

**Five-Year Strategic Plan to Increase the
Combined Throughput Capacity of Inspected
Slaughter and Meat Processing Facilities in the
Commonwealth**

Virginia Department of Agriculture and Consumer Services

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Five-Year Strategic Plan to Increase the Combined Throughput Capacity of Inspected Slaughter and Meat Processing Facilities in the Commonwealth

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Legislative Mandate

Chapters 310 and 311 of the 2022 Acts of Assembly

Executive Summary

The 2022 Session of the General Assembly directed the Virginia Department of Agriculture and Consumer Services (VDACS) to draft a five-year strategic plan to achieve an increase in the total combined throughput capacity of inspected slaughter and meat-processing facilities in the Commonwealth. VDACS found that meat production, processing, and marketing in the state reflect Virginia's diverse agricultural industry. Livestock producers use a variety of direct and indirect marketing channels to meet the needs of their customers, and all benefit from Virginia's mix of custom and U.S. Department of Agriculture (USDA)-inspected meat processing facilities. Since most inspected processors also offer custom services, increases in the capacity of either type of facility will benefit producers and achieve the goals of this strategic plan. Despite truly historic demand for meat processing services brought on by the pandemic, few new facilities have opened. Existing meat processors have generally not chosen to significantly expand their facilities or operating hours, primarily citing insufficient labor and the high costs and operational difficulties such expansions would create. To meaningfully improve meat processing capacity in the state, investments must be made in three areas: (i) grant funding to support new and expanding facilities, such as through the Governor's Agriculture and Forestry Industries Development (AFID) Fund program; (ii) broad workforce development assistance; and (iii) the creation of a meat processing development specialist position at VDACS dedicated to assisting new and existing meat processors, developing workforce resources, and supporting industry best practices.

Background

The COVID-19 pandemic caused widespread disruptions to meat processing and distribution systems, leading to severe product shortages at food retail outlets across the U.S. Many consumers experienced increased concerns about the availability, cleanliness, and origin of the meat they purchase, which led them to seek out local producers. This shift in consumer behavior resulted in increased pressure on the existing network of small-scale meat processors. In Virginia, this historic surge in demand has led to unusually long lead times for meat processing, and it is now difficult to access a USDA/state-inspected or custom-exempt facility with any processing availability in the next 18 to 24 months. Additionally, livestock producers are feeling the effects of an overloaded system; capacity limitations are forcing many cattle producers to discontinue or decrease their direct marketing efforts because of the lack of timely processing options, which has resulted in a significant profit loss for these farmers.

In response to the vulnerability of the existing centralized meat processing and distribution network, Senators Todd Pillion and Travis Hackworth and Delegates Tony Wilt, Michael Webert, and Sam Rasoul introduced Senate Bill 726 and House Bill 830 during the 2022 Session of the General Assembly. This legislation established that it is the Commonwealth's policy to encourage the growth of all segments of its agricultural industry and to the Commonwealth's benefit to encourage, expand, and develop slaughter and meat-processing facilities with strategic planning and programs that provide financial incentives and technical assistance to encourage and supplement private capital. The bills passed unanimously in both houses and were enacted as Chapters 310 and 311 of the 2022 Acts of Assembly. Chapters 310 and 311 direct VDACS to develop a five-year strategic plan by January 1, 2023, to increase the total combined throughput capacity of inspected slaughter and meat-processing facilities and provide recommendations to the General Assembly as to how to implement the strategic plan. Chapters 310 and 311 also authorize VDACS to establish a program of financial incentives and technical assistance to encourage, expand, and develop slaughter and meat-processing facilities in the Commonwealth to the extent that public or private funds become available.

Data Collection

To gain a better understanding of the issues faced by livestock producers and meat processors, VDACS staff gathered feedback from a variety of participants from across the industry through a series of four listening sessions that were hosted by Virginia Farm Bureau Federation. Sessions were held in Buckingham County, Culpeper County, the City of Harrisonburg, and Wythe County. Locations were selected based on their proximity to a region with high enough levels of cattle production to support increased processing operations. Participants included processors, producers, consumers, and other concerned citizens. Each listening session focused primarily on addressing three questions: (i) what is working well, (ii) what are existing roadblocks to success, and (iii) what are suggested solutions or opportunities for the future. Participants across sessions expressed consensus in recounting the surge in market demand for locally grown and processed meat and agreed on the superior quality of the products and services on offer by the existing industry. However, in their responses to the second and third questions, participants varied in their feedback, with unique challenges being emphasized in each session.

A brief overview of the feedback received in each session is detailed below.

Buckingham County Listening Session

The first of the four listening sessions was held in Buckingham on June 15, 2022, at the Buckingham Agriculture Resource Network. Several livestock producers and one prospective processor attended the

event. The discussion focused on two main issues. A primary concern was that there are limited processing options within drivable distances in this region. Participants suggested that the placement of storage coolers and freezers in strategic locations may help somewhat alleviate this problem, as this would allow for extra time to identify and secure proper climate-controlled transportation and storage for their product. The second issue that participants emphasized relates to the disconnect between the availability of federal grant opportunities and the ability of small-scale producers and processors who most need the assistance to access these funds. Participants articulated concerns about the enormous effort required to apply for federal grants, especially given the difficulty in obtaining quality assistance from the federal agencies that administer the programs. Participants suggested that the state could help by increasing the technical assistance it provides through the creation of a “meat specialist” position at VDACS.

Culpeper County Listening Session

The second session was held at the Carver Center in Rapidan on June 20, 2022. Participants voiced concerns over two main factors hindering the construction or expansion of slaughter and processing facilities: regulatory hurdles set by local government and citizen opposition to the location of facilities. Localities face a significant challenge when it comes to accommodating wastewater from these facilities in their sewer system. In an effort to limit these impacts, localities require prospective operations to construct their own wastewater system, an undertaking that is typically not feasible given the huge expense. Additionally, the region is experiencing an increase in not-in-my-backyard (NIMBY) sentiment regarding slaughter and processing operations due to a rise in suburban development. Participants in this discussion suggested that model ordinances, alternative wastewater models, and streamlined start-up processes be developed to decrease the pressure on prospective and existing owner-operators.

City of Harrisonburg Listening Session

The third session was held in Harrisonburg on June 21, 2022, at the VDACS Regional Animal Health Laboratory. Input from this session focused on operational productivity issues that limit the ability of existing facilities to capitalize on increased demand. Participants at this meeting included representatives from several USDA/state-inspected and custom-exempt facilities, including T & E Meats, Gore’s Custom Slaughter and Processing, and Redbanks Custom Cuts. These participants highlighted the limited avenues for disposal of hides, offal, and other animal by-products because the entire slaughter industry in Virginia is reliant on a single rendering operation. The group discussed the difficulties associated with aging infrastructure, labor shortages, and negative experiences with the inspection process, with a particular focus on the need for programs to train employees and further develop employee competence regarding industry best practices. One owner/operator pointed to two programs offered by Penn State University: a three-day hazard analysis and critical control points program, to which his company has sent employees for training, and a newly created six-month meat processing program. In general, participants agreed that Virginia’s agriculture industry would benefit from an increased focus on agriculture education in high schools and community colleges as a means of cultivating interest in agricultural careers, including meat slaughter and processing.

Wythe County Listening Session

The fourth and final meat processing listening session was held on June 27, 2022, in Wytheville at the Wytheville Community Center. This session hosted the largest number of participants, many of whom were livestock producers who spoke to a variety of challenges, with a focus on the fact that the growing costs for fuel, feed, and fertilizer are outpacing the returns from sales at market. Producers indicated that the increase in demand for direct marketing has the potential to significantly improve their margins and stabilize the long-term viability of their operations. Along with their counterparts in Harrisonburg, these participants noted the lack of exposure to agriculture-related industries in schools and the need to

increase overall awareness. Also aligned with the Harrisonburg group, the owner-operators of Washington County Meat Packing described issues that impede their company’s capacity, including the serious need to invest in infrastructure improvements and the excessive costs of equipment.

Direct Engagement

In addition to these sessions, VDACS staff engaged in conversations with stakeholders from the private and public sectors to understand the market dynamics that keep the Commonwealth’s meat processing industry from expanding and ultimately increasing its throughput capacity.

Specifically, staff engaged with:

- T & E Meats
- Gore’s Meat Processing
- Washington County Meat Packing
- Seven Hills Abattoir
- Blue Ridge Meats of Front Royal
- VDACS Office of Meat and Poultry Services
- VDACS Livestock Services
- Virginia Cattlemen’s Association
- Virginia Tobacco Region Revitalization Commission
- First Bank & Trust Company – Harrisonburg
- North Carolina Department of Agriculture and Consumer Services

Existing USDA/ Talmadge-Aiken (TA) Inspected Facilities

Throughout the Commonwealth, dozens of facilities support the meat industry by providing slaughter, processing, cold storage, and logistical services. A multifaceted regulatory framework exists with varying degrees of local, state, and federal inspection requirements that determine the manner in which a facility is permitted to operate within this network. Virginia is one of the select states that operates in a cooperative agreement with USDA under the Talmadge-Aiken Act of 1962, which allows state employees to inspect facilities on behalf of the federal government and permit products to be sold across state lines with federal inspection labels. There is strong support among Virginia meat processors to continue to have inspections conducted by state employees instead of federal employees. State employees tend to serve a region for a longer term, allowing them to become more familiar with an operation and its staff, and often live closer to the facilities they are inspecting, allowing for more timely service.

Information provided by the VDACS Office of Meat and Poultry Services indicates that 46 slaughter or processing facilities currently operate in the Commonwealth under state inspection. Ten of these are Talmadge-Aiken plants that offer both slaughter and processing services. These plants are listed in the table below.

Table 1: USDA (Talmadge-Aiken) Inspected Plants

Name	Location	Animals*	Size
Crabill’s Retail & Wholesale Meats, LLC	Toms Brook	All Species	Very Small
Donald’s Meat Processing, LLC	Lexington	All Species	Very Small
Double L Meat Processing	Jonesville	All Species	Very Small
EcoFriendly Foods	Moneta	All Species (incl. Poultry)	Very Small
Gore’s Processing, Inc.	Edinburg	All Species	Very Small
Salatin & Cloud, LLC (T&E Meats)	Harrisonburg	All Species	Very Small
Schrock’s Slaughter House	Gladys	All Species	Very Small

Seven Hills Abattoir	Lynchburg	All Species	Small
Smith Valley Meats	Rich Creek	All Species	Very Small
Washington County Meat Packing	Bristol	All Species	Very Small

*All Species of animals includes beef, pork, sheep, and goats

The USDA Food Safety and Inspection Service (FSIS) directly inspects several facilities in the Commonwealth that do not fall under the purview of the VDACS Office of Meat and Poultry Services. According to the FSIS Inspection Directory, four of these operations provide custom slaughter and processing services.¹ These plants are listed in the table below.

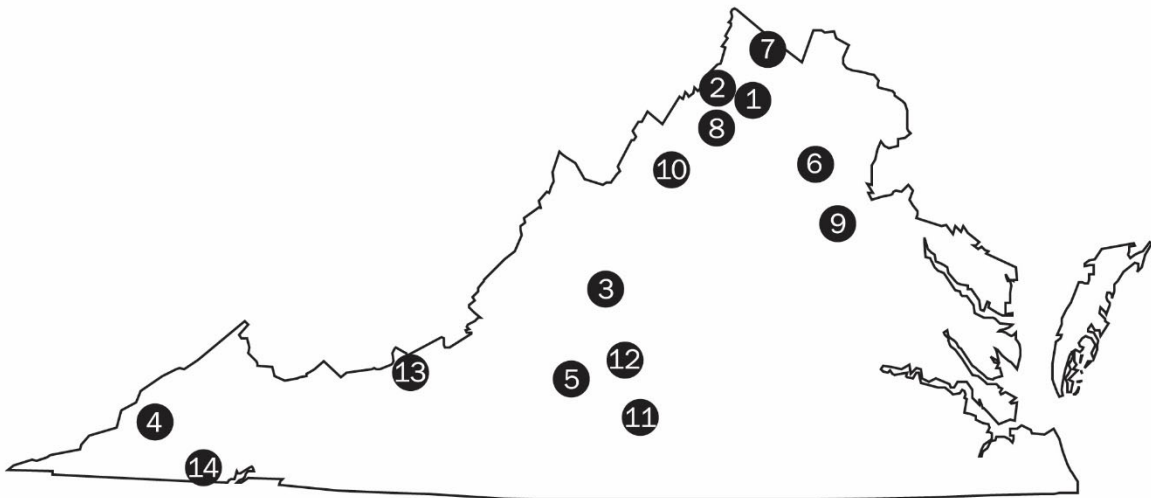
Table 2: USDA Inspected Plants

Name	Location	Animals*	Size
Blue Ridge Meats of Front Royal	Middletown	All Species	Very Small
Fauquier’s Finest Custom Meat Processing, Inc.	Fauquier	All Species	Small
Gentle Harvest Custom Processing	Winchester	All Species	Very Small
Safa Halal Meats	Fredericksburg	Beef, Sheep, Goats	Very Small

*All Species of animals includes beef, pork, sheep, and goats

FSIS designates the size of a plant based on the number of workers it employs. A very small facility has fewer than 10 employees or annual sales of less than \$2.5 million, and a small facility has more than 10 but fewer than 500 employees. Throughout data collection efforts, VDACS staff focused on very small and small operations because their success is most essential to increasing the total throughput capacity and improving the resilience of the inspected slaughter and processing industry in the Commonwealth.

Figure 1: Map of USDA/TA Inspected Facilities



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|--------------------------------------------|-----------------------------|
| 1. Blue Ridge Meats of Front Royal | 4. Double L Meat Processing |
| 2. Crabill’s Retail & Wholesale Meats, LLC | 5. EcoFriendly Foods |
| 3. Donald’s Meat Processing, LLC | |

¹ “Meat, Poultry, and Egg Inspection Directory,” Food Safety and Inspection Service, United States Department of Agriculture, updated November 3, 2022, <https://www.fsis.usda.gov/inspection/establishments/meat-poultry-and-egg-product-inspection-directory>.

- | | |
|---------------------------------------------------|---------------------------------|
| 6. Fauquier's Finest Custom Meat Processing, Inc. | 10. Safa Halal Meats |
| 7. Gentle Harvest Custom Processing | 11. Schrock's Slaughter House |
| 8. Gore's Processing, Inc. | 12. Seven Hills Abattoir |
| 9. T&E Meats | 13. Smith Valley Meats |
| | 14. Washington Co. Meat Packing |

Virginia Red Meat Inventory

Since the 2000s, red meat inventory, excluding sheep and lambs, has declined significantly in Virginia across all species. As of January 2022, there were 599,000 beef cattle, 265,000 hogs, 72,000 sheep including lambs, and 42,000 meat goats on farms in Virginia.² Although there was an estimated increase of 5,000 beef cattle from January 2021 to January 2022, the Commonwealth has experienced a significant decrease of nearly 18 percent in beef cattle inventory since 2006.³ During the same time period, the inventory of hogs has decreased by 46 percent. Sheep and lamb inventory have increased over the past 20 years, but the total inventory has decreased by 20 percent since the peak in 2011. Lastly, from its peak in 2008, the inventory of meat goats has dropped by an estimated 28 percent.

Notably, only 17,000 beef cattle are on feed in the Commonwealth, accounting for less than three percent of all beef cows and just under five percent of all heifers and steers over 500 pounds, which cumulatively total an estimated 342,000 head. USDA National Agricultural Statistics Service (NASS) estimates that nearly half of the heifers are used or sold for replacement, with the remaining animals sold alongside steers at market to be shipped to feed lots in Western states. Therefore, a very small percentage of the cattle raised in the Commonwealth are finished and processed here, which results in a tremendous value loss for producers, processors, and consumers.

Land Grant University Support

Virginia's Land Grant Universities, Virginia State University (VSU) and Virginia Tech (VT), provide a number of programs and services that support the beef cattle and meat processing sectors in the Commonwealth.

Virginia's Beef Cattle Extension programs help serve to enhance the profitability and sustainability of beef cattle production systems through enhanced production efficiency and value-added ventures. The Virginia Master Cattlemen Program is a seven-session course that provides essential information for beef producers in the areas of economics, nutrition, forages, reproduction, genetics, herd health, and marketing. The program is offered on an area basis by local Virginia Cooperative Extension agents and is taught by local agents and VT specialists. Additionally, VCE partners with the Virginia Cattlemen's Association and local cattlemen's associations for the Virginia Quality Assured Feeder Cattle Program (VQA), which encourages the use of scientifically based cattle health and management procedures for feeder cattle. Producers that manage their cattle utilizing the VQA guidelines are eligible to market their calves through the VQA certified feeder cattle program.

² "2021 Virginia Agriculture Overview," National Agricultural Statistics Service, United States Department of Agriculture, updated January 1, 2022,

https://www.nass.usda.gov/Quick_Stats/Ag_Overview/stateOverview.php?state=VIRGINIA.

³ Matson Consulting, "A Study of Small-Volume Red Meat Processing in Virginia," *Virginia Foundation for Agriculture, Innovation, and Rural Sustainability*, September 2020

<https://vafairs.com/wp-content/uploads/2022/03/Red-Meat-Processing-in-VA-Study.pdf>

The Virginia Tech Meat Center facility is a fully functional, state inspected processing plant, offering a unique educational experience to student employees who participate in animal processing, fabrication, sanitation, and retail sales of meat products. The purpose of the Center is to support the Department of Animal and Poultry Sciences, the University, and the Commonwealth by facilitating teaching, research, and extension. While providing valuable teaching, research and extension services, the Center's impact could be improved with additional investments to modernize equipment and supplement its operating budget.

Recently, VSU opened a mobile meat processing unit to handle small ruminant processing. A capacity building grant from the U.S. Department of Agriculture (USDA) along with funding from VDACS, allowed VSU to design and build a mobile processing unit (MPU) for sheep and goats. VSU now offers an MPU Certification Training Program and operates an MPU-leasing program for MPU-Certified farmers to process meat under a grant of inspection.

Situation Analysis

VDACS staff relied on two essential resources to gain a comprehensive understanding of the current state of Virginia's livestock and meat slaughter and processing industries: *A Study of Small-Volume Red Meat Processing in Virginia*, completed by the Virginia Foundation for Agriculture, Innovation, and Rural Sustainability in collaboration with Matson Consulting in September 2020; and *A Review of Piedmont Regional Processing Plants for the Piedmont Environmental Council (PEC)*, completed by Fuller Consulting in spring 2021. The Matson study provided an extensive overview with a quantitative emphasis on the existing meat industry, including information on national and state red meat inventory trends, insight into the state and federal requirements for establishing a small-volume red meat processing facility, types of slaughter and processing facilities, and financial pro forma comparisons of different sized operations. The PEC report was developed using qualitative survey feedback from six plants operating under USDA or Talmadge-Aiken inspection.

Challenges with Processing Capacity

According to the PEC study, the most significant obstacle preventing meat processors from optimizing production capacity is the recruitment, training, and turnover of labor.⁴ Due to the workforce issues, most plants are not able to adequately staff their kill floor and processing areas simultaneously, which means employees often split duties between the two different aspects of the operations. Multiple processors who provided feedback directly to VDACS indicated that, even if they were able to fully staff their operations, they have concerns about the availability of the on-site inspection that is required by federal and state laws when a facility slaughters, processes, labels products, or applies the mark of inspection. All establishments that receive a grant of inspection are eligible for 40 hours of inspection a week at no cost, and they may request additional overtime hours for a fee as needed. Despite this, processors have indicated that at times they have not received all the inspection hours they would like.

Labor shortages in all sectors across the nation are widespread and well-documented, but the effects on this industry are particularly acute. Minimal efforts in schools at all levels to promote careers in meat slaughter and processing combined with limited capacity within the field for advancement has resulted in

⁴ Fuller Consulting, "Review of Piedmont Regional Processing Plants for the Piedmont Environmental Council," *Piedmont Environmental Council*, Spring 2021. <https://www.pecva.org/region/albemarle-charlottesville-region/new-skilled-meat-cutter-training-program-will-help-regions-meat-processors-serve-virginia-cattle-farmers/>

a labor pool for meat slaughter and processing that is extremely limited, with little to no pipeline of new workers. For existing plants and new plants to function optimally, these labor issues will need to be addressed for both the private and the public entities involved.

Another factor limiting production at these facilities is the reliance on aging and outdated equipment, dilapidated infrastructure, and confined processing and storage space. Due to the specialized nature of the equipment used in these facilities, plant operators face challenges in procuring professional repair services. The situation is compounded by the current severe supply chain issues, leading to unprecedented increases in equipment costs and lead times for receiving replacement items and forcing plants to decide between exhausting limited capital or making in-house repairs in order to maintain production. Ultimately, for these plants to thrive and increase their capacity, they will need to address existing equipment and infrastructure issues while at the same time expanding key areas of their facilities, especially cooler space to hang carcasses before processing and storage areas for finished products awaiting distribution. Plant operators who have the ambition to take on expansion projects or who already have untapped capacity must secure financing or deploy capital reserves.

The future viability of the disposal of offal and other animal byproducts is also of the utmost concern for processors, given that the entire industry in the Commonwealth relies on a single rendering operation for this service. Adequate and timely disposal of byproducts is crucial to the day-to-day viability of these plants. Therefore, any interference with this provider's ability to maintain service levels would be disastrous for the industry. There are also concerns with the disposal of hides. Until recently, processors had the option to sell hides for a nominal amount for export to China. Disruptions to trade over the last few years have limited access to this avenue, leaving processors in the position of having to pay for hide disposal, which often involves sending the hides to a landfill.

Challenges with Livestock Production

A major component to ensure a resilient slaughter and processing industry is the future sustainability of livestock production in the Commonwealth. As previously noted in the listening session feedback, the record fuel, feed, and fertilizer costs and the volatility of market rates for feeder cattle have more and more producers uncertain about the future viability of their operations. A premier opportunity exists for producers to capture increased returns through finishing their cattle to sell "on the hoof" to processors that conduct wholesale or retail or through the direct marketing of their processed product to local consumers. However, most producers are content to operate in the feeder cattle system, as its familiarity is more appealing than the risks associated in finishing more cattle, which would involve a significant increase in their operating expenses.

Though there is clearly a market opportunity for the production of more Virginia-finished cattle, producers' hesitancy is due to numerous challenges, including a lack of an economically feasible supply of feed; the inability to ensure timely slaughter and processing services due to the record lead-time; the substantial upfront investment necessary to initiate a direct marketing operation, such as costs to secure cooler or freezer storage space, develop a brand, and facilitate appropriate logistics and distribution; and, in many cases, the logistical hurdles involved in hauling livestock substantial distances to access a USDA/TA-inspected facility. Figure 1 illustrates the approximate locations of the slaughter and processing facilities identified in Tables 1 and 2. Though the depiction is clearly not to scale, as the distances between the facilities are often much further than the map appears to indicate, it provides a general understanding of the regions in the Commonwealth that could be considered "processing deserts."

Outlook for Existing and New Facilities

Without an influx of managerial, administrative, and production labor support, existing owner-operators will have to intensify their direct commitment to all facets of their operations to achieve an increase in total throughput capacity. Because of the strenuous nature of the profession and the level at which these individuals already work on a day-to-day basis, few processors with whom VDACS staff spoke for this report wanted to expand their hours of operation or initiate facility expansion projects. Instead, they intend to capitalize on refinements and optimization of their current processes.

The market demand for increased slaughter and processing services and the public emphasis on this industry has generated interest among some prospective entrepreneurs. VDACS Office of Agriculture and Forestry Development (OAFD) has been contacted by several individuals interested in learning more about the industry and the requirements for opening a slaughter and processing facility. However, due to the capital intensive, low-margin nature of the work, only one of these prospects has followed through to work with OAFD staff and their local economic development representatives to plausibly pursue the construction of a new facility. The project is still in the process of securing financing and obtaining necessary working capital to successfully commence construction.

According to the Matson report, the capital and operating expenses for the new construction of a small- and medium-sized multispecies facility would limit annual net income projections to \$17,000 to \$42,000. Facilities of this size could accommodate 1,000 to 2,500 head and could cost from \$300 to \$400 per square-foot for finished construction. The pro forma operating statements do not return a worthwhile net income unless the facility is able to process 5,000 or more head per year. The Matson study reports that a 5,000-head facility would cost more than \$2.5 million to construct, with annual loan payments of well over \$100,000, depending on interest rates and the amount of private capital invested. It is important to note that this study was completed in 2020 prior to the onset of record inflation and interest rate increases. These figures do not account for the working capital that is needed to start an operation and maintain production until revenues are generated. Even if an investor has the capital and wherewithal to construct and operate a new facility, they will still need to consider several important factors, including identifying a location close to livestock production and navigating regulatory requirements such as local zoning ordinances, Department of Environmental Quality regulations, wastewater discharge permits, and overcoming NIMBY objections from the community.

Ultimately, there needs to be an increase in all processing and slaughter activities to expand the total throughput capacity of the system. For example, USDA/TA-Inspected and state-inspected facilities may also provide custom-exempt services to patrons. Therefore, investments in custom-exempt facilities could free up capacity in inspected facilities. Furthermore, a variety of options, such as slaughter only, cut-and-wrap, and storage and logistics operations, could strengthen the network and provide better avenues for producers to receive the services from which their operations would benefit most.

In 2012, the Commonwealth created the Governor's AFID Fund program to create an economic development tool for local governments to better support Virginia's first and third largest private sector industries. Administered by OAFD at VDACS on behalf of the Secretary of Agriculture and Forestry, the program is unique to the region and allows the Governor to make discretionary, matching grants to localities and other political subdivisions through three distinct programs:

- AFID Facility Grants are return-on-investment-driven economic development incentive grants for new and expanding agribusinesses committing to new jobs, investment, and production targets. To date, five poultry and four meat processors have received awards. This program's use

by meat processors has been limited, as there has been few new or expanding meat processing facilities in the state since 2012.

- AFID Infrastructure Grants support local investments into key pieces of equipment and other infrastructure necessary to support local food systems. Created in 2021, the program awards grants in six-month cycles. Three meat processors have received awards through this program's first two funding rounds. There are no performance requirements on business recipients, making it more attractive to meat processors.
- AFID Planning Grants support planning efforts and local initiatives that benefit agriculture and forestry. Beginning with the program's first awards in 2013, four localities have received grants to explore the feasibility of new meat processing operations. This flexible matching fund empowers localities and the agriculture community to undertake a wide variety of initiatives that could support the production and processing of local meats.

Because of the variety of programs available through the Governor's AFID Fund and the Secretary of Agriculture and Forestry's statutory flexibility to change program guidelines to meet industry needs, and because it is an already established program with staff knowledgeable about the agricultural industry, the AFID Fund program could be a good vehicle for quickly and efficiently deploying new funding into the meat processing sector.

Other States' Programs

Many of the states surrounding Virginia, including Maryland, Pennsylvania, West Virginia, and North Carolina, created programs to directly support their respective meat slaughter and processing industries. Like most similar programs across the country, these programs were funded using one-time funds provided through the federal American Rescue Plan Act (ARPA). Below are highlights of each state's offerings:

- Maryland offers the Livestock Processing Equipment Relief Grant that provides up to \$100,000 (at up to 75 percent of the cost) for the purchase of equipment to expand the capacity of their operations.
- Pennsylvania offers the Very Small Meat and Poultry Processor Reimbursement Grant Program that provides up to \$100,000 for the costs associated with obtaining a grant of inspection from USDA FSIS, opening a new processing operation, expanding the capacity of an existing processing operation, or a combination of those purposes.
- West Virginia offers farmers the opportunity to participate in a branded beef program (Mountain State Ground Beef) so producers can get premium returns for cull cows.
- North Carolina offers the Increasing Meat Production, Efficiency, and Capacity grant program, which was originally allocated \$10 million in funding in November 2020 to increase small-scale livestock processing efficiency and capacity. Over the past two years, this program has provided \$26 million in grant funding through 93 grants for 85 different facilities in amounts ranging from \$13,000 to \$2 million. A fourth phase has just closed that offered up to \$15 million. Seafood and catfish processing facilities are also eligible.

Unlike these states, Virginia chose not to use ARPA funds to create any programs specifically supporting the meat processing industry.

SWOT Analysis of Existing Meat Slaughter and Processing Industry

Strengths

- Highly experienced and reputable owner-operators
- Customers are satisfied with the quality of products and services offered

- Surging market demand for locally grown and locally processed meat
- Local government and consumer awareness of the value of local meat is higher than ever
- Some plants have additional capacity to expand total throughput with expansion of cold storage capacity and workspace

Weaknesses

- Aging infrastructure and facilities
- Significant wait times of up to 18 to 24 months, especially for new or small livestock producers
- Processing deserts exist in some parts of the state forcing producers to undertake longer hauls
- Even with record demand, meat processing remains a difficult, low-margin business
- Insufficient cold storage is a major obstacle for processors and producers

Opportunities

- New federal and other grant/loan programs established to support new processors
- Increased market demand for higher margin, value-added services, such as smoking and curing
- Creation of a Virginia branded beef product and other joint marketing efforts could allow for a major increase in volume to ground meat sales, which is a more difficult product to off-load
- Establishment of lower cost cut-and-wrap facilities could allow existing facilities to slaughter more animals through freeing up cooler space and staff
- New staff position assisting new and existing processors in accessing new federal programs and expand operations to meet fulfill significant unmet market demand for processing services

Threats

- Lack of succession planning and options for operators nearing retirement age
- Limited hide, offal, and byproduct disposal options
- Limited labor pool and workforce development programs to generate talent pipeline
- Weak financial position, poor labor market, and long lead times for processing equipment and cold storage prevent processors from seizing the current boom in demand
- Investments by neighboring states to invest APRA funds in their meat processing industry and Virginia's decision not to has put the state's processors at a competitive disadvantage

Goals and Strategic Objectives

Five major goals have been developed, each with corresponding strategic objectives that will be employed to expand total throughput capacity of the Commonwealth's inspected slaughter and meat processing network.

1. Optimize the operational productivity of existing USDA/state-inspected slaughter and meat processing facilities.
2. Support strategic expansions of existing USDA/state-inspected slaughter and meat processing facilities.
3. Promote the development of new USDA/state-inspected and custom-exempt meat slaughter and processing facilities.
4. Prepare individuals for employment in the meat slaughter and processing industry.
5. Improve the finished cattle market in the Commonwealth.

Goal 1: Optimize the Operational Productivity of Existing USDA/State-Inspected Slaughter and Meat Processing Facilities

Strategic Objectives

The negative impacts to the productivity of existing slaughter and processing facilities are largely the result of aging facilities with dilapidated infrastructure, severe labor shortages, issues with the inspection process, and byproduct disposal limitations. Therefore, the following actions should be undertaken.

- 1.1 Use Governor's AFID Infrastructure Grant to support essential infrastructure improvement and equipment replacement projects.
- 1.2 Create or support positions in relevant organizations to focus on assisting producers in accessing USDA grants and other financial support and in VDACS OMPS to expand inspection capabilities.
- 1.3 Evaluate and pursue alternative options for disposal of hides, offal, and other animal byproducts.
- 1.4 Develop a revolving loan fund specifically for facilities to use for increased working capital or essential infrastructure improvement and equipment replacement projects and explore the potential to back fund with USDA programs, such as the Meat and Poultry Intermediary Lending Program and Food Supply Chain Guaranteed Loan Programs.
- 1.5 Encourage participation in organizational networks such as Niche Meat Processing Assistance Network (NMPAN) and American Association of Meat Processors (AAMP) to increase operators' awareness of best management practices and support programs.

Goal 2: Support Strategic Expansions of Existing USDA/State-Inspected Slaughter and Meat Processing Facilities

Strategic Objectives

Most existing facilities are aging with limited space for growth. There is a need for strategic expansions, such as increasing space for receiving, kill floor, cooler storage, cut-and-wrap, and further processing. These strategic expansions can be expensive and challenging. Therefore, the following actions should be undertaken.

- 2.1 Assemble a team of individuals in economic development, business assistance, and meat inspection to work with existing custom-exempt facilities to determine interest and ability for converting their facility into a USDA/state-inspected operation.
- 2.2 Use the Governor's AFID Fund and other programs to support larger expansions of processing and slaughter facilities through the construction of increased slaughter and processing space and the purchase of specialized equipment to allow operators to perform further value-added processing and offer higher margin products such as jerky, bacon, and hot dogs.
- 2.3 Coordinate and leverage the business and financial resources that are available to small businesses from organizations such as the Small Business Development Center network, Virginia Small Business Finance Authority, Virginia Community Capital, Virginia Tobacco Region Revitalization Commission, and Virginia Coalfield Economic Development Authority to assist processors in planning and funding successful expansions.

- 2.4 Provide additional funding and staff support targeted at assisting new and expanding meat processing projects using programs such as the Governor's AFID Fund to leverage impending investments in the industry from organizations such as USDA and the Virginia Tobacco Region Revitalization Commission.
- 2.5 Encourage facilities to work with Virginia Foundation for Agriculture, Innovation, and Rural Sustainability (VA FAIRS) for assistance in securing funds through USDA programs such as the Meat and Poultry Processing Expansion Program and Rural Energy for America Program.

Goal 3: Promote the Development of New USDA/State-Inspected and Custom-Exempt Meat Slaughter and Processing Facilities

Strategic Objectives

The construction and operation of a new meat processing facility has historically been a challenge for prospective entrepreneurs because it is a low-margin, rigorous, and capital-intensive industry. The COVID-19 pandemic and recent higher interest rates have resulted in significant increases in the cost of construction and equipment, making the construction of a new facility that is compliant with USDA inspection requirements extremely difficult. Therefore, the following actions should be taken.

- 3.1 Use economic development assistance programs, such as the Governor's AFID Facility Grant, to support new meat processing projects with an emphasis on serving regions that have sufficient livestock production and limited processing options.
- 3.2 Undertake a concerted effort among stakeholders, including existing meat processors, to develop new stand-alone cut-and-wrap facilities, which would allow slaughter facilities to increase total head throughput by outsourcing the less-intensive cut-and-wrap process.
- 3.3 Develop model ordinances and tool kits to guide site selection processes for localities that are interested in supporting meat slaughter and processing facilities to expedite local approval processes for potential projects.
- 3.4 Support and encourage cattle producers and others who are interested in establishing a meat processing operation to work together to pool the capital necessary to establish a new processing facility.
- 3.5 Develop a support network specific to meat processors among existing resource organizations, including representatives from local Small Business Development Centers, VA FAIRS, Virginia Cooperative Extension, and interested owner-operators to support new processors entering the market.

Goal 4: Prepare Individuals for Employment in the Meat Slaughter and Processing Industry

Strategic Objectives

A workforce development network is desperately needed to prepare individuals for future employment in the meat slaughter and processing industry. Therefore, the following actions should be taken.

- 4.1 Use flexible programs like the Governor's AFID Planning Grant to support innovative workforce development initiatives created in partnership with existing meat processors and workforce partners and tailored to their specific needs.

- 4.2 Provide matching funds to facilities for the purpose of sending employees to slaughter and processing certification programs.
- 4.3 Develop meat slaughter and processing curriculum programs to be offered in vocational, career, and technical education centers for high school students throughout the Commonwealth.
- 4.4 Support the Virginia Department of Labor and Industry in developing an apprenticeship program for the industry while also encouraging other initiatives such as prisoner transition programs and career pathways for people learning English as a second language.
- 4.5 Encourage educational institutions, such as Virginia Tech, to pursue additional federal and state funding to develop meat processing training capacity in the state or to partner with a neighboring state to provide this training and assist such educational institutions in these efforts.

Goal 5: Improve the Finished Cattle Market in the Commonwealth

Strategic Objectives

Virginia's beef industry is the second largest sector of Virginia agriculture. Its continued growth and success is closely linked to the economic vitality of our rural communities and the Virginia agriculture industry. Providing additional marketing opportunities to these producers through increased local processing options is imperative. It is also important to support cattle producers who are interested in effectively and efficiently producing fed cattle for local processing, especially cow-calf operations. In addition to producing fed cattle, producers would benefit from an increased ability to coordinate processing with processors and to access existing markets. Therefore, the following actions should be taken.

- 5.1 Support studies to explore underutilized locally produced cattle feed sources that examine pre-consumer plant-based food waste from produce processors. The Virginia Cattle Industry Board recently funded a study on this topic.
- 5.2 Encourage Virginia Cooperative Extension and industry organizations to increase workshops and other technical assistance focused on feeding out cattle.
- 5.3 Promote locally grown and processed feed through existing programs like Virginia Grown and explore new marketing programs, such as Virginia Whisky Beef.
- 5.4 Work with interested processors and cattle producers to create and promote a Virginia Beef program and brand focused on retail sales of ground beef through retailers and food service to provide a major new market for ground beef.
- 5.5 Work to create relationships with processors and producers to time the availability of fed cattle so that processors have a steady, year-round supply of cattle to process.

Recommendation Summary

For the industry to achieve a valuable increase in total throughput capacity and ultimately improve resiliency, a variety of initiatives will need to be undertaken and accomplished. As indicated in the goals and strategic objectives, this will require the optimization of existing operations; support of strategic expansions; promotion of the construction of new facilities; cultivation of a workforce pipeline; and the

improvement of producers' ability to finish livestock, particularly cattle. This wide variety of approaches will require an equally wide variety of stakeholders to act to implement these recommendations. An essential first step in the effective implementation of many of the recommendations in this plan is the creation of a meat processor development specialist position, likely best located within OAFD.

This process will be facilitated in three phases over the next five years as outlined by the Implementation Schedule on the following page. Phase 1 will focus on maximizing the use of existing and flexible support programs, such as the Governor's AFID Planning and Infrastructure grants; developing a viable support network through the creation of a new position and the support of existing positions that provide support to the industry; supporting participation in existing industry-wide organizations; and completing studies to explore opportunities for additional feed sources and disposal options.

Phase 2 will result in a strong push to support strategic expansion efforts, commence new construction projects, and encourage producers to finish more cattle. The support networks developed in Phase 1 will work to coordinate a variety of existing support programs, such as AFID Facility Grants and USDA guaranteed loan programs, while promoting new resources, such as a working capital revolving loan fund. Efforts will also be undertaken to encourage educational institutions to adopt curriculums focused on meat slaughter and processing and to develop model ordinances for localities to consider when undergoing zoning, stormwater, wastewater, and other relevant approval processes.

Phase 3 will focus on sustainability initiatives to ensure long-term success for the industry. During this process, producers will be encouraged to participate in a Virginia beef brand, collaborative opportunities will be explored to assure processing availability, and the Virginia Department of Labor and Industry will work to expand apprenticeship and career pathway programs to include meat slaughter and processing.

Implementation Schedule



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