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JACK DALTON

Senior Vice President, Chief Credit Officer
Five Star Bank

Jack Dalton joined Five Star Bank in 2011 as a Senior Vice President, Chief Credit Officer. Today, Jack has more than 40 years of experience in the lending and banking industry, with significant focus on agriculture and ag-tech lending. He was pivotal in the formation of Stockmans Bank upon its merger with California Livestock PCA. There, Jack grew the commercial/agricultural lending loan portfolios and was promoted to Senior Vice President, Chief Credit Officer. Jack is an experienced cattle rancher who owns, manages and runs a 100 head cow, calf and hay ranch in Galt. He is also active in a family-owned, 100 acre almond orchard in Sacramento County.



DALE STERN

Partner / Co-Chair, Food & Agriculture Group
Downey Brand LLP

Dale Stern is a partner at Downey Brand and co-chair of the firm's highly regarded food and agriculture practice, which is known for its deep industry expertise on a spectrum of issues from food labeling and packaging to pesticide regulations and drift litigation, and from water supply and water quality compliance to estate and succession planning.

Dale has more than 30 years of experience providing business and regulatory counsel to major agricultural producers, processors, and retailers throughout the state. He serves as general counsel to many of the industry's trade associations and charitable foundations and represents his clients' interests in complex transactions and in regulatory settings before state and federal agencies.



TRISH KELLY

Moderator, Managing Director
Valley Vision

Trish is a Managing Director at Valley Vision, leading portfolios in food and agriculture, workforce development and broadband. Bringing a depth of expertise in economic research, policy, and project implementation, she has helped elevate the profile of the region's food and ag economy, from promoting ag tech entrepreneurship and innovation to addressing critical workforce skills gaps and food insecurity and advancing Farm to Fork. Trish serves on several advisory bodies for regional food and ag organizations. In 2017 she received the Golden Bear Award for Lifetime Achievement from the California Association for Local Economic Development, and a Women Who Means Business award from the Sacramento Business Journal.

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Panelist from left to right: Jack Dalton of Five Star Bank, Trish Kelly Moderator, and Dale Stern of Downey Brand LLP

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The Sacramento Business Journal held a round table discussion on May 11th featuring panel experts and a moderator who discussed the business of agriculture, the challenges, the opportunities, and what’s ahead for this multi-billion dollar industry and the next generation of farmers.

TRISH KELLY: I’d like to start with Dale and go for an overall question. What is the impact of agriculture on the California and Sacramento economy in general and the importance of the industry?

DALE STERN: Agriculture generates about \$100 billion dollars each year in California – depending on the calculus you use. Agricultural production generates over \$46 billion dollars a year, a number known as “farm gate” sales. However the full economic impact is much higher. For instance, if a farmer sells fresh apricots to a second California company which then makes them into jam or dried fruit and sells them again, that has added economic value. The annual number including those “value added” sales tops \$100 billion. And the impact widens from there. Think of

all the businesses that support agriculture—like ours. No matter how you add it up, agriculture is a major economic driver in the state and in our region, and has been for much of our history. While there are pressures on the industry, I still see a tremendous opportunity for agricultural growth and expansion of different types of agriculture in the Sacramento region.

TRISH KELLY: Going to Jack, how diversified is agriculture in the region? What kind of changes have you seen over time?

JACK DALTON: Sacramento Valley agriculture is diversified for several reasons. One of the most important is its climate; it has a long growing season and allows for winter forage double cropping (compared to the Midwest which is limited to a 90-day growing cycle with one crop per year.)

In addition, good soil types, farming practices, efficient irrigation technology and the ability to capture and store quality water during the rainy season, allow us to provide a wide diversity of food types which has proven to be an absolute benefit to the consumer.

As to change, the flat topography in the Sacramento Valley is contributing to urbanization- consuming farm land that was once used to grow food. This simply means there is less land on which to farm that is close to the end users. It is extremely critical, especially with a population of 40 million in California, to have food stuffs that can be delivered quickly and safely. To me, that is very important.

DALE STERN: Historically agricultural production in this region has been relatively well diversified; certainly, as compared to other parts of the country. However, as the urban pressures Jack describes became more prevalent, the diversity of crops grown in this area declined somewhat. With the availability of affordable land decreasing, anyone interested in buying or leasing land for farming may have felt compelled to plant one of the higher value crops in order to make the land payments. This compulsion naturally led to a decline in crop diversity. But in the last decade or so, with the tremendous growth in Farm to Fork and other similar cultural changes, we’ve seen a renewed emphasis on crop diversi-

fication in order to meet local, regional and national demand for fresh fruits and vegetables.

TRISH KELLY: On one hand we have a growing and strong demand, but then on the other hand we have the pressures of how we can keep agriculture viable. You’ve both been in agriculture for a long time and your companies have been as well. What do you see as some of the biggest changes that have affected agriculture over time?

DALE STERN: When Downey Brand first started representing agricultural interests over 90 years ago, much of the work was focused on water, both water supply and protection from seasonal flooding. Of course, those are still foundational issues for California agriculture. But if you look at major changes in food production such as expanded uses of technology, the practice of law on behalf of agriculture has changed dramatically. There are opportunities for all sorts of artificial intelligence, drones, and sensitive measuring devices for air and water that just weren’t used even a decade ago. The technological advances are extremely positive.

On the other hand, a major change that has negatively impacted agriculture is the decreased availability of a qualified, trained workforce. That’s one of the most significant obstacles our clients are working to overcome today.

TRISH KELLY: From your perspective, Jack, what do you see as some of the big trends, as well as future challenges?

JACK DALTON: As to trends, I see farm land converting to non-ag use. I recall back in 1980 when I started financing southern California agriculture; I watched large plots of land be developed as urbanization replaced agriculture. Farming then migrated north to the California Central Valley where less expensive and ample farmland could be found. Where do farmers go now? As urbanization affects the Capitol Region, farmers appear to be headed out of state. At Five Star Bank, I like to work with farmers on creative financing solutions to help them sustain their businesses in our region.

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JACK DALTON: As to price trends, let me use rice and milk as examples. The first rice loan I wrote in 1981 had rice selling for \$15 per hundred weight and, just until last year, it was still at or below its 1981 price. Milk's price in 1981 was \$15 per hundred weight and now it is down to around \$12 per hundred weight. There has not been a lot of upside to prices at the farm level over the last 37 years, so farming efficiencies mostly through mechanization of heavier equipment, farming technology and consolidation into larger farms, have had to offset the thinner price margins.

TRISH KELLY: It's all about volume.

JACK DALTON: It is. I have also seen the number of family farms decline as they consolidate and grow into large operations to stay economically efficient. When I came to Elk Grove in 1981, there were many smaller family dairies with 200 cows. Now those dairies have sold-off or have been consolidated into fewer numbers.



TRISH KELLY: I think that's a really important issue. We have an image in the region of connecting with our farmers through Farm to Fork, and what the farm looks like. Some of the family farms are actually larger, but we do have a range of farming in the region. Is there pressure on them for other reasons that you are seeing consolidation? What's the impact for people who want to get into farming?

DALE STERN: There's a lot in that question. I agree with Jack that commodity prices have driven consolidation and the increasing scale of a true producing agricultural operation has put pressure on land values. That in turn has put pressure on small farmers to get out of the business and the lifestyle. At the same time, the emerging Farm to Fork movement and some of the specialized, higher value crops are creating new opportunities for the smaller-scale farmers to make a comeback.

The problem is that land values have gone way up. It makes it very difficult for a young family that wants to farm 10, 50, 75, 100 acres to tap into this demand we're seeing for Farm to Fork, sustainably produced, and organic products. They just can't afford to lease or buy the land and get in on the ground level the way prior generations were able to.

It's creating a real obstacle. I hope that we can create an environment in our region where land is within reach of those smaller, more focused farming operations – it's an important part of the future of agriculture in this region.



TRISH KELLY: One of our big assets is, as Jack mentioned, our climate along with other attributes in this region. It allows us to grow a large variety of crops, especially ones that often get a higher price. Is this the case? Do you see farmers shifting with their crops?

JACK DALTON: I do. I have seen agriculture in this region shifting toward higher grossing crops per acre, such as trees and vines. Fifty years ago, Sacramento Valley was a livestock and rice-based agricultural area due to soil type and irrigation limitations. Over the past 30 years, farmers primarily through improved farming techniques, have been able to work through the hardpan issues and improve irrigation systems, so deeper rooted crops that require a much larger cash investment could be planted.

TRISH KELLY: In some ways that doesn't seem like the highest and best use of our land if we can grow these different kinds of crops that have a higher value.

DALE STERN: True, as long as there are other places where we can continue to produce the livestock and the grains that we need. We can't give up all our farming to the higher value specialty crops at the expense of a diversified diet and the nutrients that we all need as consumers.



TRISH KELLY: Do you see some of the specialty crops competing for resources with other kinds of crops? I understand there are some different demands on water from permanent crops.

DALE STERN: Yes, definitely. You only need to look

at the statistics published annually by our Department of Food and Agriculture to see the tremendous growth in some of the higher value specialty crops. Almonds, walnuts, pistachios, wine grapes: those permanent crops that Jack was talking about. You see huge growth state-wide and in this area in those crops, which does create an obstacle, again, for the emergence of a smaller fresh produce grower.



TRISH KELLY: You mentioned labor being a big challenge. The average age of a grower in California is 58 years old. How can we keep being the Farm to Fork capital if we don't have our farmers? At the bank are there special programs or processes or ways to help next generation farmers or people who want to be our next generation?

JACK DALTON: Financing start-up and beginning farmers is a challenge because of the need for such a substantial capital investment and financial wherewithal to support today's larger operating and land loans. Many of Five Star Bank's agriculture customers are larger, multi-generational farmers.

I am seeing succession planning among farm families with the younger generations taking over family businesses. Because of the difficulty for new, young farmers to start out today, family farms are growing their business with their children taking on a bigger role, rather than new farmers starting out. Provided the farmland stays, our region will still have farmers who will be producing, but on a larger and more efficient scale. Because of this, I believe we should be able to maintain our Farm-to-Fork designation.



TRISH KELLY: Dale, you mentioned AgTech. One thing we've heard is that farmers are using AgTech to achieve efficiencies in production, which then affects irrigation and water use and other areas. Do you see a lot of your clients adopting the technology or innovations you referenced?

DALE STERN: My firm works for production agriculture, for food processing, and for the retail grocery industry - the entire spectrum of the food industry. I can't think of any client anywhere on that spectrum that isn't taking advantage of the new technologies available to them.

You'd be left behind in this age if you didn't make use of the technology out there. For example, at the farm, we're seeing more and more young people go away to school and we hope they come back to the farm - not all of them do. The ones that do return come back with advanced degrees in the STEM disciplines—science, technology, engineering, mathematics—economics, or marketing. They're going to work for the family farm but not in the field like their dad or their grandfather did. They're going to work in the economic side of it, the marketing side of it, or the high-tech part of it. What young kid wouldn't want to be out there programming a drone to help manage dad's irrigation instead of running around with a bunch of pipe in the back of the truck and starting siphons all over the field?



TRISH KELLY: In our region there is a lot of innovation happening. Many of the innovations coming out of UC Davis that can make us more competitive are highly regarded. How can we take advantage of having such a great asset here in our region?

DALE STERN: UC Davis is widely recognized as the top agriculture school in the world. The opportunities in our region are abundant. Innovation is essential for this region to stay competitive in agriculture over the next 100 years. I'm an alum of the Cal Poly Pomona College of Agriculture where I'm currently chair of the Dean's advisory council. I've been fortunate to be able to spend a lot of time working with the students and the campus and we're pushing hard on all of our agriculture majors, as well as students in the science disciplines that might not be focused on agriculture, to take a look at how science and technology are applicable to the production of food. We're seeing a fantastic increase in the level of interest. We're growing the entry of students into the College with a science and technology approach as opposed to methods used in

“..They're going to work for the family farm but not in the field like their dad or their grandfather did. They're going to work in the economic side of it, the marketing side of it, or the high-tech part of it...”

— Dale Stern

Partner / Co-Chair, Food & Agriculture Group
Downey Brand LLP

the past in agriculture. I think a similar approach is essential for the whole state. With all of the research and development firms operating throughout this region, yes – the Sacramento Valley is going to be a leader in the technology approach to agriculture for many years to come.



TRISH KELLY: It seems notable and not well known, perhaps, outside the region, that we are a global center in areas like seed research and plant science. We've heard global companies say they are here because of what we have in the region. We have access to farmers, UC Davis, the soil and so forth. Do you get companies like that?

JACK DALTON: Yes, I see companies like that. One of our customers has tapped into our region's expertise by working directly with UC Davis botanists on sustainable root stock – he perfectly exemplifies the important intersection of farming and technology. I can share two other examples regarding our south Sacramento county dairy customers. Both have had companies in the solar energy business rent ground from them to install solar panels to produce clean electricity. Another company has installed covers over the same dairies' lagoons that capture methane gas that once went up into our air and is now cleanly burned-off through electric generators installed on the dairies. All of this technology has provided additional income to our farm families while working toward a cleaner environment.

DALE STERN: That is a good example because 30 years ago, how many people did it take to manage a thousand head? Caring for and milking them twice daily? Nowadays it's a fraction of that number because of the technological advancements in herd management.



TRISH KELLY: Dale, you mentioned the regulatory environment. Sometimes regulations can drive an innovation adoption because you use new equipment or something that helps you be more productive, so it's a co-benefit in a way. Do you see that a lot with your clients?

DALE STERN: Yes. Our Food & Ag group at Downey Brand spends a significant portion of our time dealing with regulatory issues on behalf of clients. The majority of the work is on the compliance side, to make sure they understand and follow the regulations. From time to time we see an enforcement action as well. You're right, regulations can drive innovation. However, I fear that California is too extreme in terms of the extent and types of regulations that it has applied to the production of food.

To be a farmer on any scale now in the Sacramento area or in California generally and to be economically efficient, you almost have

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to have a regulatory compliance person on your staff. There are so many different forms to complete and records retention requirements and all manner of rules and regulations that you have to comply with that didn't exist 20 or 30 years ago.

Each new regulation might have seemed like a good idea when it was adopted, but when you add them all together and take a look at the whole package, it's extremely burdensome and it's raising the cost of farming and therefore raising the cost of food. If the consumer won't pay a higher price because there's competition from abroad, then all it's really doing is cutting into the farmer's profit margin and eventually moving agriculture out of this region and the state.

TRISH KELLY: Do you see opportunities or trends towards increased awareness by our legislators and policy makers that should streamline or support our growers to be more sustainable or productive?

DALE STERN: No.

TRISH KELLY: That was a straight answer.

DALE STERN: Sorry to be so abrupt.

TRISH KELLY: No, no. That's the reality, right?

DALE STERN: It is, but I don't want to portray everybody the same way. For example, our current Department of Food and Agriculture Secretary, Karen Ross, is a wonderful advocate for California agriculture and does everything she humanly can. Her whole department tries to make the regulatory environment as compatible with farming as possible. Unfortunately, not all regulators are like Secretary Ross.

TRISH KELLY: Dale, as you mentioned, individual regulations can seem like a good idea but when you put them all together it's the cumulative effect.

DALE STERN: That's true. For example, more and more local jurisdictions are implementing their own sets of regulations to fill what they see as gaps in state or federal law, which creates yet another level of regulatory compliance that farmers, food processors and retailers have to take into consideration.

TRISH KELLY: That brings us to another topic - local land use policies and the issue of urbanization. What have you seen in the growth patterns in the region and where we're going? Now we've come out of a recession, can agriculture and urbanization be compatible?

JACK DALTON: It has been my experience that compatibility is up to the locals. There are positive urban areas that are very compatible, like the Napa Valley with its wine industry and the economic benefit that filters right back through the Napa Valley businesses from it.

On the other hand, I grew up in southern California and I watched a heavily farmed area grow into a large urban area that pushed farming out as the land went under concrete and asphalt.

DALE STERN: That's a great point, Jack. Agriculture and urban growth aren't mutually exclusive, but it will take a carefully thought-out and coordinated effort by all concerned to ensure that the production of food stays in balance with consumer demand.

JACK DALTON: The pressure from urbanization is always pushing farmland values up as its usage falls to the need to build homes and commercial structures to serve our city's growing population. While trying to strike a balance between these competing issues, it is troubling to see our farm ground being covered-up with concrete and asphalt, as I do not know where we can go to find it to meet our growing population's food needs.

TRISH KELLY: What investment opportunities do you see in agriculture in the region?

DALE STERN: In addition to investments in land, technology, biosciences and consumer sales of food we're already seeing in the area, I would emphasize the importance of investment in education. Education today in the production, processing, nutritional value and delivery systems for food will help to ensure a continuous supply of high quality, nutritious foods produced right here in the Sacramento region for many generations.

TRISH KELLY: Any final comments you would like to add, relevant to our discussion today, around gaps, opportunities and trends in the business of agriculture?

JACK DALTON: Yes, I believe our future production of quality food stuffs (meeting the health and well-being of the end users in our region while solving environmental issues) will provide us with difficult challenges but provide exciting opportunities through innovative farming and processing technology.



Arun Ohri with Jubilant Earth Nurseries (L) and Manny Phagura with Five Star Bank.

"Everyone thought I was crazy to plant my own orchard. Five Star Bank understood the ag-tech space and helped make it possible."


- Arun Ohri, Owner, Jubilant Earth Nurseries



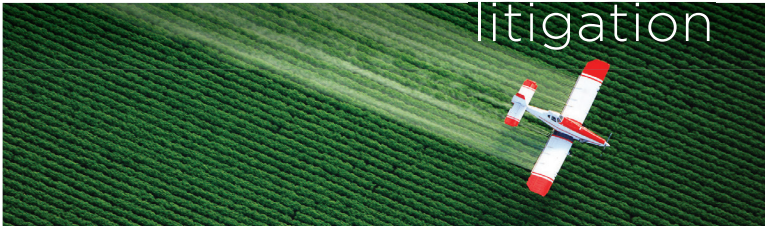
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