

Governor's Office of Agricultural Policy



**Kentucky Agricultural
Finance Corporation**



**Annual Report
July 2005-June 2006**



Kentucky
UNBRIDLED SPIRIT™

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Kentucky Agricultural Finance Corporation



Providing Access to Capital for Kentucky Farmers

Executive Summary

During the 2006 fiscal year, the Kentucky Agricultural Finance Corporation (KAFC) provided significant capital infusions which create enhanced marketing opportunities and substantial interest savings for many Kentucky farmers. The KAFC board established the Agricultural Processing Investment Fund (APIF) and the Tobacco Grower Investment Fund (now called the Agricultural Producer Investment Fund (APIF)) as its two loan pools last year and both funds experienced considerable activity.

Marketing and Market Development has been considered the top priority for the Kentucky Agricultural Development Fund. The KAFC Board also shares this vision of adding value to Kentucky grown agricultural commodities by providing below market financing to projects accomplishing these goals. From the APIF the Agricultural Processing Loan Program was utilized by three processing entities. This fund also provided financing to two Kentucky vegetable cooperatives through the Producer Accelerated Payment Program.

The Agricultural Infrastructure Loan Program as a part of the APIF enabled numerous farmers to construct various structures and facilities on their farms at reduced interest rates. This program encouraged farmers to evaluate their on farm resources, analyze potential growth opportunities, and apply for loans to finance the long term infrastructure projects best suited for their operation. By offering this program through local lending institutions, the KAFC was able to facilitate these loans with minimal administrative costs.

In response to the escalating age of the average farmer, the KAFC developed the Beginning Farmer Loan Program (BFLP). Loans from this fund are made possible by an additional \$2 million grant received from the Kentucky Agricultural Development Board (KADB). This program will serve as an instrument to provide low cost financing for those already involved in farming who need additional capital to enhance and expand their involvement. Requirements which include the involvement of a participating lender, the development of a five year business plan, and the commitment of a mentor, should provide the necessary safeguards needed to help the prepare the applicant for success.

To address the continuous technological and marketing challenges facing individual farmers, the KAFC created the Coordinated Value Added Assistance Loan Fund (CVAALF) with a \$1 million grant from the KADB. Loans through this program will target entities which create contracting opportunities for other farmers growing various agricultural commodities. By encouraging the entrepreneurship of the coordinating entity, individual farmers with limited capital will be presented opportunities to focus on management and production.

The Linked Deposit Investment Program (LDIP) also experienced a year of growth. These funds which originate from Kentucky's Unclaimed and Abandoned Property Account provide Kentucky banks an avenue for making reduced rate loans to Kentucky farmers. Applicants can borrow funds through this program to purchase livestock, equipment, and farmland, finance operating expenses, or to refinance existing debt.

Hurricane Katrina, high fuel prices, and successive interest rate increases boosted construction costs, tightened farm margins, and challenged the farmer's repayment capacity this year. Capital afforded to Kentucky agriculture via the KAFC loan programs provided valuable incentives to producers and agricultural entities which have made and will continue making substantial financial commitments in our state's agriculture.

KAFC Programs

Agricultural Infrastructure Loan Program

The Kentucky Agricultural Finance Corporation approved a total of \$2,377,082.58 in loans to 42 borrowers during FY2006, the first year for the program. The Agricultural Infrastructure Loan Program (AILP) is designed to assist Kentucky's farmers in financing long-term projects that will improve their financial viability. These funds can be used to expand, remodel or construct buildings or farm structures for agricultural purposes only. A producer who can document tobacco history may qualify for 2% interest on KAFC loan funds. The loan must be serviced by a participating lending institution. The cap for an AILP loan is \$100,000 or 50% of the project cost.

Greg and Joyce Goode – Mr. and Mrs. Goode are young farmers and agricultural leaders from Casey County. Both Greg and Joyce were actively involved in their family's farms before they were married. In order to expand their own operation, the Goodes received a \$20,000 KAFC loan to construct a \$40,000 milk parlor for their 30 cow dairy. This loan was in participation with Farm Credit Services of Mid-America in Somerset.

Shamrock Glen Farm – Lisa and Tim Turney are the owners of Shamrock Glen Farm in Woodford County. The farm is the site of an equine breeding and boarding operation. The \$60,000 KAFC loan in partnership with Citizens Commerce National Bank of Versailles will help construct \$120,000 in improvements consisting of an additional 60' by 40' horse barn, fencing, and waterers. Additional revenue from boarding and other services will help improve the couple's farm profitability.

Todd and Wendy Byassee – The Byasseees are grain and livestock farmers in Carlisle County. The couple has been raising hogs under contract production. They were given the opportunity to add another 2,400 head complex. The \$100,000 KAFC loan in partnership with Heritage Bank of Murray helped improve the financing terms on the \$397,265 project.

Agricultural Processing Loan Program

The Agricultural Processing Loan Program (APLP) provides loan opportunities to companies that add value to Kentucky-grown agricultural commodities through further processing. The Kentucky Agricultural Finance Corporation (KAFC) approved a total of \$9,150,000 in loans to three borrowers during Fiscal Year 2006.

Dickerson Lumber Company – Dickerson Lumber Company, a family owned sawmill that has been operating in Barren County for over 50 years and received a \$550,000 KAFC loan. The project included a building expansion and the purchase of new equipment that will reduce the amount of wasted lumber and increase the value of smaller trees. Dickerson Lumber purchases over 95% of its timber from Kentucky landowners, therefore creating another revenue opportunity for many tobacco dependent farmers.

Owensboro Grain Biodiesel, LLC – Owensboro Grain Company (OGC), the parent company of Owensboro Grain Biodiesel, LLC, uses soybeans to produce edible oils and animal feed products. This new plant will produce an alternative fuel and increase support for Kentucky soybean farmers. Currently, 14 million of the 30 million bushels of soybeans used annually by OGC are purchased from Kentucky farmers. The \$21 million project received a \$5 million KAFC loan. The 50 million gallon biodiesel plant is scheduled to open in 2007.

K AFC Programs

Kentucky BioProcessing, LLC – Kentucky BioProcessing (KBP), a wholly owned subsidiary of Owensboro Medical Health System (OMHS), acquired the former Large Scale Biology facility from bankruptcy court with assistance from K AFC. K AFC provided KBP with a \$3.6 million loan to help capitalize the \$8.8 million project. KBP will operate this one-of-a-kind facility as a research and manufacturing operation for Plant-Made Pharmaceuticals (PMP) and other products. Research currently being conducted by various private entities, the University of Kentucky, and the University of Louisville in collaboration with KBP should result in expanded production opportunities for Kentucky farmers.

Beginning Farmer Loan Program

The Beginning Farmer Loan Program is designed to assist emerging farmers who wish to create, expand or buy into a farming operation. Loan funds may be used to purchase land, equipment, livestock, facilities, or to buy into an existing partnership or LLC. Loans must be originated and serviced by participating lenders. This program has a limit of \$100,000 or 50% of the outstanding debt held by the participating lender. Introduced in April 2006, the program facilitated its first loan in June.

Jamie Stockdale – Mr. Stockdale, a member of the Kentucky West Nursery (KWN) Cooperative, was developing a substantial tree nursery operation when the membership of the KWN decided to dissolve and liquidate the assets owned by the cooperative. Although the dissolution plan provided its members the opportunity to acquire the trees under the member's control, Mr. Stockdale would no longer have access to the equipment that had been shared by the membership. He and his father decided to form an LLC and continue growing and marketing trees for wholesale. Mr. Stockdale was approved for a \$100,000 K AFC loan to purchase the needed equipment to efficiently operate his venture. This loan was in participation with Jackson Purchase Agricultural Credit Association in Murray.

Coordinated Value-Added Assistance Loan Program

The Coordinated Value-Added Assistance Loan Program (CVALP) was created to offer loans to entities in Kentucky that are expanding their operation to provide new contracting opportunities to Kentucky farmers. K AFC will finance loans of up to \$1,000,000 with a limit of \$100,000 for each new grower opportunity created. The CVALP was introduced in June 2006.

Producer Accelerated Payment Program

The Producer Accelerated Payment Program was developed to assist marketing entities, specifically the vegetable cooperatives, expedite payment to producers who delivered products at harvest. The loan program provided low interest financing so the farmer could be paid while the marketing entity was waiting on payment from their buyers. Four loans were approved, but only two cooperatives, West Kentucky Growers Cooperative and Green River Produce Marketing Association, made draws on their loans. \$120,626 was loaned by K AFC and repaid by the borrowers during FY 2006.

Linked Deposit Investment Program

The Linked Deposit Investment Program, unlike the other K AFC loan programs that originate from Agricultural Development Funds, is funded through the state's Abandoned and Unclaimed Property Account. Loans from this program must be made by an eligible depository lender. Approved borrowers can receive loans fixed at prime with terms of up to seven years. Sixty nine new loans totaling \$4,231,442.26 were originated from this program in FY 2006.

KAFC Financial Status Report

Loan Fund	AAP	PAPP	AIP	BFP	CVAAP	SIC	TOTAL
Funds Allocated (\$)	15,000,000	-	5,000,000	2,000,000	1,000,000	-	23,000,000
Loans Approved	3	4	42	1	-	-	50
Funds Disbursed (\$)	9,150,000	120,627	1,354,672	-	-	-	10,625,299
Funds Committed not disbursed (\$)	-	-	1,422,410	100,000	-	-	1,522,410
Principal Payments Paid (\$)	-	120,627	26,812	-	-	-	147,439
Available Balance (\$)	5,850,000	-	2,249,729	1,900,000	1,000,000	-	10,999,729
Interest Collected (\$)	22,177	113	4,190	-	-	144,733	171,213

Status of KAFC Funds as of June 30, 2006

Funds Not Yet Transferred From Original ADB Grant	\$ 7,000,000
Balance Of Loans Disbursed	\$10,477,860
Amount Committed By ADB For CVAPP (Not Transferred)	\$ 1,000,000
KAFC Funds Invested By the SIC	\$ 4,522,140
Interest Earned Account	\$ 253,047

Glossary

(AIP)	Agricultural Infrastructure Program
(APP)	Agricultural Processing Program
(BFP)	Beginning Farmer Loan Program
(CVAAP)	Coordinated Value Added Assistance Program
(PAPP)	Producer Accelerated Payment Program
(SIC)	KAFC Funds Invested By The State Investment Commission

KAFC Board Members & Staff

Statutory Members

Richie Farmer, Commissioner of Agriculture
(Chair)

John Farris, Secretary of Finance and
Administration

Appointed Members

Bobby J. Gaslin
Financial Services Officer
Hardin County
Term Expires: June 2010

Wayne Hunt
Cash Grain Farmer
Christian County
Term Expires: December 2006

Larry Jagers
Dairy Farmer
Hardin County
Term Expires: June 2009

Doug Lawson
Commercial Lending Officer
Calloway County
Term Expires: June 2007

Billy Joe Miles
Tobacco farmer
Daviss County
Term Expires: June 2008

Charles Miller
Livestock farmer
Jessamine County
Term Expires: June 2009

Frank A. Penn
Equine Industry Representative
Fayette County
Term Expires: June 2009

Bob D. Proffitt
Horticultural Producer
Oldham County
Term Expires: June 2007

James T. Reams
Commercial Lender
Pulaski County
Term Expires: June 2009

Annette Crawford Walters
Former Commercial Lending Officer
Mason County
Term Expires: June 2009

Staff

Keith Rogers
Executive Director

Tim Hughes
Marketing & Business Development
Coordinator

Catherine Ball
General Counsel

David Bratcher
Special Project Consultant

Bill McCloskey, III
Project Analyst

Nicole Ray
Administrative Assistant
KY Agricultural Finance
Corporation Board Secretary



Kentucky
Agricultural
Development Fund

Governor's Office of Agricultural Policy

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Frankfort, KY 40601

<http://agpolicy.ky.gov>

Governor Fletcher and the Kentucky Legislature continue to make great strides toward lessening Kentucky's dependence on tobacco production while revitalizing the farm economy by investing 50 percent of Kentucky's Master Settlement Agreement into the Kentucky Agricultural Development Fund. The Kentucky Agriculture Development Board has funded an array of county, regional and state projects designed to increase net farm income and create sustainable new farm-based business enterprises.

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