

Nova Scotia Farm Loan Board

# Annual Report

2017-18

## Table of Contents

Message from the Minister and the Board Chair .....	3
About the Nova Scotia Farm Loan Board.....	4
Mission.....	4
Vision.....	4
Mandate.....	4
NSFLB Staff.....	5
Office Location .....	5
Board of Directors.....	5
Economic Landscape.....	6
Farm cash receipts down due to challenges in fur, blueberry sector.....	6
International trade contracts during 2017 .....	7
Nova Scotia Farm Loan Program.....	7
Lending Products .....	8
Operations .....	8
Progress on Goals.....	9
Enabling Responsible Economic Growth .....	9
Supporting Research and Innovation.....	9
Building Public Trust and Market Acceptance .....	9
Increasing Trade and Market Access .....	9
Encouraging Value Added Opportunities .....	9
Regulatory Review .....	9
Lending Highlights.....	10
Trends in apple and winery/grape loans .....	10
Independent Auditor’s Report and Audited Financial Statements.....	12
Key Financial Highlights .....	12

## Message from the Minister and the Board Chair

The Nova Scotia Farm Loan Board plays an important role in our agriculture industry. For the last 86 years, it has supported multi-generational farm families and new entrants into agriculture, supporting the development of sustainable agriculture and agri-businesses in Nova Scotia through responsible lending.

The Nova Scotia Farm Loan Board supports the agricultural industry by providing financial assistance directly to members of the farming industry. Loans are used to finance the purchase of farm land, construct farm buildings, plant new crop varieties, purchase new efficient equipment, adopt new technology, and purchase existing farms and marketing quotas.

All communities benefit when new and aspiring farmers are able to build on traditional family farming knowledge and practices with modern technology. That's why it's important to offer financial services that are easy to access.

Earlier this year, Government announced new Farm Loan Board regulations that will modernize current practices.

The new regulations offer:

- reduced loan approval wait times through increasing lending limits from \$2 million to \$5 million
- variable interest rates
- clarified lending options
- streamlined administrative processes
- standardized fee structures
- improved efficiencies

The changes will allow the board to better serve agriculture's developing and high value sectors and to be more responsive to industry needs.

As we continue to look for ways to strengthen our economy and increase the jobs in rural Nova Scotia, we must realize how important the agriculture industry is and the growth potential it has in our province.



Chair

Nova Scotia Farm Loan Board



Honourable Keith Colwell, E.C.N.S.

Minister

Nova Scotia Department of Agriculture

## About the Nova Scotia Farm Loan Board

The Nova Scotia Farm Loan Board (NSFLB) has been active since 1932 as an agricultural development agency, acting to build a financially stable and sustainable agricultural base in Nova Scotia. It supports agriculture and rural business development by providing short, medium and long-term capital with competitive fixed interest rates.

### Mission

The NSFLB supports the development of sustainable agriculture and agri-rural business in Nova Scotia through responsible lending.

### Vision

The NSFLB is a leader in agricultural lending, creating opportunities in rural Nova Scotia.

### Mandate

The mandate of the NSFLB is to support the agricultural industry through the provision of capital financing. It operates as a corporation of the Crown under the *Agriculture and Rural Credit Act*. This Act provides authority to the Board to make loans to, or guarantee loans of, a borrower for acquiring or improving any farm asset, including livestock. Regulations made under the Act govern the terms and conditions of capital provided by the NSFLB.

The NSFLB also serves the forest industry, as the Timber Loan Board established by the *Forest Act*. This Act provides for credit to acquire forested land for forest product mills. Regulations of the Timber Loan Board, which govern terms and conditions of credit provided, are made under the *Forest Act*.

## NSFLB Staff

Director/CEO	Greg Cox
Solicitor to Board	James Murphy, Department of Justice
Auditor	PricewaterhouseCoopers LLP
Manager, Finance	Philip Green
Credit Manager	Maria McCurdy
Risk Manager	Jennifer Thompson
Loan Manager	Heather Montgomery
Senior Special Credit Officer	John Murray
Senior Loan Officer	Andrew Kellock
Loan Officer	Erin Sears
Loan Officer	Paul Arnfast
Administrative Supervisor	Vickie Birch
Loan Administration	Jackie Putnam
Loan Administration	Karen Tulkens
Loan Administration	Sharon Streach
Loan Administration	Wanda Lenihan
Loan Administration	Tracy Hart
Financial Analyst	Susan Archibald
Accounting Analyst	Robbie Rushton
Accounting Technician	Jessica Thibodeau

The Director of NSFLB reports to the Deputy Minister of Agriculture and is responsible for the operations of the Nova Scotia Fisheries and Aquaculture Loan Board as well as the NSFLB.

### Office Location

Crown Lending Agency offices are in Truro and Kentville.

### Board of Directors

The Board of Directors consists of Nova Scotia residents who have worked in the industry or are corporate or community leaders who understand the economy and the needs of those working in these sectors. They are recommended by the Minister of Agriculture and are appointed by Governor in Council. The Board of Directors provides leadership and direction to the Loans Board, offering insight into industry, and overseeing performance. It includes:

Arnold Park (Chairman & Director): Arnold has over 35 years of business experience including ten years as President and CEO of McCain Foods. As a result, he has extensive experience in food processing, corporate farming, production and commodities. He has served on numerous national boards and has a vast network among the provincial marketing boards and agricultural affiliated agencies.

Andrew Vermeulen (Vice-chairman & Director): Andy has been raised in the farming industry, successfully operating multiple farming companies for over 26 years. As owner of Vermeulen Farms Ltd, Mr. Vermeulen has gained considerable experience in financial accounting, strategic business and succession planning, sales, production, and food safety. In addition to his employment background, Andy's education includes a Bachelor of Science in Agricultural Engineering and completion of the Canadian Total Excellence in Agricultural Management program from the George Morris Centre in 2012. He currently holds multiple positions on numerous boards and committees in his profession and community, offering expertise in board structure and operations.

William G. Versteeg (Director): William is familiar with the agriculture industry, having owned and operated Barneybrook Farms Ltd for almost twenty-five years. He is also a corporate and community leader, serving as a councilor and holding several executive positions for the Municipality of East Hants. William has also served on the Board of the Farmers Cooperative Dairy Limited, the Canadian Federation of Agriculture, and the Farm Practices Review Board. He has executive experience with the Nova Scotia Federation of Agriculture, including a term as President of that body.

Steve Brown (Director): Steve is familiar with the agriculture industry and is a former Forestry Supervisor with the Nova Scotia Department of Natural Resources. He also has experience in leadership roles, serving on the Board of Directors for the North Nova Forest Owners. Steve is also a grower and seller of Christmas trees and is familiar with other local industries, such as the blueberry, cranberry, strawberry and maple syrup industries.

Greg Sheffer (Director): Greg has over 30 years working in the corporate environment and holds a Master of Business Administration. Greg has completed an Officers and Directors course providing many of the requirements necessary to fill a director's role including corporate governance, financial literacy, financial lending, and has demonstrated skills in negotiation, decision making and problem solving. Over the last 12 years, he has successfully built a family farm (Angus beef) and a forestry operation, gaining valuable experience and knowledge in the agriculture and forestry production and commodity industries.

Greg Sheffer resigned in October 2018.

## Economic Landscape

### Farm cash receipts down due to challenges in fur, blueberry sector

Nova Scotia farm cash receipts declined \$34.2 million (6.1%) from 2016. Receipts from crop production increased \$551,000 (0.3%) led by significant increases in the value of apples, field vegetables, strawberries and Christmas trees. The value of blueberry production declined by \$9 million (52%) due in part to large production volumes in other regions and resulting low prices. Producer price for blueberries decreased from \$0.30/pound in 2016 to \$0.25/pound in 2017.

Livestock sector farm cash receipts declined \$21 million (6%) from 2016. Continued depressed prices in the fur industry, mainly due to decreased global demand, combined with lower production volume resulted in a decrease in sector value of \$25.2 million (-86%). There were also significant declines in the value of cattle/calf production (\$-6.6 million; -22%). The largest increase in livestock product values was the dairy sector, which increased \$10 million in 2017 (7%).

Direct government program payments to producers declined \$13.8 million in 2017 (-51%). This was largely due to an \$11.8 million decline in AgriStability payments from 2016. Declines in AgriStability payments were due to declines in the mink industry for production and price, as well as an overall contraction in the industry.

### International trade contracts during 2017

International trade is a growing focus for economic growth in the agri-food sector with Canada negotiating trade agreements with many important trading partners in recent years including CETA, CPTPP, CKFTA and USMCA.

Nova Scotia's small domestic market means that exports are crucial to the economic well-being of the industry. Despite a challenging year for international exports of Nova Scotia's two largest export commodities (blueberries and mink fur) there are other sectors that saw gains during the year.

The value of international trade declined 8.9% from 2016. The largest factors in this decline were: fur (-\$25.2 million; 46.3%), wild blueberries (-\$11.1; 12.9%) and miscellaneous food preparations (-\$7.3 million; 13.3%).

These declines were partially offset by substantial increases exports of: bread/baked goods (+\$6.4 million; 21.1%) and vegetables (+\$5.7 million; 17.9%). Other products for which there was an increase of more than \$1 million over 2016 were: live plants and milk powder.

Nova Scotia exported agri-food products to 78 countries in 2017, up from 65 ten years previous. Main export destinations in 2017 were: USA (55% of exports), Germany (8%), and China (6%).

### Nova Scotia Farm Loan Program

The NSFLB is committed to meeting the needs of industry and to growing businesses by matching clients with viable loans programs and customized solutions based on credit and risk assessment and client need. The NSFLB assists with working capital, land and equipment purchases, life insurance and debt refinancing. It also has several products designed to serve specific lending needs including long term development projects like orchards and grapes, loans for quotas and new entrant supports to encourage new farmers to establish commercial farms in Nova Scotia.

Board staff are primarily trained in agriculture and have knowledge and understanding of product commodities sectors of Nova Scotia agriculture. Many have agri-business training and are well equipped to understand the inner workings of farm finance. The staff of the NSFLB are committed to the industry and are interested in serving their client base effectively, with the right product at the right time. The board staff are part of the larger Department of Agriculture and can access many additional resources.

### Lending Products

- Fast Tractor – provides a preapproved purchasing line of credit for new or used equipment
- Quota Loan – is for buying milk quota, egg quota, broiler quota or turkey quota. This loan is designed to make the license affordable with investment repayment as cash flow allows
- Jump Start Program – is designed for new entrants with particular emphasis on providing the client with flexibility, combining some of the best components of the NSFLB’s other credit products
- FarmNEXT – aims to encourage and support new farmers by contributing to the interest accrued on a new loan in hopes to stabilize the new farm business in the first few years of operation. There were 17 new entrants in 2017-18
- Micro-Loan Program – assists direct-to-market small scale working groups to expand their agricultural business through the availability of \$50,000 or less for capital or operating projects. There were 10 clients in 2017-18
- Deferred Product Options Loan – is a program specifically designed for apple and blueberry development and mink ranch expansions. It is beneficial in situations where a long-range approach to cash flow is required. For example, it can provide cash flow generation during the apple orchard development process which can take 2-5 years to see cash flow returns

### Operations

The NSFLB supports the capitalization of rural Nova Scotia businesses with an investment of \$189 million in Nova Scotia farms and farm processing. This capital was used to buy farm land, construct farm buildings, plant new crop varieties, make animal genetic improvements, purchase new efficient equipment, adopt new agricultural technology, purchase marketing quotas and provide working capital.

These investments make Nova Scotia a better and more productive place to farm and support local food production for Nova Scotians. These investments have spin-off benefits for related industry including building and material suppliers, building contractors and equipment dealers, and result in significant positive benefits for the entire Nova Scotia economy.



## Progress on Goals

### Enabling Responsible Economic Growth

- Provincial investments through Board loans make Nova Scotia a better and more productive place to harvest, grow and produce food and agri-products
  - Invested heavily in 2017-18 in growing industries such as apple and wine/grape production

### Supporting Research and Innovation

- The Board supports innovative farmers and processors in the development of new crops and agri-products and in the adoption of new technology
  - Board supported purchase of new trellis systems for grape production and robotic milking and feeding systems on dairy farms, among others

### Building Public Trust and Market Acceptance

- The NSFLB disburses funds for food production and process improvements, as well as quality improvements
  - Funded 27.7 million in projects which supported improvements in efficient and safe food production, such as robotic milking equipment, and in the production and maintenance of quality products, such as processing and cold storage equipment
  - Investments indicate a small decline from the previous year mainly due to the contraction of the fur industry

### Increasing Trade and Market Access

- The Board continued to support businesses seeking new markets and those involved in domestic and international trade
  - Invested in apple, blueberry and wine farm businesses (13 clients, 14 loans) in the amounts of \$4.4 M, \$1.6 M and \$2.7 M, respectively, comprising 38% of the total lending portfolio
  - Mink comprised 7% of the total lending portfolio

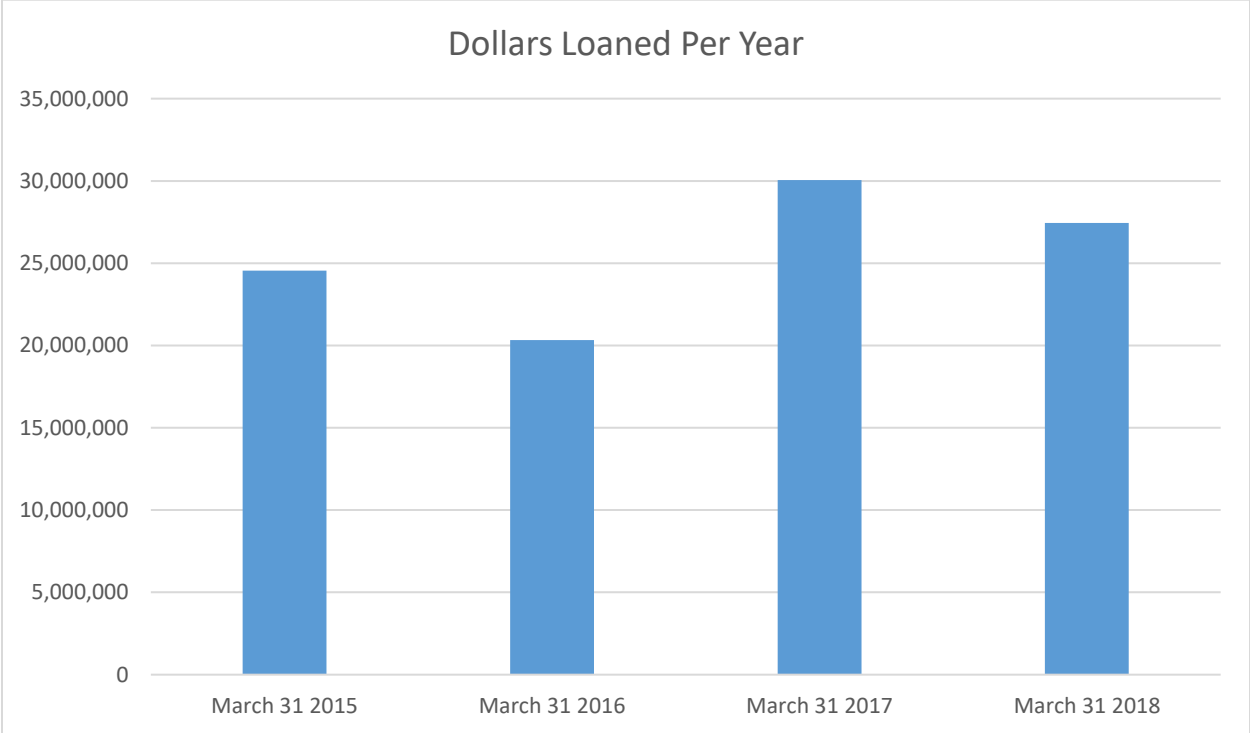
### Encouraging Value Added Opportunities

- The Board continued to fund projects which go beyond commodity markets and which generally represent greater profit margins, for developing industries including juice and wine production
  - Invested in industry development with loans used to purchase of on-farm value-added cranberry processing equipment as well as innovative blueberry processing equipment

## Regulatory Review

The NSFLB began a review of the *Nova Scotia Farm Loan Regulations* to modernize and align it with the *Nova Scotia Fisheries and Aquaculture Loan Board Regulations*. Proposed regulatory changes will enhance the Board’s ability to streamline services, improve lending capabilities, address risk issues and allow for sustainable funding options. Improved efficiencies will be achieved by integrating the administrative and operational functions of the staff supporting the two Boards (Nova Scotia Fisheries and Aquaculture Loan Board is the other). Desired outcomes also include an improved application process and website. The two Boards will continue to operate separately to maintain their unique sector supports. These changes will make the Loan Board a more appealing institution for borrowers by providing the industries with greater and more flexible loan options that fit their needs and by reducing loan turn-around times.

### Lending Highlights



The NSFLB approved 68 new applications with total funds authorized exceeding \$27.7 M. Major accomplishments in 2017-18 include further expansion into wine and high-density orchards lending as well as implementing the Micro-Loan Program.

### Trends in apple and winery/grape loans

Year	# of Apple loans	# of Winery/Grape Loans
2015-16	51	14

2016-17	56	9
2017-18	57	11

Compared to 2016, loans to grapes and wines, apple and greenhouse producers showed increases:

- Greenhouse produce accounted for 1.5% of total Farm Cash Receipts in 2017
- The 2017 harvest of wine grapes was 1,914 metric tonnes, an 8% increase over harvest 2016
- Winery capacity at Nova Scotia farm wineries is about 165, 000 cases or 1.5 million litres of wine per year
- Apples are Nova Scotia's second largest fruit crop, yielding 34,248 metric tonnes in 2017, a 3% increase from 2016

Other 2017-18 highlights:

- 20 new FarmNEXT applicants and 17 approved loans
- 108 clients in arrears, compared to 93 in the previous year
- 82 clients in receipt of special credit counseling and all new loans clients (68) received business analysis through loans processing as part of the Board's regular services

## Independent Auditor's Report and Audited Financial Statements

### Key Financial Highlights

<b>Highlight</b>	<b>Amount</b>
Interest Revenue	\$5,867,000
Interest Expense	\$4,066,885
Net Interest	\$1,800,115
Bad Debt Expense	\$5,144,484
Operating Expenses	\$1,611,000