

# Preserving Farm and Ranchland in Western Montana via Economic Development Strategies

A report produced for the Community Food & Agriculture Coalition, Missoula County, Montana.

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## Introduction

Missoula County faces a problem that is not unique to other areas trying to preserve their agricultural landscape while simultaneously housing an increasing population. Development tends to fill our valley floors, which also happens to have some of the richest, most fertile soils. The Community Food Assessment for Missoula County shows that the number of mouths to feed is increasing, while our capacity to grow food locally is decreasing. Between 1960 and 2000, the County's population increased 114%. In roughly the same timeframe, from 1954 to 1997, the acres in agricultural production decreased 34%.<sup>1</sup>

A survey of 52 producers provides further insights into these patterns. Of the farmers and ranchers surveyed, 69% rely mainly on off-farm incomes, and 71% said they thought agriculture was "struggling" in Missoula County.<sup>2</sup> Many producers identified two interrelated problems as the source of the struggle: low economic returns and development pressures. For positive aspects of development, the most common response was the ability to sell their land for retirement.

Land use planning can play an

important role in preserving farmland (see side bar on page 2). Producers in Missoula County and across the U.S., however, have stressed that the best way to protect agricultural land is to make farming and ranching economically viable.

To better understand how we might bolster the viability of agriculture in western Montana, this research project sought the perspectives of seven economists and economic development professionals. I was interested in 1) the economic barriers and opportunities for producers in the region, and 2) which economic development strategies might enhance the viability of farming and ranching here.

All interviewees emphasized the need to bolster agricultural markets, but there were conflicting views regarding whether local or export markets had the greatest potential to support western Montana producers. Some of the economists and economic development professionals think local markets hold the key to economic viability of agriculture. Others say our population base is too small to support local farms and ranches. Yet, regardless of

"How do we really keep the farm economy going so we can have this land base? Because if it's not going—you're seeing it in Missoula and other areas—they're selling land because the land is more valuable selling it versus farming it."

-Economic development specialist

"The ability to work and create viability, ... in terms of the single family farm, is improved if you're nearby (an urban population). We've got that here. We've got a critical mass of folks living here. We just need to work this stuff through."

-Regional economist

### **Farmland Protection & Planning:**

Missoula County's 2002 Growth Policy states the objective to "support local sustainable agriculture ... and encourage the continuation of agricultural ... operations and protect them from adverse impacts of urban development."<sup>3</sup>

The Wye Mullan West Plan expresses the need to encourage "continued agricultural uses within close proximity to urban areas supporting our local food market."<sup>4</sup>

Although the goal to protect and encourage agriculture has been made explicit, it has been difficult to achieve due to limited implementation of regulatory tools. For example, 94% of the County is not zoned. Also, according to State law, development plans cannot be rejected or accepted based solely on a county's growth policy.<sup>5</sup> Thus, governing bodies must review subdivisions and their impacts to agriculture on a case by cases basis rather than from a larger perspective.

The main planning tool used to protect farmland in the County is conservation easements. Roughly 30,000 acres—not all of which are suitable for agriculture—are currently enrolled in conservation easements.

the perceived ideal market place—be it export or local—the interviewees largely agree on the economic development strategies to increase the producer's ability to access those markets and manage more viable operations, including: value-added businesses, producer-owned cooperatives, and business training for producers.

Also emerging from this research is the debate over whether our growing population is a barrier or

an opportunity for agricultural businesses. While most interviewees identified development pressure as a significant threat to agricultural viability by dividing farms and ranches into smaller and smaller parcels, some see the increasing population as an opportunity for local markets to expand their capacity to support the agricultural businesses that remain. Plus, a few think it is possible for smaller operations to be viable near an urban center.

## **Methodology**

To identify economists and economic development professionals that would be knowledgeable about agriculture in western Montana and offer a range of perspectives, members of CFAC named several individuals, and I browsed the internet for local economic development organizations.

The interviews were in-depth and averaged roughly one hour in length. Six of the seven followed an interview guide and were conducted in person. The interview

guide enabled me to ask each participant the same questions, but also allowed some flexibility to probe for elaboration or clarification on any given topic and alter the order of the questions depending on the conversation's path.<sup>6</sup>

Once all the interviews were transcribed, I categorized the data into three main groups: barriers to viable agricultural businesses, existing opportunities for western Montana producers, and strategies to improve the economic viability of agriculture in this region.

## **Meet the Participants**

The seven economists and economic development professionals I interviewed come from a wide range of backgrounds and professions. Rosalie Cates is the director of the Montana Community Development Corporation, which helps local businesses solve problems, write business plans, make financial projections, research the market, and obtain loans. Tara Comfort is a resource conservationist for the

Missoula Conservation District, working directly with farmers and ranchers in making ecological improvements to their land and helping them access loans and grants to fund conservation practices. Arnie Sherman is a market strategist for the Montana World Trade Center. Larry Swanson is a regional economist and the director of the Center for the Rocky Mountain West, which explores the region's heritage and

alternatives for its future. Paul Polzin is the director of the Bureau of Business and Economic Research and a professor of business management. Tom Power is an economics professor and the department chair at the University of Montana. He primarily works on development and natural resource economic issues. Jan

Tusick is a sheep rancher, program manager at the Mission Mountain Market and works at the Lake County Community Development Corporation, where she facilitates business planning and development—particularly in the fields of value-added processing and producer-owned cooperative business structures.

## Low Economic Returns & Development Pressure

Echoing Missoula County's producers, many of the interviewees discussed the interconnected relationship between farmland conversion and the low economic returns from agriculture in western Montana. That is, a central challenge to keeping farmland as working land is the struggle of making money from farming and ranching. Five economists and economic development professionals mentioned low and unpredictable incomes as barriers to viable production in western Montana.

Two economists cited data on the net profits of the region's agriculture, claiming it has been a losing battle for over 100 years. These low economic returns make it difficult to keep land in production, especially when, as the resource conservationist says, "you're sitting on a gold mine."

One economist also sees urban growth as a threat to the surrounding farms and ranches—not because development affects their income directly, but because it accelerates farmland conversion in the face of low returns. In Libby Hinsley's study (2004), nearly all of the producers interviewed thought

they could earn more money selling their land than by farming it over time.<sup>6</sup> Several economists and economic development specialists identified the high carrying costs of land as a challenge to entering agriculture or expanding existing operations.

The resource conservationist, who works directly with farmers and ranchers across Missoula County, explained some of the other ways our sprawling population threatens producers, including: a loss of businesses that serve farmers and ranchers, nuisance issues with new residents, vandalism, and increasing restrictions on agricultural activity, such as noise pollution and air quality concerns.

Many interviewees suggested strategies to deal directly with development pressure and reduce the carrying cost of land for producers—such as: smart growth policies, conservation easements, and cluster developments. Two other strategies for addressing high carrying costs of land for producers are assessing land at its agricultural value rather than its market value and providing public funding to help mitigate the carrying costs of land for beginning farmers.<sup>7</sup>

"You can make more money by far selling the land and residential home sites than you can selling vegetables or beef.... The biggest threat to the viability of agriculture in western Montana is just the growing population."

-Resource economist

"A lot of the ranchers and farmers' sons and daughters are not gearing up to take over the place. They are finding work that pays better."

-Resource conservationist

“The only way out (of economic hardship) is to get more focused on niche markets, which means selling locally or selling organic. Finding out what customers want rather than just selling it to some worldwide market, where your beef, your meat and your potatoes aren’t distinguishable from everyone else’s.... There’s a shift taking place, I think, in agriculture that ... may stabilize some of the agricultural operations.”

-Resource economist

“I can identify the counties clustered around population centers, and then I start running data on agriculture, and what do I find? I find profitable agriculture (near cities) and unprofitable agriculture (far away from urban areas). And what’s happening to farm size here is ... it’s going two different directions, (smaller near cities and larger in rural areas.)”

-Regional economist

“I believe (local food) is going to show some growth—particularly in the Missoula area, the more populated areas, where you actually have an urban center. I’m seeing some small growers actually digging out a niche for themselves.”

-Economic development specialist

## The Marketplace: Local versus Export

All participants discussed the marketplace, exploring the kinds of markets that are most lucrative for producers, and the various ingredients needed for farmers and ranchers to access those markets. The seven interviewees, however, did not unanimously agree on exactly what type of market would be most beneficial for producers in western Montana. Three of the interviewees think our small population base limits the degree to which farmers and ranchers can rely on local markets. For example, the business economist said we simply do not have enough people to support local farms and ranches. According to a market strategist, Montana ranks 50<sup>th</sup> in the nation for out-of state exports, and this is what hinders the economic viability of agriculture here. He said, “99.9% of the world’s consumers live outside of Montana. It doesn’t make much sense to aim all of our agricultural products to that 0.1%.” Three of the seven participants suggested that we need to strengthen our export markets to support agricultural businesses.

While some of the interviewees are skeptical about the degree to which local markets can support agricultural operations here, all but one identify local markets as an opportunity for some producers—especially for smaller agricultural operations and cattle ranchers, who face increasing consumer skepticism for beef products. As one economic development specialist said, an opportunity for beef “is about a market that people feel more intimate with, and that in some cases they actually visit the farm to get it, or the farmer delivers

it, or you buy it here at the Missoula market.” Within local markets, participants identified the Good Food Store, Farmers’ Markets, restaurants, and retail outlets.

In the regional economist’s view, local markets create opportunity back on the supply side. “Maybe the supply side can’t do what is possible unless there are those kinds of businesses around here that are working those markets,” he said. He compares this with American Wal-Mart stores creating factories in China. By simply selling tons of merchandise everyday, Wal-Mart outlets fuel those factories, and similarly, bolstering regional food markets might enable western Montana to realize its full production capacity. The regional economist added that we need local markets to become more mainstream for this to happen.

Three other interviewees mentioned the notion of a regional food supply, stating that the presence of an urban center—like Missoula—has the capacity to support local farms and ranches. Two economists claim that agriculture tends to be more profitable near urban centers, even though farms and ranches might operate on smaller parcels of land. The resource conservationist also discussed the increased opportunity for smaller agricultural operations to become economically viable near Missoula, though she also mentioned off-farm income as part of this. Thus, while the growing population threatens to subdivide agricultural land into pieces that are too small to run

viable agricultural businesses, less land may be required to turn a profit if producers can take advantage of the region's swelling population base as a market opportunity.

While six interviewees identified local markets as existing opportunities for producers, three think that we also need to strategically bolster and/or increase them. In the words of one economist, "We need more venues for local purchasing and selling." Participants mentioned various strategies to achieve this, including: establishing grocery stores in

residential areas, connecting local producers with larger institutions, and increasing on-farm retail outlets. The resource economist adds that one way to fund these retail venues is through the state Department of Agriculture, which has loans and grants for agricultural economic development. The regional economist thinks that new local markets are likely to be profitable enterprises, but potential business owners have not yet seen a working model, and once they do, he is optimistic that other local markets will spring up.

## Distance to Market: Transportation

Part of the local vs. export market debate is the cost of transportation. Three interviewees identified transportation costs as a barrier to the economic viability of agriculture in western Montana, claiming the physical distance to a large population base translates into higher energy costs for the product to get from the farm or ranch to a sizable market. This is one of the "three strikes" the business economist gave agriculture in western Montana. When asked if there was a solution to this long haul, he suggested, "If you can bring Spokane or Seattle closer to Missoula, so transportation costs are less, that might help." In other

words, this barrier is simply insurmountable, especially when coupled with a short growing season and a relatively small population base to support local markets.

While a few participants mentioned increasing transportation costs as a barrier, a regional economist distinguishes this as mostly a burden to industrial, commodity-based agriculture. In fact, he sees the rising costs to haul food all over the country as an opportunity for regional foodsheds, pushing communities to eat food that was produced closer to home, and thus supporting nearby farms and ranches.

## Value-added vs. Commodity Markets

Regardless of their views on export vs. local markets, many interviewees identify the commodity market as a significant barrier to the economic viability of agriculture. No one mentioned commodity

agriculture as an opportunity or suggested a need to bolster the market for raw agricultural products. Four participants, however, claim commodity markets threaten producers. As the market

"I'm kind of a conservative about local markets. ... In Montana, where we have fewer than a million people, you really think local markets are gonna work?"

-Economic development specialist

"Some producers are at a scale that they can market it all locally. But I think the majority of Montana's agriculture is at a level that we do need outside markets. So, our cattle industry is a classic. We could service a lot of our local markets if we had the infrastructure, the processing, and the distribution, but still we are one of the largest feeder cattle producers in the nation—some of the highest quality feeder cattle. I think they're gonna have to develop some other markets to move that type of volume."

-Economic development specialist

"The thing that's pushing this thing is energy costs, and we sort of looped back into looking into organic regional food markets way back in the energy crisis in the late 70s and early 80s. We're back into that world in spades right now."

-Regional economist

“There’s an economy of scale here. We don’t produce enough in western MT to support large processing plants. We can’t process food for the world market. There’s only so much you can do with the amount of land we have. However, there is a need to process agricultural products for local consumption so that it’s convenient to use and marketable.”

-Resource economist

“This business of sending your beef to Iowa, that’s killing producers all over Montana. It kills the ability to do any local marketing. A lack of processing is a barrier to doing anything very creative with beef right now, because you can’t get it processed in Montana.”

-Economic development specialist

“I mean, sheep farming, we’ve had our flush years, and we’ve had our really bad years. Now, if you could get into some kind of business venture that would give you a more consistent plain, wouldn’t that be a more lucrative path to follow?”

-Economic development specialist

strategist explains, the reason Montana is at the bottom of the export list—measured in dollars—is primarily because we haven’t developed the value-added sector. Over 90% of Montana’s agricultural exports leave the state as raw, undifferentiated commodities (i.e., not processed or value-added in any way).<sup>9</sup>

The way out of commodity-based markets is to add value to raw products via processing. Six of the seven interviewees suggest bolstering this sector to improve the viability of production agriculture. In the words of one economic development professional, “the opportunities kind of all fall into one category, and that’s moving from commodity to value-added.” The market strategist adds that “beef jerky is a great way to increase the value of beef. You know, it goes for \$20 a pound.” Two economic development specialists agree that beef is a commodity that western Montana growers could turn into a value-added product. The regional economist added that processing is an opportunity for local markets to overcome our short growing season by preserving food for the winter months.

While most see adding value to farm products as the heart of any strategy to bolster the economic viability of agriculture, three interviewees discussed certain barriers to processing in western Montana, including: fluctuating

## Cooperative Businesses

Many interviewees touted producer-owned cooperatives. As one economic development specialist explained, cooperatives can help producers research and

commodity prices, a lack of processing businesses and infrastructure, and the need for increased business skills and planning.

One economic development specialist, who works with businesses at an incubator kitchen to develop value-added products, discussed the challenge of establishing value-added businesses with fickle commodity markets. “When the commodity market is good” on any one product, “you don’t see this huge enthusiasm to pursue value-added agriculture.” She said commodity market prices tend to fluctuate in five or six year cycles.

Another barrier to value-added endeavors is the increased need for business skills and planning. For example, another economic development professional explains the producer’s quagmire of either having commodity prices determine their income or taking on the extra burdens of marketing, research and business planning that come with processing and local marketing. To address this challenge of increased business planning, market research, and capital needs, many interviewees point towards loans and grants, business training for producers, and cooperative business structures as strategies to develop the value-added sector and enhance the economic viability of agriculture in general.

respond to market demand. The market strategist added that a cooperative can help producers with unique brands to identify Montana products—mostly for

export markets. Another participant sees cooperatives as a way for producers to pool resources and make “sure your product is market worthy and ready.”

Three participants, however, noted that cooperatives currently face significant barriers. An economic development professional, for example, explained that many producers have a “single farm mentality,” and cooperatives require them to shift towards thinking as “bands of farmers.” The regional economist said the challenge for cooperatives is that they are not yet “mainstream,” and people perceive them as “culty.” Another interviewee sees the barrier to establishing producer-owned cooperative businesses is having to compete with commodity markets. When the commodity market is offering high prices for a certain product, farmers and ranchers lose interest in value-added and cooperative business ventures.

She also added that cooperative businesses in Montana are still young, and it simply takes time to establish a viable cooperative that can withstand fluctuating commodity markets.

While these barriers to cooperatives may be significant, six participants suggest increasing and bolstering viable cooperative businesses as a way to strengthen the viability of production agriculture. The following strategies were also mentioned: encourage cooperatives to be market-driven, meeting the demand rather than pushing a product; change the investment law, which limits non-producer investors by capping their potential profit at 8%; and increase producers’ business skills, which can help them research the market demand, balance their books, and access funding for economic development—such as value-added infrastructure or expanding their operations.

“But (co-ops) weren’t mainstream. As long as it was fringe, it was never going to be mainstream. Whereas, I think we need to figure out ways to make them mainstream.”

-Regional economist

“One farmer direct marketing beef might work, but you have to become a marketer; you have to identify a market. So, there’s lots of places around the country that are trying to do beef in cooperatives and form larger regional marketing consortiums.”

-Economic development specialist

## Business Training for Producers

Four of the economists and economic development professionals interviewed identified a lack of producer business skills as a significant barrier to their operations. As the market strategist put simply, “Most farmers and ranchers don’t know how to sell their products.” An economic development specialist thinks it is a barrier that so many different skills are necessary to run a successful agricultural business—especially when producers know how to grow food but not necessarily how to market and run a sound business.

Four participants discussed opportunities in the existing

programs for producers and food-related businesses to gain business training and access capital for land improvements and economic development. Such programs include: community development centers, small business development centers, local economic development centers, Rural Cooperative Development Center, and the Farm Service Organization. One economic development specialist named her organization as a resource, but admitted that they have not worked much with agricultural businesses. When I called a couple similar organizations, I was told that they

“So many of these business interventions require money.... Having some money that’s willing to take a risk is really helpful for people that are doing that. And making sure the money is predicated on solid business plans and something that’s really gonna work.”

-Economic development specialist

“Small agricultural operations in rural areas need some basic business skills that are going to increase the likelihood that they are going to survive.”

-Resource economist

“We don’t have any programs aimed at the viability of small-scale agricultural activities.”

-Resource economist

Even though they’ve got an agricultural rate, property taxes are a big factor.... Even though the cost per acre is less, it still adds up.”

-Resource conservationist

“Taxes are such a small part of total expenses ... that any changes in taxes would have a marginal impact on the overall operation.”

-Business economist

did not know much about farming and ranching businesses. Frequently, interviewees linked business skills and planning with being able to access capital—such as a loan—for economic development.

Five interviewees also discussed the challenges with programs that are aimed at the viability of agricultural businesses, including: a lack of such programs, producers

under-accessing them, inadequate funding, and subsidies and policies that support industrial agriculture in land grant institutions and extension services. Given these challenges, two interviewees suggest increasing producers’ access to these programs. The resource economist thinks the extension service and land grant institutions need to be re-oriented to serve small-scale operations with business training.

## Taxes

There was much disagreement about how taxes affect the viability of farming and ranching in western Montana and across the nation. One interviewee did not know how the current tax system applied to producers, but thought that property taxes could be detrimental to a farmer’s income, depending on how the land was assessed. Of the Missoula County producers surveyed in 2004, over 80% said property taxes were problematic.<sup>10</sup>

Three other economists and economic development professionals interviewed thought

taxes were barriers, but in different ways. Two participants discussed how the federal tax system influences the whole system. According to one economic development specialist, tax write-offs allow wealthy individuals to tie their capital to agriculture. The regional economist added federal income tax codes, not property taxes, are what have the biggest impact on producers, because the income tax structure pushes farmers to claim losses by expanding their operations, even when it is not in their best interest.

## Conclusion

While the small number of participants in this study limits the research, it does provides us with some valuable insights from the area’s economists and economic development professionals regarding how we might bolster the economic viability of agriculture in western Montana, and therefore allow farms and ranches to continue to grow food rather than houses and parking lots.

There was some debate on whether local or export markets could best support western Montana’s farms and ranches, but the underlying sticking point was whether or not we have the population base to eat enough of the region’s agricultural products. The relationship between our consumption and production capacities,

however, has not yet been quantified, and is clearly debatable at this point. Having a more grounded idea of what we can produce and consume, now and projected into the future, might help inform economic development strategies in the way they embrace export and local markets.

Interestingly, though, the interviewees largely agreed on the same strategies to bolster the economic viability of agriculture, regardless of the destined marketplace, local vs. export. At the core of all strategies, is adding value to our raw products. We simply need to bolster and/or increase value-added endeavors. This is not exactly a new idea; the market is obviously demanding processed food, and such value-added activities account for much of

the food sector's profits. While easy to recommend, actually creating processing opportunities in western Montana might not be so simple, and their comments regarding barriers, opportunities, and strategies within value-added endeavors are quite useful. To overcome some of the barriers to establishing value-added businesses, many economists and economic development professionals suggested increasing and/or strengthening producer-owned cooperative businesses and business training programs for farmers and ranchers.

Still, these economic development strategies are broad, and I do not think the research results provide enough level of detail to tackle the viability of agriculture in western Montana. First, we need to know more specifically how to make particular keystones materialize in the context of a vibrant agricultural food system. To do so, it would be useful to hone in on specific elements for feasibility studies. Nevertheless, there seem to be a few concrete ways to follow up on the research findings:

- Provide community development corporations with the resources to reach out

to agricultural businesses. As one economic development specialist said: it would not require much extra effort to target farmers and ranchers.

- Look into governmental programs and resources that fund and encourage value-added businesses, cooperatives, and business training programs.
- Continue to celebrate local food and educate consumers about eating locally in order to grow our local markets—even if we do not have enough people to consume everything the region can produce.

Especially interesting to me was the tension between whether the city is an opportunity or a threat to the region's agriculture. This theme emerged with most of the interviewees, and usually each person had conflicting views on it. That is, each could see that Missoula currently serves as both a threat and an opportunity, and perhaps more importantly, the city could unfold strongly as one or the other. It seems the larger question in front of us is: how can we facilitate population growth and economic development in ways that allow urban centers to be an opportunity rather than a threat to the viability of agriculture?

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The **Community Food and Agriculture Coalition** is a food policy council that aims to bolster food security in Missoula County, Montana. To learn more about CFAC, our current projects and background, visit us on the web: [www.umt.edu/cfa](http://www.umt.edu/cfa).