) or to facilitate entry into a market.
- Bridge Loans are used for a short duration of time until permanent financing is in place. The loans allow the investor to pursue timely real estate acquisitions or business opportunities, as well as to provide opportunity to pursue start-up funds.
- Commercialization Funds are provided for projects that involve actual processing, equipment, physical structures and gap financing.

**Application Details:**

**Requirements:**

- Project must add value to an existing operation or create a new value-added product
- Substantial financial match
- Complete application, including business and marketing plans
- A high probability of return on investment

**Eligible expenses include, but are not limited to:**

- Building construction, purchase or improvements
- Equipment
- Marketing expenses (including, but not limited to, promotion, market research, marketing plan development and product/brand development)
- Professional service costs (including, but not limited to, architectural, engineering or other consulting fees)
- Other supplies and materials

**Areas that the loan will NOT cover:**

- Production costs (seed, labor, chemicals, livestock, retail inventory or other inputs)
- Land acquisition
- Paying off existing debt

**Matching:**

Minimum 20% cash match required; higher match amounts increase the probability of funding approval. 50% match required for feasibility study loans.

**Feasibility Study Requirements:**

A feasibility study by a recognized independent consultant will be required by Commerce for start-up businesses or existing businesses when the project will significantly affect the borrower's financial operations. An acceptable feasibility study should include, but not be limited to:

(a) **Economic feasibility.** Information related to the project site; availability of trained or trainable labor; utilities; rail, air, and road service to the site; and the overall economic impact of the project.

(b) **Market feasibility.** Information on the sales organization and management, nature and extent of market and market area, marketing plans for sale of projected output, extent of competition, and commitments from customers or brokers.

(c) **Technical feasibility.** Technical feasibility reports shall be prepared by individuals who have previous experience in the design and analysis of similar facilities or processes proposed in the application. The technical feasibility reports shall address the suitability of the selected site for the intended use including an environmental impact analysis. The report shall be based upon verifiable data and contain sufficient information and analysis so that a determination may be made on the technical feasibility of achieving the levels of income or production that are projected in the financial statements. The report shall also identify any constraints or limitations in these financial projections and any other facility or design-related factors which might affect the success of the enterprise. The report shall also identify and estimate project operating and development costs and specify the level of accuracy of these estimates and the assumptions on which these estimates have been based. For the purpose of the technical feasibility reports, the project engineer or architect may be considered an independent party provided neither the principals of the firm nor any individual of the firm who participates in the technical feasibility report has a financial interest in the project, and provided further that no other individual or firm with the expertise necessary to make such a determination is reasonably available to perform the function.

(d) **Financial feasibility.** An opinion on the reliability of the financial projections and the ability of the business to achieve the projected income and cash flow. An assessment of the cost accounting system, the availability of short-term credit for seasonal business, and the adequacy of raw materials and supplies.

(e) **Management feasibility.** Evidence that continuity and adequacy of management has been evaluated and documented as being satisfactory.

## Loan Review Process

Subject to availability of funds, applications are reviewed and rated by Commerce staff on an ongoing basis. If additional information is required, the applicant shall be provided with notice, in writing, to submit additional information. Recommendations from the Commerce Agriculture Marketing staff will be submitted to the secretary of the Kansas Department of Commerce for approval. Applicants will be notified in writing within one week following the department's final action. The department reserves the right to consult with external resources to assist in the evaluation of projects or to contract with outside consultants for the same purpose.

The Kansas Department of Commerce (Commerce) Agriculture Marketing Division staff shall evaluate and rank applications on the following criteria:

- 1) **Feasibility (possible 35 points)** – The feasibility of the existing or proposed facility, process or operation to remain a viable enterprise.

This ranking is based on the overall business plan that you submit including the financial plan and marketing plan. Rating factors for this criterion include, but are not limited to: initial capitalization, project budget (sources and uses), financial projections, historical performance (for existing businesses), marketing analysis, marketing plan, management team and production plan.

**In order to be eligible for funding, proposals must score at least 25 points on this rating factor.**

- 2) **Utilization (Possible 25 points)** – Increasing the use of Kansas commodities and adding value are primary objectives of this program.

This rating is based on the degree to which the facility and/or process will add value to and increase the utilization of agricultural commodities produced in the state. Describe clearly how proposed product/process will utilize Kansas resources and the dollar Value-added to the commodity through processing or alternative marketing.

- 3) **New or Innovative (Possible 15 points)** – The degree to which the proposed product or process is new and innovative. This includes, but is not limited to, consideration of the degree to which the product or process is commonly produced or commonly used within the state.

Clearly define how your project will result in innovative products or processes that are not currently carried out by a person/business/community in this state. Describe the product/process that will be provided and how they would be different from existing practices. Why is your product/method better than your competition?

- 4) **Location (Possible 10 points)** – The extent to which the existing or proposed facility is located in a “rural region” of the state which means: any geographic area which is predominantly rural in nature, that is, having a low population density and where agriculture is the predominate economic activity.
- 5) **Matching Funds (10 points)** – The proportion of matching funds to be contributed to the project by the principle investors. The amount of matching funds the owners and investors are willing and able to contribute to the business is a good indication of the commitment to and confidence in the venture. Without financial investment by the principles into the business, the willingness and ability of owners, management and staff to exercise good financial management and to fulfill fiduciary responsibilities is called in question.
- 6) **Level of Need (Possible 5 points)** – More points are awarded to those projects that exhibit greater need as measured by factors including, but not limited to, the following: regional unemployment rate, poverty level or other measures of regional fiscal distress. Also considered in this rating factor are current commodity prices and how the proposed facility will affect local commodity prices.
- 7) **Bonus Points (Possible 5 points)** – Bonus points are offered to those applicants seeking assistance from a local SBDC or other state agency specializing in business development/planning assistance.

**A minimum score of 65 points is needed for a project to be recommended for funding.**

**Note: The department reserves the right to negotiate the amount, term and other conditions of the loan prior to the award.**

## **Value-added Loan Program Frequently Asked Questions (FAQs)**

### ***Who are these loans for?***

Agricultural producers in Kansas with Value-added ventures.

### ***What is your definition of “Value-added”?***

Further processing or alternative marketing of agriculturally derived products to capture additional value in the marketplace.

### ***What types of projects get funded?***

Projects that are likely to commercialize, with demonstrated business plans and management...seeking to explore a market, fund an equity drive or purchase equipment and/or “bricks & mortar.”

### ***Where do I sign up!?***

So we may help ensure a successful project, we ask that you explain your project to us in a pre-application. We can mail the pre-application or you may access it online at [www.kansascommerce.com](http://www.kansascommerce.com).

### ***Then what?***

Upon approval of your pre-application, we'll contact you and request a complete application and budget. Our staff is available to help you through the application process and, after we receive your completed application, we'll schedule an interview with you in our Topeka office to consider the application further.

### ***Is there a deadline for applications?***

The deadline for current fiscal year (July 1 – June 30) funding is May 25<sup>th</sup> of each year. Applications received after May 25<sup>th</sup> will be considered for funding in the following fiscal year, with loan proceeds available after July 25<sup>th</sup>.

### ***What's the interview like?***

We enjoy visiting with producers first-hand. Typically you'll give a brief presentation over the proposal and project and the staff will ask questions. It will take no more than an hour. While it is a formal meeting, we like our clients to feel at home as we try to make the project successful.

### ***How are projects selected for funding?***

The staff evaluates the proposal on a matrix looking at the areas of feasibility, utilization, innovation, location and level of need. The review process has been fine-tuned over the years after reviewing hundreds of proposals. If the staff reaches a majority view, that recommendation will be made to the director and secretary of commerce.

### ***How soon will I know?***

Typically the entire process—from your first contact on the project to the day you get word back on funding—is around 45 days. Although it can vary due to state requirements, the complexity of the proposal, the degree of completion of the submission, etc.

### ***What are the terms like?***

- ✓ You will sign a contract
- ✓ Monthly payments (interest free for the first two years)
- ✓ Interest accrues after two years at one above prime
- ✓ Reporting is an important requirement due to utilization of state funds
- ✓ Bridge loans used to finance equity drives will be repaid within 60 days of the company meeting or surpassing escrow
- ✓ Loans will be amortized—repaid on a schedule
- ✓ Other terms may be negotiable

### ***What if the business fails?***

Loans are made under the understanding that the project will likely commercialize, but in the case of a failed project, loan funds may be forgiven if the reporting requirements are current and the loan funds were utilized according to contract. Commerce may chose to exercise their right to a security interest depending on contract terms, which, in the case of a feasibility study, would be the work product itself or, in the case of a loan, would be the collateral pledged.

### ***Need more details?***

To begin the process, or for more information or questions, contact the division: (785) 296-3737 or [agprod@kansascommerce.com](mailto:agprod@kansascommerce.com).