

Building Louisville's Local Food Economy: Strategies for increasing Kentucky farm income through expanded food sales in Louisville

FINAL REPORT – EXECUTIVE SUMMARY



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In September 2007, the Economic Development Department of Louisville Metro Government, in conjunction with local collaborators, retained the consultant team of Market Ventures, Inc. and Karp Resources (“MVI/KR”) to study the potential for increasing sales of locally grown and produced foods in Louisville. The premise of the study is that Louisville, as the state’s largest population center, has the potential to increase substantially the amount of food purchased from Kentucky farmers. The primary goal of the study has been to identify strategies that will most effectively increase Kentucky farmer income through new or expanded sales to Louisville consumers, businesses and institutions. In addition, the team has considered strategies that have additional benefits besides farm income, such as the community revitalization effects of farmers’ markets or the impact that a downtown public market might have on attracting tourists.

Over the course of the study period, the MVI/KR team studied the city’s existing food economy, the present state of Kentucky agriculture, and current initiatives at the local and state level. Through its research and analysis, the consultant team sought to identify the highest potential opportunities for increasing sales of locally grown and produced foods through the city’s various food sectors, including retail, restaurant, wholesale, food processing and manufacturing, institutional food service, and emergency feeding. The team then developed strategies that address the myriad ways that food intersects with the local economy and developed recommendations for making targeted investments, altering public policies or private practices, and undertaking new initiatives that will link or stimulate local supply and demand, as well as address needed infrastructure to support food sales from local farmers.

Principal research methods included key informant interviews, review of secondary data and reports, and focus groups with a diverse group of 90 farmers from the 13 county region around Louisville.

Snapshot of Louisville food economy

Louisville’s 700,000 residents represent \$1.60 billion in demand for food purchased for *at-home consumption* in 2007; this number is expected to grow to \$1.79 billion by 2012. The demand for fresh produce is \$137 million, growing to \$157 million by 2012, while the demand for meat is \$234 million, growing to \$256 million by 2012. The current demand for food purchased for *consumption away from home* is \$1.39 billion, growing to \$1.69 billion in 2012. Combining the estimated demand for food purchased for at-home and away-from-home consumption, the total demand for food at the consumer level is approximately \$3 billion per year.

The vast majority of retail food sales take place in supermarkets, which represent 86% of sales. In 2002, supermarkets and grocery stores in Louisville sold approximately \$122 million of produce, \$110 million of dairy and \$171 million of meat/fish/poultry. Based on typical gross margins, annual purchases made by supermarkets and groceries from their suppliers equal about \$80 million for produce, \$77 million for dairy, and \$103 million for meat/fish/poultry, for a total of \$259 million.

Both visual inspection and interviews with local industry representatives confirm that locally grown and produced foods are sold in Louisville supermarkets. However, neither supermarkets nor the wholesalers and distributors who supply them compile information about the amount of

locally grown foods that enter that channel. The Kentucky Department of Agriculture (KDA) has made a significant investment in its Kentucky Proud brand and is working closely with the largest supermarket chains, Wal-Mart and Kroger, to increase the amount of products labeled Kentucky Proud in their stores. State-wide, KDA estimates retail sales of Kentucky Proud products at \$80 million.

In 2007, 17 farmers' markets operated in Jefferson County and at least three new ones are expected in 2008. These markets operate independently and are often located in church parking lots or other small public spaces. All of the farmers' markets are seasonal, one or two day per week operations. Total annual sales of local foods at these farmers' markets are estimated at \$3.6 million.

The project team identified eight community-supported agriculture (CSA) farms that distribute within Jefferson County, supplying 451 shares. Most of the CSA farms distribute at farmers' markets, where they also sell to retail customers. Based on an average cost per share of \$450, Jefferson County CSA farmers generated \$202,950 in annual sales in 2007.

There are 442 full service restaurants in Louisville, with sales of \$423.5 million. Restaurants in the city purchase about \$25 million worth of produce each year and \$64 million worth of meat/poultry per year. A number of Louisville's most acclaimed restaurants already purchase local foods.

The Jefferson County Public School system (JCPS) serves approximately 58,000 lunches, 24,000 breakfasts, and 1,800 snacks every day, plus 10,000-12,000 meals per day during the summer months. JCPS operates a centralized facility that prepares meals for the entire system, which are then delivered to individual schools. However, cafeteria managers in individual schools place their own orders for fresh fruits and vegetables. The central kitchen commissary has ample cold and dry storage capacity as well as a baking division and equipment for large scale food production, but it has neither the staffing capacity nor the equipment to clean and cut fresh produce.

JCPS leaders noted that the snack program could provide an opportunity for more local purchasing of fresh fruits and vegetables. This program is expected to grow from 1,800 snacks a day to 2,200-2,500 in SY2008-09. At present, food costs are \$0.40-0.50 per snack and the total purchasing budget for snacks is about \$200,000.

The University of Louisville has 12 different dining options on campus, all operated by the food service company Chartwells. Approximately \$1.9 million is spent on food for these venues each year. The campus also includes a University Club, which is managed independently. The University has demonstrated a strong interest in on-campus sustainability and local food. In the 2007-2008 school year, the University amended Chartwell's contract, requiring the company help the University achieve its goals of using at least 10% locally grown produce.

Jefferson County's eight major hospitals and two correctional facilities serve over 15,500 meals per day, including food for patients as well as cafeteria offerings for staff and visitors. Three national food service providers, Morrison Management, Aramark and Sodexo, manage all food programming in these institutions.

Emergency feeding providers include Kentucky Harvest, a volunteer-run food rescue organization, and Dare to Care, which receives most of its food through USDA's Emergency

Food Assistance Program and food donations from area food businesses, including fruits and vegetables from the Louisville Produce Terminal and the Gordon Foodservice Distribution Center. To date, Dare to Care has never purchased produce directly from farmers but the organization plans to budget an \$800,000 for food purchases in order to provide more fresh foods.

On the wholesale level, there are 97 grocery and related produce merchant wholesales in Louisville with sales of \$1.3 billion. 58 firms are engaged in food manufacturing in Jefferson County with sales of \$1.321 billion.

Snapshot of Kentucky agriculture

Kentucky has 84,000 farms, the fifth largest number of farms per state in the country. The top farm commodities include horses, broilers, cattle and calves, tobacco and corn, which account for 75% of all sales. Vegetable crop receipts equal about \$23 million. The principal growth in farm cash receipts over the past 25 years has come from the livestock sector, with the crops sector remaining fairly flat over this period.

Among farmers who grow fruits and vegetables, direct marketing has emerged as the dominant marketing channel, particularly the use of farmers' markets. The number of farmers' markets in Kentucky has tripled over the past 10 years and farmers' markets account for about one-quarter of all Kentucky farm fruit and vegetable sales.

Farms represent an important cultural dimension in Kentucky. Key informants indicated the close relationship that many people in Kentucky, including city dwellers in Louisville, feel to farming and that most Kentucky residents are only one or perhaps only two generations removed from farming. Although Kentucky has undergone a profound shift toward urban/suburban residents, the close connection between citizens and farming creates bonds of understanding and appreciation, and with it potential to develop local foods strategies that make direct, emotional links between urban residents and foods grown in the state.

The 23 county region around Louisville contains 20,014 farms, or 23% of the state's total. The most prevalent commodities are cattle and calves, followed by tobacco. Farms that grow primarily fresh produce represent only about 2% of the total.

There is currently limited processing infrastructure to slaughter, butcher or further process animals for the state's numerous small and medium scale producers, many of whom prefer to retain ownership of their animals through slaughter. Leaders within KDA and researchers at UK identified a need for increased meat processing infrastructure in their research and in interviews with the consultant team.

Agri-tourism is growing in popularity. The state's the Office of Agritourism inventoried 268 agritourism businesses in Kentucky, with 35 businesses in the Louisville-Lincoln region, including farms, distilleries, wineries, agri-entertainment and other categories.

Throughout Kentucky, government agencies, universities, nonprofit groups and private firms operate a wide range of programs that impact farmers. Some key agriculture programs and supporting assets include: KDA's Kentucky Proud, farmers' market, and restaurant rewards programs; the Cooperative Extension Service and various initiatives of the University of

Kentucky and Kentucky State University; Farm Bureau; and the Kentucky Agricultural Development Board.

Strategies

Based on its research for this project and its previous national experience, the consultant team identified 13 separate strategies that address four types of opportunities: direct retail, wholesale, infrastructure improvements, and farm-based. These 13 strategies were presented to farmers during the focus group interviews to determine which strategies have the most support from the region’s farmers and to hear their ideas and concerns about the development of any new initiatives aimed at increasing farm income by selling to Louisville buyers.

Based on “dot voting” at the focus group meetings, the farmers scored the 13 strategies in the following order:

Strategy	Type	Score
Agritourism	Farm-based	66
Meat Processing	Infrastructure	66
Farmers' Markets	Retail	63
Indoor Public Market	Retail	61
Local Distribution Company	Wholesale	41
Restaurants	Wholesale	40
CSA	Retail	29
New Farmer Development	Farm-based	21
Wholesale Farmers' Market	Wholesale	17
Food Processing	Infrastructure	8
Schools and Institutions	Wholesale	-30
Branding / Packaging	Infrastructure	-33
Supermarkets and Chain Buyers	Wholesale	-46

The top seven strategies recommended for further study and/or implementation include:

Farmers’ markets coordination, expansion and marketing

The ability to significantly expand the amount of Kentucky grown foods sold at farmers’ markets will benefit from increased marketing and the creation of an organizational and management infrastructure that drives planned growth. Any efforts to encourage increased

centralization of the farmers' markets must recognize the independence that has guided the farmers' markets to date and should build on the recent efforts to encourage greater cooperation.

The value of professional management and marketing services will need to be proven to the participating farmers and the sponsoring organizations. Therefore, it is recommended that an initial investment be made to support marketing and farmers' market coordination for a 3-5 year period. Representatives from the various markets should be encouraged to participate in a coordinating body that works to develop common rules and a marketing program, assisted by a professional marketing firm. Over time, the value of increasing sales for farmers should be reflected in higher charges for rent and marketing fees, which will allow this strategy to be self sustaining following an initial investment period.

20% growth in farm sales from new marketing initiatives and improved operations would mean \$720,000 in additional sales for Kentucky farmers. Adding five new farmers' markets would mean \$1,080,000 additional sales to Kentucky growers. Together, increasing per market sales and adding new markets could offer nearly \$2 million in sales to regional farmers.

Create a year-round, indoor public market in downtown

Public markets are typically envisioned as a vibrant market hall or district where independent, locally-owned businesses feature food from the region, with an emphasis on fresh produce, meat, poultry, seafood, baked goods, dairy, and specialty food items, plus prepared food for both take-out and to eat on-premises. Some public markets also have a strong wholesale or food production component. Public markets create an important public place within the community, where residents of the city, the region, and tourists all mingle in an architecturally compelling space. They can also be places to promote local foods and educate both consumers and producers about food, food systems, sustainable growing practices, health, nutrition and fitness, and related topics.

The most important factors that determine public market success include a great site, a supportive and compelling physical environment, a culture of public market shopping, professional management, and great vendors. The demand analysis suggests that the retail component of a public market in Louisville can be up to 31,000 gross sf.

Given the somewhat small population base in Louisville and the challenge of finding experienced retail vendors, the concept for a downtown public market should integrate elements of both a combination wholesale/retail environment and a market district. Integrating food businesses that have a strong wholesale trade and creating a facility that supports wholesaling and food production in addition to retail will provide a better foundation for a public market than a retail-only facility. The market district concept seeks to brand a variety of buildings and public spaces as the public market and has common management and marketing that ties the various properties together.

A successful public market in Louisville would be expected to provide about \$5.1 million in sales to Kentucky farmers, while providing small business development opportunities and jobs and a permanent showcase for Kentucky foods.

Community Supported Agriculture

To strengthen and increase the amount of CSA shares sold to the Louisville region, efforts could be made to utilize collaborative marketing, partner CSA farms with local emergency food providers, local businesses, and institutions (such as hospitals) to create institutional CSA shares, expand the number of CSA farmers by investing in internship and apprenticeship programs, encourage existing CSAs to expand their product mix to include meat and dairy, and increase member involvement. Doubling the number of CSA shares in Louisville would result in \$203,000 in new income to Kentucky farmers. Twenty institutional CSA shares at \$3,000 per share would result in \$60,000 in new income to Kentucky farmers.

Local foods distribution company infrastructure

Place are needed to aggregate and distribute products from farms in the region. Distributors said that they have trucks running throughout the region and often have room on their way back to Louisville, if there is a convenient place to pick up product. The proposed strategy is to build cold storage facilities at centralized locations along established trucking corridors throughout the region, which would serve a large number of smaller farmers. Possible locations include Cooperative Extension facilities, which are usually centrally located and often have substantial space, good access and parking. With minimal facility improvement or additional infrastructure (in some cases simply the construction of a free standing exterior walk-in cooler), farmers could pay a small fee to store their products there and private distributors could pick up their products on their way back to Louisville. Cooperative Extension staff could help coordinate the effort.

If five aggregation points were strategically located in the region and could supply three trucks a week with 10 pallets per truck for 20 weeks, then these facilities would help facilitate the movement of 3,000 pallets of local food each year.

Restaurants

A local food restaurant strategy would increase Louisville's stature as a top class dining city, focusing on regional identity of products grown and served in restaurants. Importantly, it would require no infrastructure other than web and graphic technology and staff with the knowledge and ability to build rapport with producers and restaurateurs. The focus of this strategy is to increase local foods in Louisville restaurants by raising awareness among urban residents of foods produced in the region and building the supply of locally produced foods that are marketed and sold to restaurants.

Potential elements include:

- Seeking commitments from local restaurants to purchase increasing percentages of their food and wine from local sources, and creating a recognition system to identify and promote those restaurants based on their achievements.
- Funding a "public interest broker" whose job is to broker deals that mutually benefit Kentucky growers and Louisville buyers.
- Developing and implementing a "Certified Local Food" qualification system.

- Developing a public advertising campaign that encourages consumers to frequent restaurants that feature local foods and promoting restaurants that feature local foods at events such as the Kentucky Restaurant Association’s annual Taste of Louisville event.
- Developing gas credits or other business tax benefits that provide an incentive to distributors to support purchasing and distribution of local foods.
- Identifying land that could be a potential site for farms or gardens for restaurants.

Modest commitments from Louisville restaurants in purchasing locally grown produce and meat could lead to Kentucky farm sales of about \$750,000.

Meat and poultry processing facility

Focus group participants were strongly attracted to developing more meat and poultry processing infrastructure, some based on their own needs and some because it seemed the strategy that would have a great impact. It tied for first place among focus group participants.

Louisville officials could team with neighboring counties to advocate for and perhaps help fund the creation of new meat and poultry processing facilities in neighboring counties. Incentives to draw new businesses could be created and infrastructure to support the facility could be supported or subsidized. Custom processing and butchering services were identified repeatedly as a need and could, more easily than slaughter facilities, be located within Louisville, perhaps as part of the public market facility.

Agritourism

Farmers in the focus groups ranked agritourism as the most popular concept (tied with meat processing), in part because of the long-term benefits of agritourism for educating the public about regional food and agricultural issues. Farmers liked the prospect of increasing on-site sales by “bringing people to the farm,” allowing farmers the opportunity to stay on their farms rather than spend time at farmers’ markets or other off-site places. Overall, there was a sense among the focus groups that statewide efforts to promote agritourism are headed in the right direction and should continue.

A program to strengthen agritourism around Louisville could include:

- Advertising to Louisville’s media markets.
- Linking agritourism to existing tourism and convention and visitor’s bureau efforts by promoting the area’s diverse agriculture venues as an appealing destination and increasing the connection to existing tourism agencies.
- Expanding school trips to local farms and connecting curricula to the local food supply.
- Partnering with KDA and its Division of Agritourism, as well as other Cooperative Extension and other groups, to develop a broad range of products and activities to promote regional farms to Louisville residents and tourists.
- Exploring legislative reform to promote the agritourism industry and limit liability exposure.

- Leveraging in-city programs such as farmers' markets, CSAs, and restaurants that buy local to promote on-farm activities and linking these with maps and promotional materials.

Recommendations

The chart below shows each strategy as ranked by the farmers in the focus groups, an initial ballpark estimate for the costs to implement in the first three years, potential sales that could go to Kentucky farmers, and an Investment Return Ratio, which is the estimated three year return to Kentucky farmers divided by the estimated three year investment cost of the strategy. In terms of greatest dollar potential, the public market, meat and poultry processing facilities, and expanded farmers' markets are the top three strategies. The second chart outlines some non-monetary benefits as well as some challenges which may limit development or implementation.

In terms of best investment return ratios, the top three are farmers' markets expansion and marketing, restaurants, and aggregation points:

Strategy	Farmer rating	3 year investment estimate	3 year return estimate to KY farmers	Investment return ratio
Downtown public market	4	\$ 11,000,000	\$ 15,300,000	1.4
Meat and poultry processing	1	\$ 5,000,000	\$ 15,225,000	3.0
Farmers' market coordination and marketing	3	\$ 900,000	\$ 5,400,000	6.0
Aggregation points for local foods distribution	5	\$ 795,000	\$ 3,300,000	4.2
Restaurants	6	\$ 450,000	\$ 2,250,000	5.0
Community Supported Agriculture	7	\$ 450,000	\$ 789,000	1.8
Agritourism	1	\$ 450,000	\$ 600,000	1.3

Strategy	Community benefits	Challenges
Downtown public market	Education, 7 day access to local fresh foods, small business opportunities, jobs, tourism, attract shoppers downtown	Requires private sector investment and leadership; attracting quality vendors
Meat and poultry processing	Jobs (particulary butchering at public market)	Licensing, siting/permitting, identifying qualified operator
Farmers' market expansion, coordination, and marketing	Public space activation, more community gathering spaces, consistent messaging and information, education	Potential hesitancy from existing farmers' markets about losing independence; availability of interested farmers
Aggregation points for local foods distribution	Strengthens food distributors in Louisville	Gaining collaboration from Coop Extension; farmer ability to increase production; liability issues
Restaurants	Strengthens indepent restaurants and food/dining identity of Louisville	Overcoming restaurateurs' time constraints
Community Supported Agriculture	Community connections	Recruiting farmers
Agritourism	Education, tourism development	Policy barriers (insurance), transportation costs and coordination

The MVI/KR team recommends that multiple strategies be pursued concurrently rather than selecting only one or two for implementation. The private sector should be encouraged whenever possible to assist with the planning and implementation of the strategies, and the strategies should reinforce existing food production and distribution infrastructure, building off current assets. Finally, the team recommends that a regional approach will be most effective in implementing the strategies, including the wide range of organizations that have resources and experience to bring to the table, including Louisville Metro government, local government in surrounding counties, KDA, Cooperative Extension, the universities, Farm Bureau, and the variety of nonprofits engaged with food and farming issues.

Having one regional, lead organization to oversee the implementation for the various strategies will provide efficiencies in staffing and marketing, plus better coordination of the

efforts and consistent methodologies to track implementation and evaluate outcomes and impacts. The key tasks for this region-wide organization include:

1. Marketing and coordinating farmers' markets throughout Louisville and the region, through increased advertising and special events that will attract more customers, by working to centralize and professionalize the management of the farmers' markets, and by planning the development of new markets in a coordinated way.
2. Creating the position of a "public interest broker" to work with wholesale buyers, including institutions, emergency feeding organizations, food distributions companies, and restaurants, as well as farmers, cooperatives, and packers.
3. Working with private developers to develop a public market in downtown Louisville, particularly with recruiting farmers and vendors, and with marketing.
4. Supporting the development of regional distribution and processing infrastructure, in particular the highly desired additional meat and poultry processing in the Louisville region and the creation of regional cold storage distribution hubs, potentially at Cooperative Extension facilities in neighboring counties.
5. Supporting the state's agritourism efforts and work with Louisville-based educational institutions and tourism agencies to promote local and out-of-state tourism to the region's farms.
6. Developing the restaurant promotion program, working closely with Louisville restaurateurs who have experience buying directly from farmers and promoting their products on the restaurants' menus.
7. Expanding and promoting CSA's to both retail and wholesale customers, potentially linking distribution to existing or newly developed farmers' market sites.

In addition to implementing the seven top strategies, this effort could include promotional and policy efforts to encourage Louisville residents and visitors to purchase and eat locally grown foods. These could include:

8. Developing an "Eat Local" campaign aimed at Louisville residents, promoted by the Mayor and other local officials. This effort can build off of the accomplishments, communications infrastructure, and branding of the Mayor's Healthy Hometown Movement.
9. Creating a portion of the Eat Local campaign to be aimed at restaurants, thereby encouraging and formally recognizing restaurants that purchase the most locally grown foods.
10. Extending the Eat Local campaign to local public policy, requiring any food service contracts entered into by local government to have a local foods provision.
11. Developing policies and programs to encourage farming and gardening within Jefferson County, including the potential for developing an Intervale-like education facility.
12. Encouraging education about local foods and farming throughout the educational sector.

The organizational capacity to implement these tasks will likely take time to develop. Initially, the Local Food Economy Work Group can look toward the identification and assignment of existing resources, including personnel, as it continues to build local partnerships. This group will need to make decisions about how the work will get done and determine where it will focus its efforts.

Ideally, implementing the seven strategies recommended above will require an entity to organize the regional partnership, staff to provide leadership and conduct work tasks, and adequate resources to fund the initiative. The MVI/KR team recommends that an organizational “home” for local foods projects be identified that represents the approximately 23 county region in and around Louisville.

Several of the proposed strategies require capital investments, such as the indoor public market, the aggregation point facilities, and the meat and poultry processing facilities. These strategies will likely require a mix of public and private funds and should have strong private sector leadership, supported by the proposed regional partnership.

The Louisville region has a significant opportunity to expand the sales of locally grown foods in the city. The study identified tremendous interest in purchasing locally grown foods from all sectors of the local food economy, including consumers, restaurateurs, retailers, wholesalers, institutions, and distributors. The farmer focus groups revealed strong interest among the region’s farmers to expand their sales in Louisville, particularly by selling directly to consumers.

Louisville can lead the nation in creating a comprehensive approach to expanding sales of locally grown foods throughout its food economy. This effort will reinforce the city’s other innovative strategies, including its health and wellness initiatives, tourism promotion, business and job development, and enhancements to quality of life in downtown and throughout the city. The research, analysis and recommendations in this report should provide the foundation and strategic direction for expanding the sales of locally grown foods in the city.