NORTH CAROLINA
AGRICULTURAL FINANCE AUTHORITY

The North Carolina Agricultural Finance Authority's Annual Report to the Governor and the Vice-Chairs and Co-Chairs of the House and Senate Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources on Governmental Operations.

North Carolina General Statute 122D-18(c)

October 1, 2017

NORTH CAROLINA
AGRICULTURAL FINANCE AUTHORITY

October 1, 2017

The Honorable Brent Jackson
N.C. Senate
Co-Chair, Senate ANER Committee
16 W. Jones Street, Room 2022
Raleigh, NC 27601-2808

Dear Senator Jackson:

Pursuant to North Carolina General Statute 122D-18(c), the North Carolina Agricultural Finance Authority (NCAFA) presents our FY17 annual report on the operations of the Authority. Since 2002 the Authority has been entirely self-sufficient; using only interest and earnings for operating purposes.

If we can provide addition information, please do not hesitate to contact us.

Respectfully,

Stephen E. "Ed" Emory
Chairman

NORTH CAROLINA
AGRICULTURAL FINANCE AUTHORITY

October 1, 2017

The Honorable Jimmy Dixon
N.C. House of Representatives
Co-Chairman
House ANER Committee
16 W. Jones Street, Room 2226
Raleigh, NC 27601-1096

The Honorable Pat McElraft
N.C. House of Representatives
Co-Chairman
House ANER Committee
300 N. Salisbury Street, Room 634
Raleigh, NC 27603-5925

The Honorable Bob Steinburg
N.C. House of Representatives
Vice-Chairman
House ANER Committee
300 N. Salisbury Street, Room 301B
Raleigh, NC 27603-5925

Dear Representative Dixon, Representative McElraft and Representative Steinburg:

Pursuant to North Carolina General Statute 122D-18(c), the North Carolina Agricultural Finance Authority (NCAFA) presents our FY17 annual report on the operations of the Authority. Since 2002 the Authority has been entirely self-sufficient; using only interest and earnings for operating purposes.

If we can provide addition information, please do not hesitate to contact us.

Respectfully,

Stephen E. "Ed" Emory
Chairman

NORTH CAROLINA
AGRICULTURAL FINANCE AUTHORITY

October 1, 2017

The Honorable Roy Cooper
Governor
116 W. Jones Street
Raleigh, NC 27603-8001

Dear Governor Cooper:

Pursuant to North Carolina General Statute 122D-18(c), the North Carolina Agricultural Finance Authority (NCAFA) presents our FY17 annual report on the operations of the Authority. Since 2002 the Authority has been entirely self-sufficient; using only interest and earnings for operating purposes.

If we can provide addition information, please do not hesitate to contact us.

Respectfully,

Stephen E. "Ed" Emory
Chairman

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY BOARD
As of 6/30/2017

Stephen E. (ED) Emory, Chairman
Kenansville, NC
Duplin County
Appointment President Pro Tem

Thomas C. Hege, Vice Chairman
Lexington, NC 27295
Davidson County
Appointment Speaker of the House

David S. McLeod
Raleigh, NC
Wake County
Appointment Speaker of the House

Rupert Gerald Warren
Newton Grove, NC
Sampson County
Appointment President Pro Tem

Matt H. Kirkpatrick
Raleigh, NC
Wake County
Appointment Governor

Jack Alphin
Mt Olive, NC
Wayne County
Appointment Governor

Charles Bruce Williams
Castle Hayne, NC
New Hanover County
Appointment President Pro Tem

Anthony (Tony) Gordon
Wake Forest, NC
Wake County
Appointment Speaker of the House

Bonnie P. Holloman
Raleigh, NC
Wake County
Appointment Governor

Commissioner Steve Troxler (Ex Officio)
NC Department of Agriculture & CS

David Smith, Deputy Commissioner
(Representing Commissioner Troxler)
NC Department of Agriculture & CS

NORTH CAROLINA
AGRICULTURAL FINANCE AUTHORITY

October 1, 2017

TO: THE GOVERNOR AND THE VICE-CHAIRS AND CO-CHAIRS OF THE HOUSE AND SENATE JOINT LEGISLATIVE OVERSIGHT COMMETTEE ON AGRICULTURE AND NATURAL AND ECONOMIC RESOURCES ON GOVERNMENTAL OPERATIONS.

As the Chairman of the North Carolina Agricultural Finance Authority, I am pleased to present our annual report to the Governor and the Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources Committee on Governmental Operations.

Mission Statement

The North Carolina Agricultural Finance Authority (NCAFA) was established by the North Carolina General Assembly to provide credit to agriculture in local areas where it is not available at reasonable rates and terms. The mission applies to all aspects of agriculture; farming, processing, manufacturing and exporting.

Operating Procedure

Essentially operating as the North Carolina 'Agricultural Bank' the Authority originates, finances, and services loans in the agricultural sector that would otherwise not be made. Using federal guarantees and secondary markets, state funds are leveraged with minimal risk of loss.

Background

The "farm loan" programs have resulted from use of the "Reserve for Farm Loans" that was established as a trust fund at the outset for NCAFA. During the years, several additions were made by the General Assembly to the reserves bringing them to a cumulative total of $2,300,000 since formation in 1986. Since FY02 the Authority has not received any State appropriations.

The Authority's borrowers are farmers who cannot obtain financing from conventional sources. Every loan we close has reasonably high risk. The Authority has mostly poultry and swine loans. We offer very low closing costs, a $75.00 application fee and will finance 95% loan to value, which makes the agency appealing to small farmers with limited funds to purchase a farming operation.

The Authority has a working agreement with the United States Department of Agriculture (USDA) which allows the Authority to be able to obtain Federal guarantees (for up to 90% of loan value) for loans made by the Authority, if the loan requirements meet the USDA Farm Service Agency (USDA - FSA) requirements. NCAFA still uses this FSA guarantee on any loan that qualifies with FSA and the Authority. The guaranteed portion of the loan is marketable. Secondary market buyers bid on sealed bids for the Federal guaranteed loan portions at a premium (premiums have averaged around 10% over par). After these loans are closed, the 90% guaranteed by the United States Department of Agriculture - Farm Service Agency will be sold in the secondary market.

The Authority holds 10% of the principal balance and services the loan until paid in full, receiving a servicing fee from the holder of the loan.

Utilizing the United States Department of Agriculture - Rural Development (USDA - RD) guarantee program, we currently have four loans financed, a winery located in Surry County and a swine processing plant located in Duplin County. After these loans were closed the 70% to 80% guaranteed amount was sold in the secondary market. The Authority holds the remaining 20% to 30% of the principal balance and services the loan until paid in full, receiving a servicing fee from the holder of the loan.

Agricultural Development Bonds (ADB) Tax Exempt

The first bond was issued in 1995, to date a total of $46,810,000 has been issued. The Authority utilizes State allocations to issue tax exempt Agricultural Development Bonds (ADBs) for waste management projects that are generating green energy from animal waste, fiber waste and other fuel sources. This means food waste and animal waste plus various agricultural crops will join the 'greenside' of farming for farmers.

The Authority appears to be the only North Carolina State government agency with statutory authority to issue Tax Exempt Agricultural Development Bonds (ADB). The North Carolina Tax Reform Allocation Committee (TRAC) is the entity responsible for making such allocations.

As of May 2017, the Authority has three ADBs in the pipeline; two of the three bonds will produce biogas from anaerobic digestion of poultry waste. The third bond will use swine waste to produce renewable energy. These projects provide an environmentally sound solution for the disposal of poultry and swine waste in the state, while providing a long-term contracted source of revenue for the waste to poultry and swine growers.

Qualified Energy Conservation Bonds (QECB)

In the American Recovery and Reinvestment Act of 2009, Congress expanded the authorization for the issuance of QECBs to $3.2 billion nationwide, which was then allocated amongst the States based on population, North Carolina received an allocation of $95,677,000. Of that amount, approximately $62,677,000 was allocated to local governments, and the remaining $33,000,000 was available for allocation at the state level. The North Carolina Tax Reform Allocation Committee (TRAC) is the entity responsible for making such allocations.

As of June 30, 2017, the Authority has issued $33,013,000 in QECBs exhausting the allocation received at the State level. In April 2017, bonds in the amount of $6.5 million were issued to Optima KV, LLC to finance a portion of their project to produce natural gas from swine waste in Duplin County.

In North Carolina, the Authority is the only entity that has issued QECBs for the benefit of private entities, under its statutory authority to issue conduit bonds to finance private development on agricultural land. In fact, the Authority is the only agency or authority in the State that has the statutory authority to issue QECBs for private entities, or to operate a Green Community Program to provide loans to the private sector to finance renewable energy projects. The Authority appears to be the only conduit issuer in the state whose statutory authorization includes some of the types of facilities contemplated by the QECB statute (such as generations of electricity from solar, wind, geothermal and other renewable sources). The Authority receives a fee equal to 1% of the bond value upon issuance.

Green Community Program (GCP)

In July, 2013, the Authority adopted a resolution formalizing its process for acting as a conduit issuer for renewable energy facilities and other qualifying energy conservation purposes on agricultural land into a "Green Community Program".

The Authority retains no role for servicing after the ADBs or QECBs are issued. The Authority does not issue the bonds until the financing structure is fully in place and the funds are committed from a lender or underwriter.

In our over 30 years of existence, the Authority has helped numerous farmers, agribusinesses and public bodies obtain capital through loans and bonds. We have assisted some ethnic groups that we felt were underserved in the agricultural lending community. Many small farmers have received help through our programs where they would not have qualified for conventional financing.

We are very proud of the service we provide to the agricultural families in our great state.

Sincerely,

Stephen E. "Ed" Emory
Chairman

NC Agricultural Finance Authority

Loan Activity as of June 30, 2017

18 application packets were mailed to prospective borrowers

7 loans were closed totaling $1,770,838

5 loans in process totaling $3,155,500

There were no loans in default

Loans Sold in the Secondary Market:

Amount sold	$3,366,174.91
Sales value	$3,701,583.82
Amount of Gain	$ 335,408.91

Bond Activity as of June 30, 2017

Qualified Energy Conservations Bonds (QECB) issued April 2017 for $6,500,000 to Optima KV, LLC to finance a portion of their project to produce natural gas from swine waste in Duplin County.

There are three Agricultural Development Bonds (ADB) in the pipeline for the next 1 to 3 years - projects totaling $69,000,000.00.

Current Loan Portfolio Report as of June 30, 2017

Outstanding Principal (NCAFA)	$ 9,069,190
Outstanding Principal (NCRRC)	$ 100,520
Outstanding Principal (Small Family)	$ 21,944
Total Number of Loans Outstanding	29

NORTH CAROLINA
AGRICULTURAL FINANCE AUTHORITY

Staff contact if additional information is needed:

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