

**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, 2019



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October 1, 2019

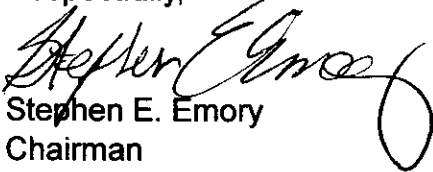
The Honorable Roy Cooper
Governor
116 W. Jones Street
Raleigh, NC 27603-8001

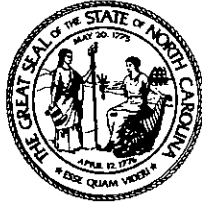
Dear Governor Cooper:

Pursuant to North Carolina General Statute 122D-18(c), the North Carolina Agricultural Finance Authority (NCAFA) presents our FY19 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. Emory
Chairman



**NORTH CAROLINA
AGRICULTURAL FINANCE AUTHORITY**

October 1, 2019

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

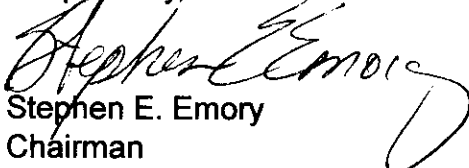
The Honorable Brent Jackson
N.C. Senate
Co-Chair
Joint Oversight ANER Committee
16 West Jones Street, Room 2022
Raleigh, NC 27601

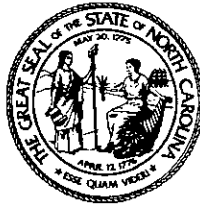
Dear Representative Dixon, Representative McElraft, Representative Hall, Representative Strickland, Representative McGrady and Representative Yarbough:

Pursuant to North Carolina General Statute 122D-18(c), the North Carolina Agricultural Finance Authority (NCAFA) presents our FY19 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. Emory
Chairman



NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY

October 1, 2019

**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 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 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 \$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% 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 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 (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 June 2018, the Authority has one ADB in the pipeline to use \$43.5MM 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.

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 our Green Community Program (GCP) to fund a renewable energy project using swine waste. The Optima TH project, closed in December 2017, will be constructing a swine methane recapture project to capture the bio-methane being off gassed and flared from the Smithfield Foods Processing facility in Tar Heel, NC, delivering pipeline quality renewable natural gas to Duke Energy. In 2019 this project is still under construction and is expected to be completed in the fourth quarter of 2019 and is expected to be operational in the first quarter of 2020.

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.

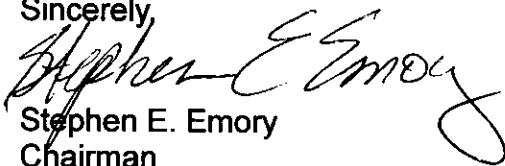
Green Community Program (GCP)

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".

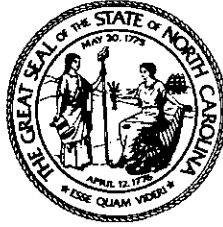
The Authority retains no role for servicing after the ADBs or QECBs are issued. The Authority does not issue the bonds until the financing structure is fully in place and the funds are committed from a lender or underwriter.

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,



Stephen E. Emory
Chairman



NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY

Loan Activity as of June 30, 2019

36 application packets were mailed to prospective borrowers

7 loans were closed totaling \$3,985,000

4 loans in process totaling \$3,725,000

There were two loans in default totaling \$662,983.36 (due to death of borrower)

Loans Sold in the Secondary Market:

Amount sold \$3,119,494.61

Sales value \$3,501,140.59

Amount of Gain \$ 381,645.98

Bond Activity as of June 30, 2019

Qualified Energy Conservations Bonds (QECB) issued December 2017 for \$9,350,000 to Optima TH, LLC. Optima TH will be constructing a swine methane recapture project to capture the bio-methane being off gassed and flared from the Smithfield Foods Processing facility in Tar Heel, NC, delivering pipeline quality renewable natural gas to Duke Energy. In 2019 this project is still under construction and is expected to be completed in the fourth quarter of 2019 and is expected to be operational in the first quarter of 2020.

Current Loan Portfolio Report as of June 30, 2019

Outstanding Principal (NCAFA)	\$12,959,876
Outstanding Principal (NCRRC)	\$ 61,294
Outstanding Principal (Small Family Farms)	\$ -0-
 Total Number of Loans Outstanding	 31



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