

Kentucky Agricultural Finance Corporation

Minutes of the January 16, 2009 Meeting

The meeting of the Kentucky Agricultural Finance Corporation (KAFC) Board of Directors was held Friday, January 16, 2009 at the Lexington Convention Center, Thoroughbred 2, in Lexington, Kentucky. Bruce Harper, designee for Commissioner Richie Farmer, presiding, called the meeting to order at 10:15 a.m. EST.

Notification of the Press

Mr. Harper received verification that the media had been notified regarding the KAFC monthly meeting.

Roll Call

The Secretary called roll.

Members Present

Bruce Harper (designee for Commissioner Farmer), Bob Gaslin, Wayne Hunt, Doug Lawson, Tom Midkiff (designee for Secretary Miller), Charles Miller, James Reams, Annette Crawford-Walters

Members Absent

Larry Jagers, Frank Penn, Bob Proffitt

Others Present

Staff – Sandra Gardner, Tim Hughes, Bill McCloskey, Christi Marksby

Guests – Dr. Craig Infanger, UK Agricultural Economics; Dr. Rick Maurer, UK Community & Rural Development; John Gossage, First & Farmers National Bank; Delaina Russell & Family

Welcome / Introduction of Guests

Mr. Harper welcomed the Board and guests to the meeting.

Review and Approval of Minutes

James Reams noted one correction: page 5 AF08-0064 – Ms. Reams should be Ms. Walters, since Mr. Reams also seconded the motion.

Tom Midkiff moved to approve the minutes of the November 7, 2008 meeting, as corrected, of the KAFC Board of Directors; Doug Lawson seconded the motion.

The motion passed without dissent.

Reports

Executive Director's Report

Mr. Harper noted that Roger Thomas was not available for the Executive Director's Report, since the Kentucky Agricultural Development Board meeting was taking place at the same time.

Committee Reports

Audit Committee

Mr. Harper called on Annette Crawford Walters to report for the Audit Committee. Ms. Walters proposed the committee's recommendation to perform an Annual Review through the state auditor's office, which should not exceed \$5,000.

Ms. Walters moved to accept this recommendation; Mr. Reams seconded the motion.

The motion passed without dissent.

Ms. Walters also reported on the review of two loans: Caulier-Eimbke and Burton Livestock.

Caulier-Eimbke

Ms. Walters noted the hand out [on-file with Secretary] on the Caulier-Eimbke loan. Ms. Walters reviewed the history of the financed project, noting that because of various difficulties with contractors and loss of off-farm income, they have no finances to make first payment, which was due in December.

Ms. Walters reported that the bank proposed to not ask for the \$150,000 remaining on a second approved loan with K AFC, do one note for all debt except K AFC's, K AFC retain second position behind \$1.2 million, and roll interest into a new note and start charging interest on it.

Ms. Walters reported the Committees recommendations:

1. Write a letter of demand for interest payment due, as a legal formality;
2. Research to ascertain if [K AFC] is bound by the commitment letter to disburse the remaining \$150,000; and
3. Not "renew" interest, but place it at the end of string of debt to collect when cash flow improves or sale of assets happens.

The Board asked about liability for not disbursing the \$150,000, which will be researched.

Burton Livestock

Ms. Walters reported that Burton Livestock will not be able to meet the first payment and is slow to provide financials. The committee will be looking at the loan at the next committee meeting (date to be determined) and is expecting remaining financials by then.

Loan Review Committee

Mr. Harper called on Charles Miller to report for the Loan Review Committee.

Mr. Miller provided an update on Grasslands Dairy and Siemer Milling accepting their loan offers, which were less than what each requested.

Mr. Miller yielded to Wayne Hunt for an update on Siemer's activities. Mr. Hunt reported that Siemer is processing all of the Kentucky wheat that they can get through the flour mill at about 100,000 pounds per day. Mr. Hunt also noted that Siemer was at the Annual Meeting the day before with a display, showing the brands that use their flour (e.g. Krustez). He also noted that the company is 45% employee owned and that they use the off-grade wheat to make glue extender.

Mr. Miller lead a discussion on KHI Foods (formerly Katelyn's Honey, Inc.), regarding their responses to questions asked about their project. Mr. Miller noted that KHI will be presenting to the KADB after lunch. It was decided that after K AFC's presentation on the UK Study, those who wished could attend the presentation.

Financial Services Director's Report

Mr. Harper called on Bill McCloskey to give the Financial Services Director's Report.

Mr. McCloskey reviewed the 2009 meeting schedule, noting that staff will hold stricter to the deadlines, since the meetings will be monthly. The monthly schedule is in response to the UK Study noting that timeliness was an issue for some lenders in loan approval.

Mr. McCloskey provided an update on the Kentucky Agricultural Development Board (KADB) zero interest loans, which will be administered by K AFC. The first loan, ReBorne, will be added to the monthly financial reports. The internal process will be that the Project Analyst for KADB will request disbursements; K AFC will approve requests and send money. He also noted that there is a 2-year

grace period. Once these funds are transferred to K AFC’s account, then they and all paybacks will remain with K AFC for relending.

Mr. McCloskey noted that staff will work more closely on future projects like this, and will provide additional reporting to the KADB, related to the zero-interest loans.

Mr. McCloskey reviewed the financial position report (below) of K AFC, which reflected activity since the last meeting.

K AFC Statement of Financial Position	
ASSETS:	
Interest Earned from Loans	\$949,109.49
Interest Earned from State Investment Commission	977,045.17
Interest Fund (2802 Acct.)	\$1,926,154.66
Principal/Loan Fund (2803 Acct.)	4,932,917.14
Loan Funds Disbursed	19,067,082.86
Funds Held by State & not transferred to K AFC	7,000,000.00
Total Assets:	\$32,926,154.66

Mr. McCloskey announced that the application for the new Large/Food Animal Veterinary Program will be available the week of January 23.

Mr. Harper drew the Board’s attention to the Memorandum of Agreement that was distributed at the joint KADB/K AFC meeting earlier in the morning. The Board reviewed and discussed the document.

Ms. Walters moved to accept the MOA as presented; Mr. Hunt seconded the motion.
The motion passed without dissent.

New Business

The following loan applications were received between October 18 and December 19, 2008. Mr. McCloskey presented each, except AF08-0096 where Christi Marksburry presented the project.

Agricultural Infrastructure Loan Program

AF08-0094 Greathouse, Edward (Glencrest Farm LLC) – Applicant requested \$92,950 for construction of a livestock barn and hired labor housing for a livestock operation in Scott County. Central Kentucky ACA (Lexington) is the participating lender. Staff recommended approval.

Ms. Walters moved to approve AF08-0094, based on staff’s recommendation, pending fund availability; Mr. Miller seconded the motion. *The motion passed without dissent.*

AF08-0096 Lancaster, Gary – Applicant requested \$15,000 for construction of a feed barn in Meade County. South Central Bank of Hardin County is the participating lender. *This loan was approved by staff (December 11, 2008), based upon loan size and credit score per Agricultural Infrastructure Loan Program policy adopted June 24, 2005.*

AF08-0097 Hager, David – Applicant requested \$30,000 for construction of a hay storage facility and greenhouse in Hardin County. South Central Bank of Hardin County is the participating lender. Staff recommended approval, conditional on CLTV no worse than 80%. **Mr. Lawson moved to pend AF08-0097 until numbers for 2008 and an updated credit report is obtained, noting that there are too many questions to take action; Mr. Reams seconded the motion. The motion passed without dissent.**

AF08-0099 Robey, Lee (Robey Farms) – pending

AF08-0101 Wright, William – pending

AF08-0103 Martin, Chet – Applicant requested \$42,500 for the expansion of grain handling facilities in Carlisle County. FNB Bank, Inc. (Mayfield) is the participating lender. Staff recommended approval, conditional on CLTV of no worse than 80%. Mr. McCloskey also noted that this project is tied to AF08-0104 and that the applicants' accountant had advised them to keep the loans separate.

Mr. Hunt moved to approve AF08-0103, based upon staff's recommendation, pending fund availability; Ms. Walters seconded the motion. The motion passed without dissent.

AF08-0104 Martin, James – Applicant requested \$42,500 for the expansion of grain handling facilities in Carlisle County. FNB Bank, Inc. (Mayfield) is the participating lender. Staff recommended approval, conditional on CLTV of no worse than 80%.

Mr. Miller moved to approve AF08-0104, based upon staff's recommendation, pending fund availability; Mr. Reams seconded the motion. The motion passed without dissent.

AF08-0105 Brockman, Dwain – pending

Beginning Farmer Loan Program

AF08-0095 O'Bryan, JW – pending

AF08-0098 Russell, Delaina – Applicant requested \$113,904 for the purchase of land and construction of buildings in Adair County. First and Farmers National Bank (Columbia) is the participating lender. Staff recommended approval. Mr. McCloskey noted that the applicant was present, along with her loan officer John Gossage.

Mr. Hunt moved to approve AF08-0098, based upon staff's recommendation, pending fund availability; Mr. Miller seconded the motion. The motion passed without dissent.

AF08-0100 Yoder, Wesley & Rose – Applicants requested \$250,000 for the construction of two poultry layer houses for Cobb in Wayne County. Farm Credit Services of Mid-America (Somerset) is the participating lender. Staff recommended approval, conditional on CLTV no worse than 90%.

Bob Gaslin moved to approve AF08-0100, based upon staff's recommendation, pending fund availability; Mr. Walters seconded the motion. The motion passed without dissent.

AF08-0102 French, Marion & Fonda – Applicants requested \$250,000 for the construction of three poultry layer houses and equipment in Breckinridge County. Farm Credit Services of Mid-America (Hardinsburg) is the participating lender. Staff recommended approving, conditional on nutrient management plan and water quality plan being provided.

Mr. Lawson moved to approve AF08-0102, based upon staff's recommendation, pending fund availability; Mr. Gaslin seconded the motion. The motion passed without dissent.

AF08-0106 Hopewell, Eric (Hopewell Family Farms, LLC) – pending

AF08-0107 Smith, Joshua – Applicant requested \$41,666 for the purchase of a 32.28 acre farm and capital improvements, including well and pond for irrigation, in Calloway County.

Heritage Bank (Murray) is the participating lender. Staff recommended approval, conditional on CLTV of no worse than 100%.

Mr. Hunt moved to approve AF08-0107, based upon staff's recommendation, pending fund availability; Mr. Reams seconded the motion. Mr. Lawson abstained from the vote.
The motion passed without dissent.

Old Business

AF08-0069 Cave, Thomas & Evangela (AILP) – Applicants requested \$38,500 for the construction of a tobacco barn in Taylor County. Farm Credit Services of Mid-America (Campbellsville) is the participating lender.

This loan was approved by staff (January 5, 2009), based upon loan size and credit score per Agricultural Infrastructure Loan Program policy adopted June 24, 2005.

AF08-0092 Combs, John & Darla (AILP) – Applicant requested an additional \$250,000 for the construction of two poultry layer houses in McCreary County. Staff recommended approval, based on current production for the "gross farm income" requirement.

Ms. Walters moved to approve AF08-0092, based on staff's recommendation, pending fund availability; Mr. Miller seconded the motion. The motion passed without dissent.

AF08-0066 Sparrow, Kyle (Sparrow Cattle Company, LLC) – Withdrawn

Mr. Miller noted that he enjoyed having the Beginning Farmer Loan applicants come to the meetings and encouraged staff to continue inviting them.

The Board adjourned for lunch at noon and reconvened at 1:15 p.m.

Presentation

Mr. McCloskey introduced the guest speakers Drs. Craig Infanger and Rick Maurer from the University of Kentucky College of Agriculture who presented their findings from the UK Study of KADB investments commissioned by the Agricultural Development Board in 2007.

Closing Remarks

The next meeting of the KAFC Board will be Friday, March 6, 2009 in Frankfort, KY. The regular business meeting of KAFC will begin at 10:00 a.m. EST.

The meeting adjourned at 1:55 p.m. EST.

APPROVED: _____

PRESIDING: _____

SECRETARY: _____