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# The Use of State Business Incentives to Support Agriculture

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Given its significant influence on U.S. Agriculture, the uncertainty surrounding the next Farm Bill has garnered great interest. This uncertainty may loom over the U.S. agricultural sector, but the federal government is not the only public sector actor that influences farm operators and agricultural businesses. State governments also create and operate programs that support and grow their agricultural sectors. In many instances, state governments use business incentives—in the form of loans, grants, or tax credits—to achieve a broad set of goals such as growing and diversifying their agricultural sector, promoting the use of more efficient technology, or reducing barriers for new farmers.[1]

This brief focuses specifically on how states use business incentives to support their agricultural sector. As a result, it draws on the *C2ER Business Incentives Database* to examine the wide range of state business incentives that support the agricultural sector. This searchable database includes information on over 2,000 state business incentive programs that states use to promote business attraction, retention, and expansion.[2] In order to illustrate the diversity of business incentives, we begin by examining the programs relevant to agribusinesses and farm operators. We focus primarily on the types of programmatic goals and objectives inspiring these programs. We, then, can review some regional differences in how states use these programs in support of agriculture.

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[1] We recognize the use—and often misuse—of business incentives to promote economic development can be a controversial subject. Those debates are outside the scope of what this brief covers. For a thoughtful discussion of these issues, we recommend Tim Bartik's 2019 book *Making Sense of Incentives: Taming Business Incentives to Promote Prosperity*.

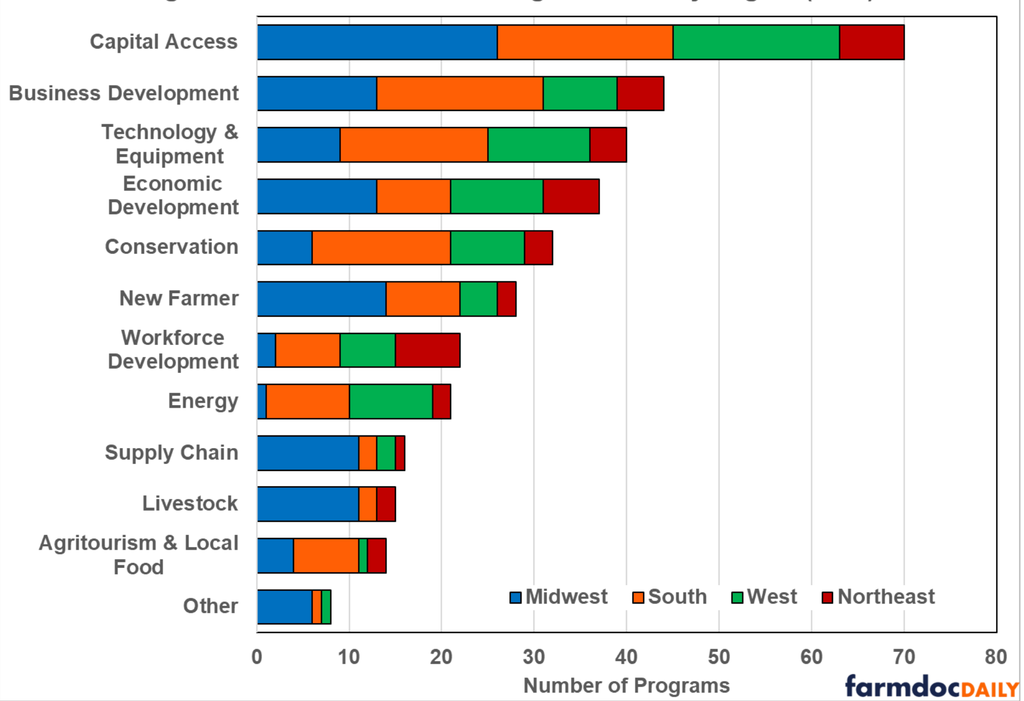
[2] The C2ER State Business Incentives Database is a national database created in 1999 by the Council for Community and Economic Research (C2ER). It currently contains descriptions and links to over 2,400 programs from all U.S. states and territories. In an effort to be both current and comprehensive, C2ER staff update the database twice a year to add new programs, update existing programs, or cut programs that are no longer supported/promoted. SelectUSA—the U.S. Commerce Department's programs designed to attract foreign investment provides some financial support for maintaining this database.

**States most commonly support agriculture through capital access programs.**

The *C2ER Business Incentives Database* shows that there are almost 350 active incentive programs that in some way support agriculture.[1] Some incentive programs are specific to agriculture, while others address broader issues that are relevant to agricultural businesses. States most commonly structure these incentive programs in the form of loan programs, and to a lesser degree as grants, tax credits, or tax exemptions. Broadly speaking, agricultural businesses use these programs to make it easier to purchase goods and assets, or invest in more effective production processes (Battle, 2023).

To better understand these programs, we categorized them according to their primary goals and objectives. It is important to note that these programs can achieve multiple goals, so these distinctions are not always hard and fast and often multifaceted.[2] **Figure 1** shows that among all state business incentives supporting agriculture, capital access was the most common programmatic goal followed by business development, technology and equipment usage and adoption, and economic development.[3] Below we define these goals and highlight some representative state programs.

Figure 1. Business Incentive Program Goals by Region (2023)




- **Capital Access** programs provide financial resources to farmers and agribusinesses so that they can sustain and grow their operations. These programs often use various types of loans, debt restructuring tactics or credit offerings so agribusinesses can make new investments; capital for operating funds is often ineligible. The Illinois Agri-Debt Restructuring Guarantee Program, for example, helps farm operators manage their existing debt by providing reduced interest loans allowing them to consolidate and spread-out debt over a longer term. Other capital access programs provide the capital necessary to grow and expand locally important agricultural

[1] The database classifies programs according to the NAICS industries targeted by these programs or eligible to take advantage of the program. The programs discussed here are all the programs affecting businesses within NAICS 11—Agriculture, Forestry, Fishing and Hunting. This list is also not necessarily exhaustive, as there are other state efforts (e.g., expanding rural broadband) that benefit agriculture but are nevertheless not included in this analysis.

[2] As an example, Kansas' Swine Facility Improvement Credit program provides greater access to capital, however, its primary goal is to help grow the state's swine industry. As a result, we classified it primarily as a livestock program.

[3] The states included in each region is based on the U.S. Census Bureau's regional definitions.

activities (e.g., commercial fishing in Alaska, aquaculture in Hawaii or Maryland, wood products in Montana).

- **Business Development** programs promote more sustainable farms and agribusinesses by encouraging them to pursue new market opportunities and more diverse activities. For instance, Maine's Potato Marketing Improvement Fund supports efforts by the state's potato growers and packers to increase the quality and marketing of their potatoes and make the state's potato industry more viable. By contrast, Kentucky's Diversification through Entrepreneurship in Agribusinesses Loan program pursues a broader goal by providing resources to help individuals diversify their farm operations through non-traditional agricultural production or services.

- **Technology and Equipment** programs enable farm operators and agribusinesses to adopt and use new technology and equipment. Often this involves exempting farm operators from paying sales and property taxes when they purchase certain types of farm equipment and machinery. These programs may also support research into new technologies. For example, Montana's Noxious Weed Trust Fund grants support research and development efforts for new and innovative weed management techniques.

- **Economic Development** programs go beyond just supporting agricultural production by also incentivizing programs and projects that enhance the vitality of local communities. For instance, Missouri's Value-Added Agriculture Grant Program provides grants for projects that both add value to Missouri agricultural products and aid the state's rural economy. In other instances, rural development, more broadly, is the primary goal. The Michigan Department of Agriculture and Rural Development offers rural development grant opportunities for projects related to infrastructure and business development for qualifying land-based industries (e.g., agriculture, forestry, mining, outdoor recreation and tourism).

- **Conservation** programs are motivated by the need to conserve natural resources and protect the environment as well as sustain the economic viability of agricultural businesses. As a result, these programs allow farm operators and agribusinesses to invest in equipment that reduces carbon emissions or improves soil and water quality (e.g., Virginia's Conservation Tillage Equipment and Precision Agriculture Equipment Credit).

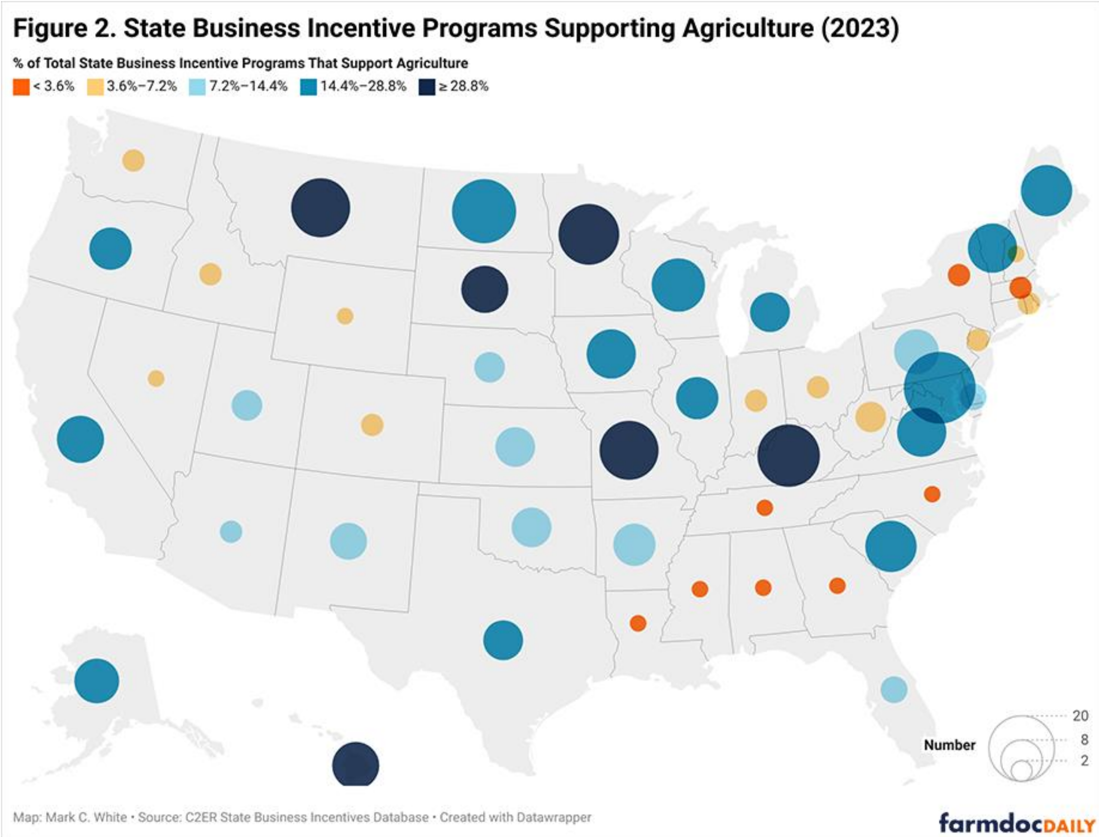
- **New Farmer** programs strive to ensure beginning and/or minority farmers can run a successful business. These programs can be found in states of the Midwest and Plains like Illinois, Iowa, Minnesota, Missouri, and North and South Dakota where concerns about agricultural retirements and farm succession planning are particularly acute. They are also in smaller states like Hawaii and Vermont where there is a keen interest in specialty crops and local foods.

- **Workforce development** programs contribute to the agricultural industry through training, incentives for job creation, and worker recruitment. In some instances, these programs target specific types of workers (e.g., West Virginia's Veterans and Heroes to Agriculture program) or specific industries (e.g., Maine Logging and Forestry Education Grant). By contrast, some programs do not specifically address agriculture but rather they pursue broader rural development goals (e.g., Utah Rural Jobs Program). In these instances, agricultural businesses may be eligible, but so, too, are businesses from other sectors such construction or manufacturing.

As Figure 1 shows that, albeit in smaller numbers, there are also programs that promote agritourism and local food, grow livestock and dairy operations, strengthen the supply chain (often by increasing the state's meat processing capacity), and reduce energy costs. It is important to reiterate that many of these programs pursue multiple goals. As a result, these categories are not necessarily mutually exclusive, but they do highlight what states try to accomplish through their agriculture-related business incentives.

**The number of business incentive programs that support agriculture varies by state**

**Figure 2** shows agriculture-related business incentive programs by state, both in terms of the number of programs (circle size) and the share of those programs within the state's overall portfolio of business incentives (circle color). Several midwestern states have more ag-related business incentive programs, relative to other states. In these states agriculture remains a critical and politically important part of the state economy. For instance, more than a third of all business incentive programs in South Dakota, Minnesota, and Missouri relate to agriculture.




Federal programs support the production of the major agricultural commodities (e.g., corn, soybeans, wheat) where political support exists across multiple states. However, states with unique agricultural sectors are more likely to have greater need—and greater local political support—for more locally specific programs. For instance, most of Alaska's business incentive programs speak to commercial fishing and/or aquaculture.[1] In many southern states, federal agricultural programs support many of the region's main commodity producers (e.g., cotton, rice, peanuts, poultry), but there are few state programs relative to other states. The relative lack of state programs is likely because the smaller producers in these states have less political influence relative to large commodity producers. Moreover, the state's overall portfolio of incentives is more designed to attract and grow other industries like manufacturing.[2]

There are also differences in how states support business generally. For example, Maryland has the most incentives relevant to agriculture, but according to the C2ER Business Incentives Database it also has the most business incentive programs generally. It is important to note, however, that even if states do not offer extensive business incentives for farm operators and agribusinesses, they can still use other types of programs to support their agricultural sector. For instance, states can leverage national programs (e.g.,

[1] It should also be noted dominant industries are not always supported by targeted business incentives. For instance, livestock is a dominant agricultural activity in the Plains, but those states do not necessarily have livestock-related business incentive programs in part because broader agricultural support programs—both in those states and federally (e.g., grazing on BLM land)—support those industries. Similarly, in the Midwest state business incentive programs do not specifically target corn production because in those states corn production is synonymous with agriculture. As a result, corn producers are supported by the broader agricultural programs.

[2] For instance, Mississippi and Georgia both only have one business incentive program relevant to agriculture, but at least 10 programs that support manufacturing.

Broadband expansion through USDA Rural Development programs), support farmers as individuals rather than businesses, invest in agricultural education, or waive regulatory fees.

**Farm operators and agribusinesses can benefit from their state's relevant business incentives**

The discussion above does not answer questions about the size, effectiveness, or relative usage of state business incentive programs. However, it does provide some indication about how different states use some of their resources to support agriculture-related businesses. Given the availability of these resources, farm operators and agribusinesses should familiarize themselves with their state's relevant business incentives programs to see how these programs could potentially help them grow or expand their respective businesses.

State departments of agriculture are often the first place to look for these programs, but these programs are also offered through state departments of economic development, natural resources, or finance. Business and financial services providers such as Small Business Development Centers or local banks and farm credit organizations may also have experience helping farm operators and agribusinesses access these state resources.

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