

# FY20 Agribusiness

## Summaries & Staff Recommendations

### May 2020

The Commission received three proposals by the announced due date in April for FY20 Agribusiness funds to benefit private hemp processing facilities. Executive summaries of the proposals and Staff comments and recommendations are contained below. The Committee has a current available balance of \$719,905. There is also one (non-hemp) project that was tabled in January that seeks reconsideration if the Committee so chooses.

#### City of Danville

##### *Project FX (#3651)*

**\$500,000 Requested**

**Executive Summary Provided by Applicant:** Project FX is uniquely positioned to capture and create market share in the emerging hemp fiber industry; redefining traditional hemp fiber processing economics through innovation and investment in critical American infrastructure. They have sourced a best-in-class complete fiber processing solution provided by Cretes (their technical and equipment partner), with a line capacity/output of 10 tonnes per hour (most efficient in the world), enabling them to compete immediately with the price of imported fiber. Project FX also has a joint venture with Tyton BioSciences, which enables the efficient production of pulp/powdered cellulose from the whole plant or as secondary processing of hurd. They intend to address the current needs of both the textile and packaging industries.

**Staff Comments and Recommendation:** Project FX proposes to purchase industrial hemp feedstock from a six county portion of Southern Virginia stretching from Greensville to Patrick Counties, with end products being used in textiles and biodegradable plastic bottles and bags. The proposal indicates plans to conduct a joint venture with Danville-based Tyton Biosciences (a previous recipient of TRRC R&D funds) regarding the use of hemp fiber in textiles. Site selection and engineering/permitting are stated as ongoing through the remainder of 2020, with equipment to be ordered in late-2020, facility construction, equipping and testing being done through much of 2021 and commercial start-up in mid-2022. TRRC funds are requested for employee salaries (\$100k) and equipment (\$400k). The budget for the proposals indicates the company plans a \$29.4M Series A equity capital raise to be used for land, building, equipment, salaries and other capital and operating costs. Outcomes indicate feedstock purchases from 10 growers in year one, and purchases of 15,000 acres of feedstock by year five. A detailed equipment quote is provided from a Belgian equipment manufacturer, and a letter listing incentives offered by the City indicates a plan to apply for TRRC Southside Economic Development funds to additionally support this project. The city's incentives packages lists targets of 77 new jobs in five years at average salaries in excess of \$82k, with a taxable capital investment of \$19M.

**Financial Viability Assessment:** This request exceeds the Agribusiness Program Guidelines which limit requests that will benefit a private processing facility to a maximum of \$250k (contingent on at least three-to-one private matching), and seeks the majority of the nearly \$720k that is currently available in the Agribusiness budget. A detailed (and confidential) operating pro forma indicates profitability by year three, although staff is unable to render an opinion on the likelihood of

achieving that goal, given the uncertainty and volatility of this emerging global market. Staff suggests that using the TROF formula, which would otherwise be the method for assisting a private project such as this, should be the most equitable and preferred approach for calculating performance-based support for hemp processing facilities based on each project's employment and investment parameters. In this case, the Commission's TROF team has calculated that Project FX would generate a grant offer of \$98,500 with an equivalent offer of interest-free loan, for a total performance-based grant+loan incentive of \$197,000. Staff suggests this amount be combined in the form of a grant, with performance requirements.

**Staff recommends a performance-based incentive grant of \$197,000, subject to a standard TROF agreement including clawback provisions.**

## **Russell County Industrial Development Authority**

### ***Project Grow (#3649)***

### **\$3,000,000 Requested**

**Executive Summary Provided by Applicant:** Clinch River Hemp Company seeks funding for hemp processing and related equipment which will increase the capacity, capability and efficiency of its processing operations located in Lebanon, its greenhouse operations in Abingdon and family-owned tobacco farms across Southwest Virginia. Specifically the funds would be used to purchase distillation equipment which will expand current production capacity input from approximately 4,000 pounds per day to 8,000 pounds of hemp per day, isolation equipment which will produce a new and highly sought end product, high performance grow lights which will increase greenhouse production of seedlings used by farmers, mechanized drying equipment which will increase the efficiency and greatly reduce the costs of harvesting operations, and refining equipment which will produce THC free oils, distillates and isolates. Each of these equipment acquisitions will work to increase Clinch River's demand for hemp, to be provided by increasing numbers of family farms throughout Southwest Virginia.

**Staff Comments and Recommendation:** Funds are requested for a variety of equipment for producing CBD oils, including hemp growing (lights), drying/processing/distillation and other equipment (the budget chart indicates a \$2M request, while the proposal also indicates a \$3M request). An equipment list is provided, but vendor quotes are not. The requested equipment would be purchased in Q4 of 2020, and presumably installed at a processing facility the company has already purchased (using VCEDA loan funds) and where it has placed previously-purchased equipment on U.S. 19 in Hansonville (Russell County). Matching funds are indicated as \$5M from the company, a \$2M loan from the Coalfields Economic Development Authority, and \$500k from Cumberland Plateau PDC's CProp grant program (approval letters are provided). The proposal indicates plans to purchase industrial hemp feedstock from 25 growers across much of Southwest Virginia by 2022, with 2,000 acres producing that feedstock. The proposal indicates a plan to grow hemp seedlings that the company will provide to contracted growers, and deduct that cost (approx \$6k/acre) from the purchase price of grown-out biomass feedstocks. Direct jobs by 2022 are shown as 50, although the proposal also indicates just 5-7 jobs for processing operators per 10-hour shift. In a pre-proposal meeting with the IDA and company, the principals indicated plans to establish a greenhouse operation to produce seedlings at the "Reclaim" megasite funded by the Commission in the Cleveland/Carbo area of Russell, although details on where and what additional capital

investments would occur in Hansonville and Cleveland were not provided in this proposal.

**Financial Feasibility Assessment:** This request for a \$3 million equipment grant to benefit a private company greatly exceeds the Agribusiness Program's total annual budget, and the currently-available balance of just under \$720k. A detailed (and confidential) operating pro forma indicates an extremely profitable business virtually from the start-up of operations, although staff is unable to render an opinion on the likelihood of achieving those ambitious projections, given the uncertainty and volatility of this emerging global market. Staff suggests that using the TROF formula, which would otherwise be the method for assisting a private project such as this, should be the most equitable and preferred approach for calculating performance-based support for hemp processing facilities based on each project's employment and investment parameters. In this case, the Commission's TROF team has calculated a \$25k grant plus \$25k interest-free loan, for a total performance-based incentive of \$50k. Staff suggests this amount be combined in the form of a grant, with performance requirements.

**Staff recommends a performance-based incentive grant of \$50,000, subject to a standard TROF grant agreement including clawback provisions.**

## **Joint IDA of Wythe County, VA**

### ***Regional Hemp Fiber Processing Facility in Wythe County, VA (#3604)***

#### **\$250,000 Requested**

**Executive Summary Provided by Applicant:** Vitality Farms LLC (VF) is the project of a family with multiple years of experience growing hemp in Wythe County and with multiple generations of farming experience generally. Additional expertise is derived from worked with the University of Virginia and being licensed growers for several years. Three growing cycles of industrial hemp have been successful with the crop harvested with regular hay equipment. VF's proposal is twofold. First, the company will purchase seed in bulk and distribute it for regional growers use, then pay these farmers based on productivity. Principals will serve as educators, expert liaisons, and marketing distributors of the products produced for fiber. No CBD oil or similar products are part of this plan. Secondly, to provide for vertical integration and to add value to the agricultural product, VF will establish a hemp fiber processing facility in Wythe County. The closest like facilities are in Colorado and Canada.

**Staff Comments and Recommendation:** This hemp fiber processing project was announced by the Governor and the locality in late-October 2019, with 13 new jobs and a \$894K private investment to be operated by a licensed hemp grower who partnered with UVA during the research phase. It does not appear to meet the \$750K taxable capital investment threshold required in TRRC Agribusiness Program Guidelines to justify the requested \$250K grant, because per the budget \$725K of the indicated private investment is startup operating capital for seed purchase and personnel, and only \$350K is equipment (including this \$250K request), with \$25K from each of VDACS AFID and County funds for equipment. The IDA requested TROF in mid-2019 for the project, and the calculated offer was \$65K grant + \$65K loan for 24 new jobs and a \$450K taxable private capital investment. The proposal states that 2 buyers are committed to purchase the company's processed hemp fiber, with an additional potential buyer in negotiation. A list of 50+ growers is provided, with the majority (40+) located within the Tobacco Region

**Financial Viability Assessment:** Given the performance requirements of the AFID grant to purchase feedstock from Virginia growers, there is adequate protection through the AFID grant agreement that this project is already committed to benefit Tobacco Region hemp growers. Staff suggests that using the TROF formula, which would otherwise be the method for assisting a private project such as this, should be the most equitable and preferred approach for calculating performance-based support for hemp processing facilities based on each project's employment and investment parameters. The Commission's TROF team reviewed this proposal, and due to low employment and taxable investments parameters, concluded that a TROF incentive offer is no longer justified. Staff further suggests that offering a grant+loan incentive to a project that was announced more than a half-year ago is no longer justified either.

**Staff recommends no award.**

## **OTHER BUSINESS – TABLED APPLICATION**

### **Institute for Advanced Learning and Research**

#### ***Regional Food System Development Through A Value Chain Coordinator (#3593)***

#### **\$134,034 Requested – Request to reconsider Tabled application**

**Executive Summary Provided by Applicant:** Consumer demand for local food is on the rise and is projected to grow in the decades to come, thereby presenting an opportunity for increased farm revenue for new and existing farmers. However, many farmers lack the time and resources to promote their goods to potential customers. Simultaneously, many large institutional buyers would like to offer local produce, meat, and dairy to their employees and visitors, but they would prefer not to interact with each farmer individually. These conditions establish a need for an advocate to facilitate the interaction and drive the creation of a robust local food system where farmers' price points are met while local consumers gain greater access to their products. This proposed three-year project seeks matching funding for a value chain coordinator position to connect institutional buyers, food hubs, and other purchasers, with farmers to increase net farm output, income, and diversify agribusiness in the region.

**Staff Comments and Recommendation (January 2020):** Grant funds are requested to support 57% of the direct project costs over three years for a new value chain coordinator position and related costs for travel and supplies. The applicant identifies the focus of this position would be on connecting institutional buyers, food hubs, and other potential purchasers of farm products, with the agriculture producers in the region for increasing their net farm output and income. Match funds are from a \$100,000 cash donation made to the Future of the Piedmont Foundation and secured by the Danville Regional Foundation, and \$36,408 from time contributions for existing staff at IALR. A Dan River Region Local Food System Assessment funded by the DRF in 2017, on behalf of their Health Collaborative, was provided to support the application. This assessment was identified as a first step toward identifying a network of regional stakeholders and highlighting barriers to participation in a local food system. Of the 33 farms that responded to a survey, 72% indicated marketing support as a barrier to increasing production and selling at capacity. Farms responding were primarily in Pittsylvania County (13) and Caswell County, NC (10), along with ten other farms in three VA and two NC counties. Surveys were also conducted with restaurants (7 responses) and institutions (3 responses), all located in Danville and Pittsylvania County. During the review of this

application staff questioned the likelihood of the project benefits accruing to a regional group of tobacco region producers, noting that the majority of the survey respondents and the DRF service area being primarily limited to Pittsylvania County and neighboring North Carolina (a priority for the TRRC Agribusiness program is for projects benefiting producers in at least three tobacco region localities). More importantly staff had concerns about the lack of specific economic metrics for tracking agribusiness results, and how responsibilities for the new coordinator would be structured and how success would be measured.

**Financial Viability Assessment:** While there is no question that there is an opportunity and regional interest for brokering services between local producers and buyers, Staff viewed this proposal as more of a conceptual project that still needs to be developed. Staff suggests that the project be tabled to allow the regional work group to work on identifying and quantifying baseline metrics that demonstrate a higher level of regional producer participation and buyer interest, with specific goals for increasing purchasing and producer sales across a larger portion of Southern VA, in order to focus the specific work activities and reportable outcomes for the proposed coordinator.

**Committee recommended this request be tabled.**

**May 2020 Staff Update:** IALR has been in dialogue with TRRC staff since this project was tabled in January, with updates on food distribution and coordination interests in the region and discussion on addressing the stated concerns. The focus of this project continues to be on filling the essential gap needed for coordinated efforts and collaborative negotiations between institutional buyers and farmers. The primary metric that will be used is the tracking of sales revenue for tobacco region producers, and the related purchasing by buyers. Additional metrics will include tracking of volume sold, potential demand and number of participating farmers. Development of this regional food system will be focused on a region including the Cities of Danville and Martinsville with higher concentrations of buyer interests; and for serving producers in Franklin, Halifax, Henry and Pittsylvania Counties. In March 2020 IALR provided additional details on how development of this food system is intended to be approached with specifics related to creation of a supply database and detailed demand interests. Staff suggested that having an identified system in place or in development at the start of the project would be critical for establishing a framework from the beginning for measuring outcomes and success. Lulu's Local Food system available through VAFAIRS was suggested and is being considered due to the ability to develop a region-wide system for a network of "hub managers" where farmers can then provide produce to as many markets as they want through a single entry point. The physical location for hubs or aggregation can include sites such as the ODAC in Chatham which has been working on planning for a food distribution center, as well as other sites across the area served by the project including producer auctions and producer cooperatives or individual farm businesses who coordinate aggregation with other farmers. Staff notes that the project budget has \$234,034 of new direct costs (not including In-Kind personnel contributions).

**Should the Committee vote to bring this request off the table, Staff recommends approval of an \$117,017 grant for 50% of direct project costs for, and in support of the new coordinator position with disbursement of funding contingent on approval of the proposed system to be used for connecting buyers and sellers, and initially proposed physical locations within the region to be served for produce aggregation.**

