



Yolo Food Hub Business Plan

DRAFT 4/21/22

INTRODUCTION

Yolo Food Hub is developing a *Business Plan* that builds on analysis and planning completed as a component of the 2014 **Sacramento Regional Agricultural Infrastructure Project** sponsored by the Sacramento Area Council of Governments (SACOG) through its Rural-Urban Connections Strategy (RUCS). RUCS is the six county Sacramento region's rural economic and environmental sustainability strategy complementary to the region's long-term growth strategy.

Over several years, RUCS identified the need for expanded regional "agricultural infrastructure" to strengthen the local and regional food system and the region's many rural communities. **Agricultural infrastructure commonly is defined to encompass aggregation, packing, processing, storage, marketing and distribution capacity and facilities, including "food hubs."** Food hubs help connect locally produced and source-identified foods to local markets and customers, especially by creating new market channels between smaller and medium-sized growers and larger institutional and business buyers. Overall, agricultural infrastructure:

- Improves the efficiency and sustainability of the local food system;
- Increases access to healthy foods, especially fresh produce (fruits and vegetables), in underserved communities;
- Supports the viability of agriculture;
- Creates new jobs and economic opportunities; and,
- Helps preserve valuable farmlands.

In the past year a public-private partnership has formed to update the planning specific to the design and development of a facility located in Esparto, CA. New Season CDC obtained funding from Yolo County to support the project's implementation. Valley Vision obtained funding from the United States Department of Agriculture Local Food Promotion Program to develop the business plan in collaboration with the partners. This document presents the current plans for Yolo Food Hub. Ongoing market analyses and testing of financial feasibility analytic tools, including pro formas, will inform a recommended business plan to be completed within a year.

BUSINESS OBJECTIVES

The Yolo Food Hub shares the same purpose of the 2014 Sacramento Regional Agricultural Infrastructure Project (Ag Infrastructure Project) which was to:

“Provide a business model, financial feasibility analytic tools and business plan for a self-sustaining mid-scale aggregation and distribution operation – a food hub with aspects of processing functions – to serve regional specialty crop producers, including small to medium-sized growers, especially those who lack the capacity to access business and institutional markets. The tools and plans have been developed by SACOG as a resource for entrepreneurs, jurisdictions, investors and other interested stakeholders to advance the development of this infrastructure. “

The objectives of the project are to create new market channels and support for small to medium-sized growers, including new farmers, economically disadvantaged farmers, veterans entering agriculture and others. The hub also is intended to be a market resource for growers of any scale. Participation of larger growers, especially in the initial phase of the hub, could help provide the product volumes necessary to achieve economies of scale. In turn, this would help create the capacity to serve larger customers with cost-competitive pricing and reliability of supply, and establish a solid market base for locally grown specialty crops and value-added produce. Another focus is to assess ways to work closely with the Yolo Food Bank and other regional food banks to integrate hub-related services.

A business plan for a Sacramento Valley Food Hub was developed by:

- Assessing regional market demand for fresh fruits and vegetables (specialty crops);
- Identifying illustrative target specialty crops, levels of production, and capital and operating costs for a viable hub operation model;
- Estimating the financial feasibility of the proposed hub model;
- Summarizing policy and other barriers that will need to be addressed; and,
- Identifying potential funding resources.

In the long-term, a financially sustainable business will be the best way to provide market opportunities for small and medium-sized growers, working with a wide range of partners to address additional community and social benefit goals. A recommendation will be to leverage existing resources within the region, including the food hubs and food banks which are leaders in the local food system movement and have transportation, logistics and other capacity to help incubate a regional food hub network.

The 2014 feasibility analysis¹, which is in the process of updating, showed that over the time needed to scale up market relationships with growers and customers and develop operational capacity, there appears to be enough demand in the region to support more than one hub, and more than one type of hub. This presents a valuable economic development opportunity that can benefit communities throughout the region through creation of new jobs and capital investment. Information is presented in *Research Analysis of Food Hub Trends and Characteristics* on different types of hub models and lessons from hub operations to help identify complementary approaches to the hub model proposed in this *Business Plan*. These models show how food hubs are evolving in terms of value-added activities and systems approaches, including the changing role of food banks in catalyzing regional food systems.

Expanding diverse types of agricultural infrastructure will help the region capitalize on emerging opportunities related to the burgeoning food economy and address important community objectives such as retaining more food dollars in the local economy; improving food security; reducing food waste; providing alternative opportunities for young and new farmers; and keeping valuable farmland in

¹ Feasibility analysis document are available online at <https://www.sacog.org/post/sacramento-region-food-hub>

production. It will begin to rebuild the small- and mid-scale agricultural infrastructure that had previously existed throughout the region but has been lost over time due to changing markets, industry consolidation, economies of scale, regulatory issues, urbanization and other factors.

The report sections noted below provide key research and analysis findings as the foundation for the Yolo Food Hub Business Plan. Additional sections regarding operating costs, revenue projects in relation to the phasing timeline are in the process of being updated as part of the work supported by the USDA LFPP planning project.

- Market Demand
- Proposed Business Model
- Hub Services
- Climate Change
- Team of Partners
- Cost Estimate Summary
- Phased Work Scope and Budget
- Financing Resources

MARKET DEMAND

The regional market analysis findings presented in the 2014 SACOG Food Hub business plan hold true today. The trend for locally grown, source-identified food has continued to grow nationally and regionally over the past several years. This trend has accelerated in the region with the expansion of public and private institutional sourcing goals and initiatives, public policy initiatives that support efforts such as Farm to School, and increasing consumer demand. The disruption of the Covid 19 pandemic further revealed market gaps and weak points in the supply chain and catalyzed efforts to strengthen the regional food system by developing needed market infrastructure through the food hub.

Since the 2014 SACOG study, several institutions and organizations have led the effort to increase purchasing from local growers and food producers. These include the Golden 1 Center, which completely shifted its business model to source more than 70% of its products within a 150 mile radius in its first years of operation; Sacramento City Unified School District, which serves more than 43,000 meals a day and sources all food sources regionally; and UC Davis Health, which shifted its purchasing from 11% to more than 43% from regional sources, serving more than 6,000 meals a day. One of the project partners, Spork Food Hub, is rapidly expanding its services to several schools in the region through its Farm to School focus, which is indicative of increasing demand and opportunity. While leading the way and showing that purchasing of locally sourced foods is possible, these institutions have had to contend with many barriers and workarounds and have all articulated the need and support for a regional food hub. In addition to improving the quality and health of foods served, and support for local growers and producers, economic impact analysis shows that for every dollar spent, local institutional purchasing can provide up to \$2.16 extra in local economic impact.

These institutions partnered with restaurants, food banks, other schools, hospitals, grocery stores and a whole network of community-based organizations to get healthy foods and meals to communities in need during the pandemic, and help keep workers employed and businesses open. The focus on developing the food hub is a market and community response to economic recovery and building resilience to withstand future shocks, while expanding economic opportunities for small to mid-sized

growers and for the development of new, locally-sourced food products through added capabilities of value-added food processing.

A regional webinar held by the food hub partners in March 2022 validated the strong demand for the development of the Yolo Food Hub and a network of hubs to meet the growing demand for locally grown-source identified foods. Valley Vision and partners will build on this momentum in the next phase of the Business Plan, which will conduct research and outreach to a range of potential market customers including schools, hospitals, casinos/entertainment venues, local governments, grocery stores, food distributors and others to document specific demand for products and services that will inform aspects such as needed hub equipment and facilities, desired foods and processed products, logistics and pricing.

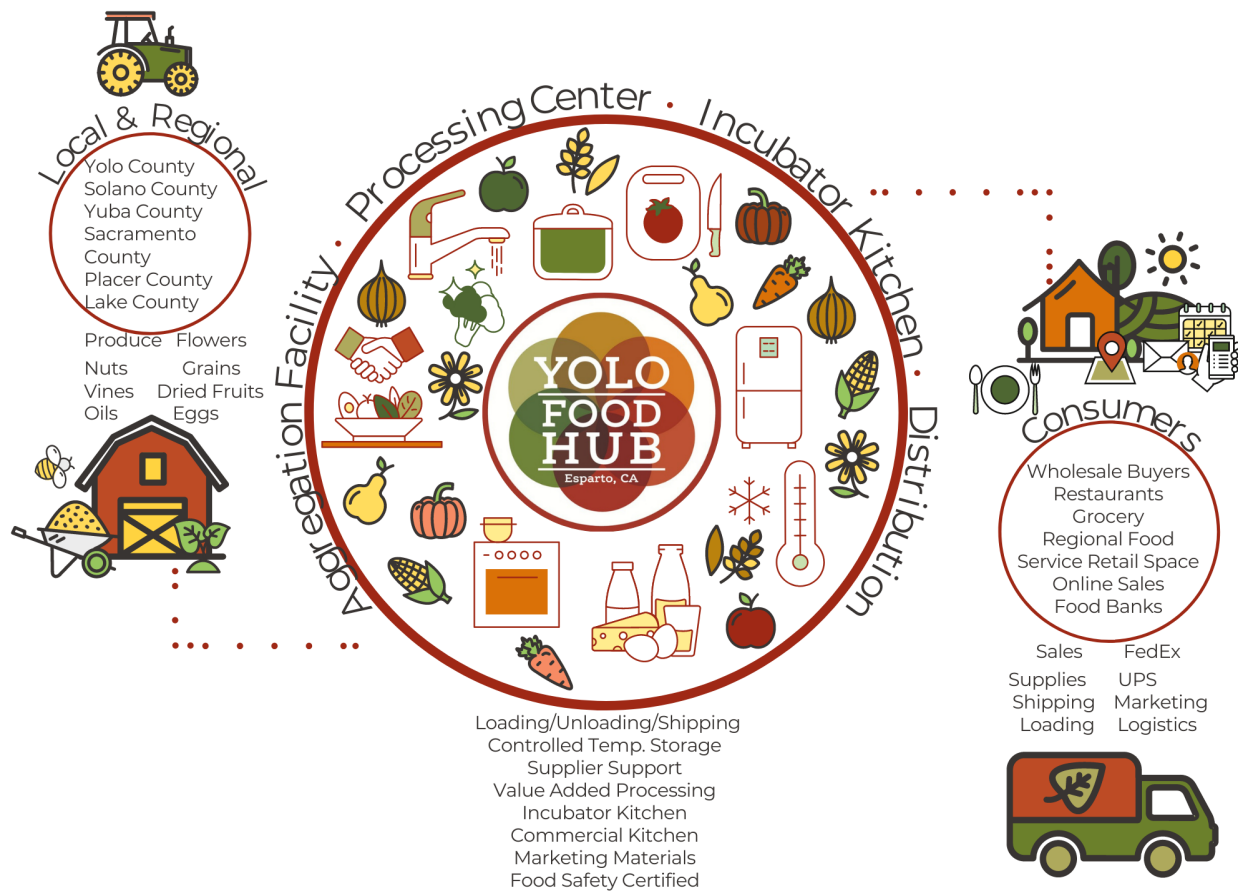
PROPOSED BUSINESS MODEL

Over the course of the project, the concept including the target market (customers) will be refined based on the regional market analysis, interviews with key stakeholders across the regional food system, and national research on innovations with this rapidly evolving business model. Based on the depth of existing aggregation and distribution capacity in the region – including the diversity of direct to market outlets, identified market gaps and barriers, and alignment with national “field of practice” trends—it is recommended that the Sacramento Valley Food Hub’s initial focus be to:

Create a supply channel for large-scale buyers primarily, including existing fresh produce distributors and wholesalers, institutions such as schools and hospitals, restaurants, food banks, governments, and other commercial and nonprofit customers which are seeking locally grown, source-identified food.

Serving to facilitate “farm to institution” procurement is a strong and growing food hub trend.² The graphic below illustrates the hub’s proposed functions.

² Jalonick, M.J., “Locally-Grown Foods Look to Bigger Business,” The Wall Street Journal, July 16, 2014



HUB SERVICES

The following is a list of recommended food hub services and activities that could be provided by the Yolo Food Hub. They are based upon the list of potential activities developed by USDA Rural Development’s documentation of hubs nationally, informed by the hub research and market analyses and input from regional stakeholders. Some of these services such as providing GAP training and certification, liability insurance and technical assistance also will generate a revenue stream for the hub. Research shows that growers working with food hubs improve their business and crop planning, often resulting in better financial outcomes for them.

RECOMMENDED FOOD HUB SERVICES/ACTIVITIES		
Operations Services	Producer Services	Community/Environmental Services
Pre-cooling, sorting, grading, culling, washing, cooling	Actively linking producers and buyers, contracting for product	Increasing community awareness of “buy local” benefits
Producer aggregation	On-farm pick up, crate system, delivery	Distributing to nearby “food deserts”
Packaging and re-packaging	Production and post-harvest handling training	Food bank donations
Light processing (trimming, cutting, freezing, drying)	Management services, business and crop planning	Youth education and community employment opportunities
Brokering	Value-added product development	Recycling, composting & food recovery programs and renewable energies
Branding and market promotion	Food safety and Good Agricultural Practices (GAP) training and certification	Contract with growers & distributors with existing receiving & cleaning stations as mini-aggregation sites
Cold and dry storage, extending seasonality	Liability insurance	Partnering with food banks on logistics and transportation
Distribution	Facilitating access to capital	Education on policy barriers, including local procurement issues
Retail sales	Commercial kitchen	Incubator kitchen with training curriculum

Sources: Modified from the Role of Food Hubs in Local Food Marketing, The USDA Regional Food Hub Resource Guide, Project Team

CLIMATE CHANGE

Yolo Food Hub responds to climate change at a variety of levels. The project will provide necessary infrastructure and capacity to help meet the region’s climate change goals by strengthening the ability of farmers to access local markets and promoting institutional procurement within the region. A more streamlined and localized food supply chain will lead to a reduction in greenhouse gas emissions, as well as fewer trucks on the roadways distributing food.

The facility will repurpose an existing structure, minimizing the need for new construction resources. Currently, the project team is in contact with Grid Alternatives, which will draft design and energy feasibility assessments to retrofit the building, modify it to be energy efficient, and identify the most efficient solar installation. The potential for the property and its operations includes battery backup with solar, EV truck charging, as well as electric forklifts and tractors. Yolo Food Hub will implement sustainable water management practices, as well, to reduce the facility's water demand. Waste from the facility, such as food scraps, will be repurposed to compost.

The food hub's operations will benefit organic farmers and sustainable food production, both of which mitigate the negative effects of climate change directly. Most prospective participants already use sustainable farming practices, applying agro-ecology techniques (such as rotating crops) and agro-forestry practices, planting cover crops, reducing or eliminating tillage, integrating pest management (IPM), strategically deploying livestock in crop development, and thinking holistically in terms of systems and landscapes. Not only do these practices result in more healthful foods, they have also been shown to create better yields for small farmers, reduce the need for herbicides, improve soil health, reduce erosion, create wildlife habitat and support EPA initiatives. As extreme heat, poor air quality, and water scarcity nevertheless intensify the need for crop adjustment, Yolo Food Hub can further support agricultural producers by creating a more flexible and adaptive supply chain.

TEAM OF PARTNERS

Yolo Food Hub is a public/private partnership knitting together the experience, skills and resources needed to develop a successful food hub serving the Sacramento Region. Because agriculture forms the basis of Yolo County's rural economy, there is a public interest in investing in the facilities and infrastructure that will increase rural farmer access to markets.

Core partners and participants of Yolo Food Hub include:

New Season CDC is an Esparto-based 501c3 nonprofit with 20 years of experience in purchasing and rehabilitating derelict properties to put them to use serving the community and building the local economy. **Jim Durst**, co-owner/operator of **Durst Organic Growers**, is the board president.

Capay Valley Farm Shop is a majority farmer-owned social venture with over 15 years of experience connecting a network of local farms to regional markets. CVFS has expertise in marketing, sales, aggregation, and distribution of local farm products to businesses and institutions across Northern California. **Tracy Harding** is the general manager.

Spork Food Hub is a pilot project of Fiery Ginger Farm to sell products from local farms and artisans to schools and restaurants. Fiery Ginger has 7 years of experience engaging and educating school children about fresh vegetables at the source, their farm in West Sacramento. **Hope Sippola** and **Shayne Zurilgen** are the owners/operators.

Yolo Food Bank has 50 years of experience serving the nutrition needs of food insecure people and today serves tens of thousands of Yolo County residents every month. YFB brings an food systems approach to the recovery, collection, and storage of food, including innovative partnerships with farmers. **Michael Bisch** is the executive director.

Kitchen Table Advisors is a nonprofit fueling the economic viability of small, sustainable farms and ranches through practical business advising and trusted relationships. KTA seeks to build partnerships that strengthen farmers' access to markets. **Thomas Nelson** is the director of the Yolo/Solano/Sacramento region.

Valley Vision is a civic leadership organization dedicated to improving the livability of the Sacramento region. Through research and action, they collaborate on bold, long-term solutions that improve people's lives. Valley Vision has identified the Yolo Food Hub as a core project priority in both the region's Food System Action Plan and Community Economic Development Strategy. **Trish Kelly** is the managing director and **Grace Kaufman** is the project manager.

The **Esparto Train Station** is owned by **Maria McVarish** who brings decades of experience in architectural design, real estate development, property management and community design work. She is an expert on the region's railroad and farming history.

Hatamiya Group is an economic, strategic, and business advisory consulting firm for corporate, legal, government, and non-profit leaders. Principal **Lon Hatamiya** is providing market research and business planning services.

As a for-profit enterprise, the hub's success will be enhanced by partnerships and collaboration with a wide range of entities involved in varied aspects of the regional food system. Formalized partnerships with nonprofits and other entities would enable the region to leverage features of nonprofit hub models – including the ability to generate funding support from government and philanthropic sources. As an example, complementary hub-related services such as workforce training and social enterprise activities could be provided by a nonprofit partner such as a food bank, a training organization, educational institutions, or an economic development entity. Additional community and environmental services could be provided by partner organizations to improve access to healthy foods in underserved neighborhoods and strengthen the overall sustainability of the regional food system.

Entity Structure

New Season CDC will be the property owner developing the needed infrastructure (land, facility, equipment, etc.) for Yolo Food Hub.

A private, for-profit entity with social objectives will operate the facility as a tenant. The lead entity structure is envisioned to be a joint venture of project partners. The joint venture will be composed of two or more project partners currently involved in food distribution – Capay Valley Farm Shop, Spork Food Hub and/or Yolo Food Bank. As the lead entity, the joint venture will be responsible for holding the lease, overseeing primary facility services and operations, managing employees, maintaining insurance, and coordinating with vendors, suppliers and supporting partners.

It is expected that existing operating partners will work in close collaboration, continuing to do what they each do best.

PHASED WORK SCOPE AND BUDGET

Phase I: County Funding (2022-2023) work scope extends from \$2M in approved funds from Yolo County and covers the following costs:

- Oakdale barn property purchase, taxes and insurance (assumes existing residence can be mortgaged for \$400,000 and that rents will cover mortgage payments)
- \$50,000 fundraising budget for Phase 2 work
- Phase 1 ESA
- Engineering and architectural designs to minimally improve 8,000 square feet of the barn (overall structural repairs, patching/refinishing concrete floor)
- Bare-bones interior improvements to 5,000 sf for storage services
- Road improvements in coordination with Caltrans
- Permits and fees for all of the above
- Administrative costs

Gap Funding (2022-2023 Fiscal Year) covers remaining renovation and development costs to establish an 8,000 square foot food hub facility, including loading docks, parking areas, solar energy, refrigeration and air conditioning. \$1.7M

The total Phase 1 project cost will be around \$3.7M. If funding needs are met, Yolo Food Hub will be operational by late fall, 2023.

Phase 2 (2023-2024 Fiscal Year) focuses on increasing Oakdale food hub facility capacity to 12,000 sf, including equipment costs for 3 new processing lines. Includes \$50,000 budget for Phase 3 fundraising. \$3.4M

Phase 3 (2024-2025 Fiscal Year) includes purchase and development of the Esparto depot and existing metal building, designing and installing a commercial kitchen in the depot, interior renovations throughout, restoring the wood platform/deck on three sides, general site and building accessibility improvements, public parking lot and landscaping. \$3.3M, subject to third party appraisal.

The total project cost for all three phases of work would be around \$10.4M, assuming that some of the work on the depot property could be financed through operations income by year 3 or 4.

FINANCING RESOURCES

The project team has identified a number of grant opportunities to leverage Yolo County's commitment of \$2M in general funds. This will be approached with priority to raise funds to accomplish the objectives of phases 1-3 in chronological order. In other words, first priority will be given to fill the \$1.7M gap in Phase 1 followed by Phase 2 and ultimately Phase 3. A grant writing consultant will be retained to pursue these sources of funding as they become available.

Below is a partial list of identified state and federal agencies and grant opportunities the partners have identified as promising funding sources to pursue. Yolo County's investment provides crucial matching dollars as well as momentum to demonstrate readiness to implement the project.

State of California Sources

- Community Economic Resilience Fund. \$600 million to be allocated regionally to support resilient, equitable, and sustainable regional economies.
- State Budget Request. Project team members have met with Assemblymember Cecilia Aguiar-Curry to pursue a line item in the state budget for FY2023.
- California Department of Food and Agriculture Farm to Community Food Hub Program. AB 1009 establishes a \$15M dollar program to finance the development of at least three food hubs across the state.

U.S. Federal Sources

- U.S. House of Representatives Community Project Funding. A request is pending to pursue the \$1.7M in gap funding for Phase 1.
- U.S. Department of Health and Human Services Community Economic Development Projects. Maximum awards of \$800K to support employment and commercial development projects designed to provide economic self-sufficiency for individuals with low incomes and their communities, including manufacturing businesses and agriculture initiatives.
- U.S. Department of Agriculture Local Food Promotion Program. An implementation grant will award up to \$750K to support equipment, marketing, working capital and training.
- U.S. Department of Agriculture Rural Facility Program.
- U.S. Economic Development Administration.

Private Sources

- Social impact investors who invest in regional food systems are being identified to provide grants and low-to-no interest loans. Kitchen Table Advisors is committed to helping secure private philanthropic support for the project. A number of local community members have also expressed a willingness to help with fundraising efforts.