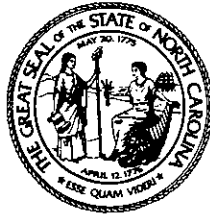


**NORTH CAROLINA  
AGRICULTURAL FINANCE AUTHORITY**

**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, 2022**



**NORTH CAROLINA  
AGRICULTURAL FINANCE AUTHORITY**

October 1, 2022

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 FY22 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.

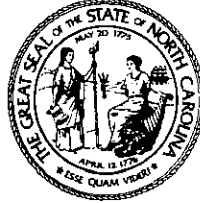
If we can provide addition information, please do not hesitate to contact us.

Respectfully,

A handwritten signature in black ink, appearing to read "Keith Beavers".

Keith Beavers

Chairman



**NORTH CAROLINA  
AGRICULTURAL FINANCE AUTHORITY**

October 1, 2022

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

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

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


The Honorable Norman Sanderson  
N.C. Senate  
Vice Chair  
Joint Oversight ANER Committee  
300 N. Salisbury Street, Room 628  
Raleigh, NC 27603

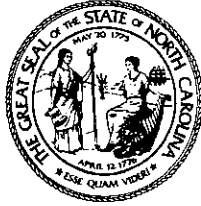
Dear Representative Dixon, Representative McElraft, Senator Jackson and Senator Sanderson:

Pursuant to North Carolina General Statute 122D-18(c), the North Carolina Agricultural Finance Authority (NCAFA) presents our FY22 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,

  
Keith Beavers  
Chairman



## **NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY**

**October 1, 2022**

**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.**

As the Chairman of the North Carolina Agricultural Finance Authority, I am pleased to present us 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 throughout North Carolina. Our 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**

#### **Farm Loan Programs**

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. The Authority offers very low closing costs, a low application fee and will finance up to 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% to 95% 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 guaranteed portion will be sold in the secondary market.

The Authority holds 5% to 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 three 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 Authority utilizes State allocations to issue tax exempt Agricultural Development Bonds (ADB) 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 September 2022, the Authority has an ADB in the pipeline not to exceed \$110MM in State allocations; the bond project is anaerobically digesting poultry waste to generate biomethane to produce electricity. The project will provide an environmentally sound solution for the disposal of poultry waste in the state, while providing a long-term contracted source of revenue for the waste to poultry growers. Additionally, the Authority has an ADB not to exceed \$135M in state allocations. The project will convert grocery food that would otherwise go to landfills from supermarkets into animal feed. The Project will have the capacity to process food waste from up to 450 supermarkets repurposing 60,000 tons of food waste on an annual basis, which reduces both the amount of food waste in North Carolina landfills and the greenhouse gas emissions associated with such food waste.

## **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 December 2017, the Authority has issued \$42,362,711 in QECBs exhausting the \$33,000,000 allocation received at the State level. After exhausting the allocation at the State level, the Authority's Administrator of the Green Community Program contacted local governments around the State to request any unused QECB allocations received be returned to the State for use by the Authority for projects located in their counties.

The Authority used \$9,350,000 of QECB allocations through the Green Community Program (GCP) to fund a renewable energy project using swine waste.

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. This program was discontinued by the federal government in 2017.

**Watson Seed Project, Series 2016:** The Fresh Air Energy XVII, LLC Project (the "Watson Seed Project") is a 24.6 MW ground-mounted solar system located in Nash County which sells its renewable electricity under a long-term PPA with Dominion Energy. The Watson Seed Project was developed by EcoPlexus, a developer of solar photovoltaic systems based in San Francisco, CA. The Watson Seed Project closed on its financing through the NCAFA in April of 2016, with construction being completed and operations commencing in Q4 of 2015.

**Bradley Project, Series 2016:** The Fresh Air Energy IX, LLC Project (the "Bradley Project") is a 6 MW ground-mounted solar system located in Hertford County which sells its renewable electricity under a long-term PPA with Dominion Energy. The Bradley Project was developed by EcoPlexus, a developer of solar photovoltaic systems based in San Francisco, CA. The Bradley Project closed on its financing through the NCAFA in April of 2016, with construction being completed and operations commencing in Q4 of 2015.

**Optima KV Project, Series 2017:** The Optima KV, LLC Project (the "Optima KV Project") is a swine manure directed biogas project located in Duplin County which collects biogas from anaerobic digesters on adjacent swine farms and upgrades the same to pure methane for injection into a PNG pipeline for sale to Duke Energy under a long-term offtake agreement. The Optima KV Project was developed by Biogas Corp, a developer of anaerobic digester projects based in Raleigh, NC. The

Optima KV Project closed on its financing through the NCAFA in March of 2017, with construction being completed and operations commencing in Q2 of 2018.

**Optima TH Project, Series 2017** - The Optima TH, LLC Project (the "Optima TH Project") is a directed biogas project located in Bladen County which collects biogas from covered waste lagoons at the Smithfield processing plant in Tarheel, NC and upgrades the same to pure methane for injection into a PNG pipeline for sale to Duke Energy under a long-term offtake agreement. The Optima TH Project was developed by Biogas Corp, a developer of anaerobic digester projects based in Raleigh, NC. The Optima TH Project closed on its financing through the NCAFA in December of 2017, with construction being completed and operations commencing in Q2 of 2020.

### **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".

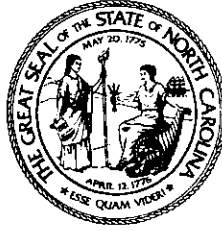
The Authority retains no role for servicing after the ADBs or QECBs are issued. The Authority does not issue the bonds until the financing structure is fully in place and the funds are committed from a lender or underwriter.

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.

Sincerely,



Keith Beavers  
Chairman



## NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY

### Loan Activity as of June 30, 2022

50 application packets were mailed to prospective borrowers

11 loans were closed totaling \$11,481,413

7 loans in process totaling \$8,930,210

There are three loans in default totaling: \$2,034,512

#### Loans Sold in the Secondary Market:

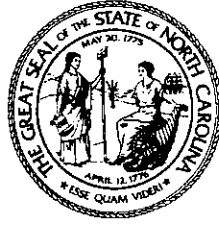
Amount sold           \$12,191,720.50

Sales value            \$13,695,022.63

Amount of Gain       \$ 1,503,302.13

### Current Loan Portfolio Report as of June 30, 2022

Outstanding Principal (NCAFA)	\$26,863,362
Outstanding Principal (NCRRC)	\$ 5,522
Outstanding Principal (Small Family Farms)	\$ 0
Total Number of Loans Outstanding	36



**NORTH CAROLINA  
AGRICULTURAL FINANCE AUTHORITY**

Staff contact if additional information is needed:

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[www.ncagr.gov/agfinance](http://www.ncagr.gov/agfinance)