Issues Affecting Future Poultry Production on Delmarva

Delmarva Breeder, Hatchery and Grow-Out Conference
Salisbury, MD
September 14, 2005
Kenny Bounds

Vice President/Chief Business Development Officer
MidAtlantic Farm Credit

Past President,
Member of Board of Directors
Delmarva Poultry Industry, Inc.
MidAtlantic Farm Credit

- Over $1.5 billion in loans outstanding to more than 10,300 members
- 14 branch offices for your convenience
- As a cooperative, we put our profits in your pockets! In 2004 we distributed more than $26.3 million or 31.19% of interested accrued on loans back to our members

“Serving all of rural America”
Poultry is the largest segment of agriculture in Delaware, Maryland, & Virginia

- 35% of Maryland cash farm income
- 71% of Delaware cash farm income
- 21% of Virginia cash farm income
2004 DPI Facts and Figures

- 561 million birds produced
- 3.3 billion pounds
- 5,500 chicken houses
- 128 million bird capacity
- 2,000 Delmarva growers
- 14,000 poultry company employees
2004 DPI Facts and Figures

• $159 million grower pay
• $337 million integrator payrolls
• $1.7 billion wholesale value of Delmarva birds
• Each job in poultry processing industry creates 7.2 jobs elsewhere
Number of Broiler Chickens Produced on Delmarva

Years


Thousand Birds

200,000 250,000 300,000 350,000 400,000 450,000 500,000 550,000 600,000 650,000
Broiler Chicken Weights In Delaware, Maryland, and Virginia

Source: United States Department of Agriculture
Prepared by: Delmarva Poultry Industry, Inc.
# DPI Delmarva Grower Data

<table>
<thead>
<tr>
<th>Year</th>
<th># of Growers</th>
<th>Capacity</th>
<th># Birds</th>
<th># Pds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>4611*</td>
<td>83 M</td>
<td>330M</td>
<td>Not Avail</td>
</tr>
<tr>
<td>1980</td>
<td>7175*</td>
<td>90 M</td>
<td>418M</td>
<td>Not Avail</td>
</tr>
<tr>
<td>1990</td>
<td>6817*</td>
<td>97 M</td>
<td>517M</td>
<td>2.4 B</td>
</tr>
<tr>
<td>1994</td>
<td>2800</td>
<td>113 M</td>
<td>605M</td>
<td>3 B</td>
</tr>
<tr>
<td>2002</td>
<td>2320</td>
<td>123 M</td>
<td>585M</td>
<td>3.2 B</td>
</tr>
<tr>
<td>2004</td>
<td>2000</td>
<td>128 M</td>
<td>561M</td>
<td>3.3 B</td>
</tr>
</tbody>
</table>

*Includes growers and their on-farm employees

Data from Delmarva Poultry Industry, Inc.
Challenges for Delmarva

Number One Issue

Urban Encroachment

• Sights, sounds, smells
• Nuisance complaints
• Lawsuits
"As someone who now has a CAFO poultry operation 300 feet from our property, we can tell you first hand that 300 feet is not acceptable to neighbors of poultry growers"

Charles E. and Betty Schelts
Queen Anne Record Observer
“Perhaps the Queen Anne’s County Commissioners, poultry grower mortgage lenders and the chicken integrators themselves would like to put their money where their mouth is and purchase our now worthless property.”

Charles E. and Betty Schelts
Queen Anne Record Observer
“The interface between farming operations and the rapidly developing areas across the state is creating new challenges. We are confident that we have capability in Maryland to develop creative and effective solutions.”

MDA Secretary Lewis Riley
Challenges for Delmarva

DPI Best Management Practices for Good Neighbor Relations*

*Passed by DPI Board last night

- Site selection
  - Consider present and future neighbors
  - Minimum of 10 acres
  - Use natural barriers to shield
  - Configuration on the site
  - Location of roads, houses

“Serving all of rural America”
Challenges for Delmarva

DPI Best Management Practices for Good Neighbor Relations*

*Passed by DPI Board last night

• Setbacks – legal vs. practical
• Support most existing county standards
• At a minimum:
  • 200 ft from dwelling
  • 200 ft - center of road
  • 60 ft side property line
  • 75 ft from rear line
Challenges for Delmarva

DPI Best Management Practices for Good Neighbor Relations*

*Passed by DPI Board last night

• Manure handling
• Dead bird disposal
• Vegetative Buffers
• Odor Prevention and Control
• Be proactive with neighbors

“Serving all of rural America”
Land Use/Loss of Farmland

Zoning issues
• Setbacks
• Reverse setbacks
• Downzoning
• TDR, PDR
• Receiving and sending areas
• Right to Farm laws
• Proactive meetings with county elected officials, planning and zoning staff
Rural Amenities and Open Space

- If we want to have a rural component to our counties and enjoy the amenities provided by open space and rural living, it is important to plan for agriculture in our comprehensive plans and consider the impact of regulations before enacting change.
- A well-conceived plan finds effective ways for those from urban/suburban areas to interface with the farming community while understanding and respecting each other's needs.
Impact of zoning change on profits

Example: proposed Queen Anne’s County change from 300’ to 750’ setbacks, land at $7,000/acre, 25 year amortization on the land, 15 years on 3 poultry production facilities.

**Current Zoning**
Positive net cash flow margin $27,225
Cash flow coverage 123.59%

**Proposed Zoning**
Negative net cash flow margin ($10,811)
Cash flow coverage 92.95%
Impact of Poultry Industry on Grain Farm Cash Flow

Example: 2527 acre grain operation, Eastern Shore of Maryland.
Assume $0.30/bu corn & $0.10/bu. soybean “poultry premium,” $0.22/bu. transportation cost, 2005 budget.

Farm Cash Flow With Poultry Premium
Net cash flow margin $96,827
Cash flow coverage 136.26%
(Healthy with room to withstand adversity)

Farm Cash Flow Without Poultry Premium
Net cash flow margin ($12,684)
Cash flow coverage 95.25%
(Negative cash flow, non-viable)
Contract Animal Agriculture

- Growing animals on contract for an integrator adds diversity and stability to cash flow of many farmers raising grain, vegetables, and other crops.
- Livestock production is the sole income source for many others.
- Loans for contract animal production have historically been the best in our loan portfolio.
• Uniquely, contract animal operations can be leveraged 100% and still cash flow

• With the many financial tools that we have to supplement loan packages, people with a sound plan and a good credit history will be successful in obtaining financing.
Housing Trends

• Number of new houses being constructed has been steadily increasing.
• Many houses are being built as a way to supplement children coming into a farm operation.
• Best estimates are that we will build over 125 houses in the coming year, most being wide type housing. One source estimates up to 200 houses.
The trend to larger farms to gain economies of scale is necessary to remain profitable.

Larger capacity spreads the high cost of land, equipment and new technology over more animal units.

But, how large is too large?
- Management issues
- Biosecurity
- Resale of large capacity farms
- Perception – “Factory” Farm vs Family Farm
## Trend in Housing Costs

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBER</th>
<th>SIZE</th>
<th>COST SQ FT</th>
</tr>
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<tbody>
<tr>
<td>1993</td>
<td>3</td>
<td>41 X 501</td>
<td>$6.26</td>
</tr>
<tr>
<td>1995</td>
<td>2</td>
<td>43 X 501</td>
<td>$6.38</td>
</tr>
<tr>
<td>2002</td>
<td>4</td>
<td>46 X 560</td>
<td>$6.49</td>
</tr>
<tr>
<td>2003</td>
<td>3</td>
<td>51 X 501</td>
<td>$7.39</td>
</tr>
<tr>
<td>2004</td>
<td>4</td>
<td>51 X 501</td>
<td>$8.72</td>
</tr>
<tr>
<td>2005</td>
<td>3</td>
<td>66 X 600</td>
<td>$9.48</td>
</tr>
</tbody>
</table>

*Includes generator and non cost-share portion of manure shed

New house incentive not included.
Construction Challenges

- Rapidly increasing cost of construction
- Inability to lock in construction costs—everyone at risk, builder, grower, lender.
- Large cost-overruns are a problem, especially with young farmers and leveraged beginning farmers
- When state or government agencies are involved with loan guarantees, it not easy to restructure the deal midstream.
Special Financing Considerations

Environmental Compliance

- NEPA (FSA Loans)
  - Public Notice of FONSI
  - Historic Home Determination
  - CERCLA (Superfund Sites)
  - UST’s
  - State FOIA
- Chemical storage, dump sites
- Waste handling and storage
- Wetlands/Highly Erodible Land

ADDS MONTHS TO PROCESSING TIME
New Poultry House Cash Flow

3 – 60’ x 500’
Recirculating pads, tunnel ventilated, with generator and grower portion of manure shed

$162,000 gross farm income
-29,000 farm expenses
$133,000 Net farm income

$ 95,817 Total payments
$ 37,183 Net to Producer

$853,200 15 years, 7.6%
*Farm Credit patronage refunds not included
New Poultry House Cash Flow

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Recirculating pads, tunnel ventilated, with generator and grower portion of manure shed

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$ 37,183 Net to Producer

The $37,183 will pay for debt service on approx. $461,000 of additional loans for land, residence, etc.
Nutrient Management - Maryland and Delaware have high % compliance with nutrient management laws
  MD 74%
  DE 84%
• Land application will remain a preferred use where permissible but we will need other solutions
What Else is Ahead?

Alternative uses for old poultry houses – Mushrooms?
Feathers for filters?
Bedding materials – Synthetics?
Even higher Biosecurity
Human Health Issue
Greater emphasis on Animal Welfare
Increased levels of reporting
Energy concerns
The Good News

• Environmental groups, many of which were former adversaries, now see merit in working cooperatively.
• Many news media outlets are running positive stories, including, recently, the Wilmington News Journal.
No longer under attack

VIEWPOINT

‘Our industry is under attack’: Bounds

EDITOR’S NOTE: The following is an abbreviated text of Mr. Bounds’ speech at the DPI Booster Banquet, held April 20, in Salisbury, Md.

By KENNETH M. BOUNDS
President
Delmarva Poultry Industry Inc.

I would like to start by thanking you for your support of DPI. It has been amazing to me how many dollars, how many hours, how much effort is needed to run this organization. I am very proud of the job that everyone is doing.

Since last year’s banquet, your organization has been working hard for all of us. No one group dominates DPI. Growers, employers, companies, allied and community businesses are all represented and represented well. Many of you in the audience have participated in the numerous public meetings and have worked to improve the situation for all of us.

The personnel, nor do you want them to police what you are doing with your nutrient management plans and crop production. If Gov. Glendening and Secretary Nash are successful in this effort, you and the companies can be fined under the Clean Water Act, which covers point sources of pollution.

Agricultural nutrients are non-point sources of pollution, and you, as growers, are not currently subject to these harsh fines.

What does it mean to you? I will tell you — significant fines levied on a daily basis, more government intrusion into your lives, and the increased likelihood that the companies would have to drop you as a grower for nothing related to poultry performance. If you were the least bit negligent in implementing the requirements of your nutrient management plan, the company

At the annual Delmarva Poultry Booster Banquet in Salisbury last week, DPI President Ken Bounds, right, chats with Delaware Gov. Tom Carper.

rather than the stick approach despite EPA’s call for a heavy-handed regulatory program.

In Virginia, the law that was enacted, through billboards, beach airplane banners, and radio advertisements and other things, we will send them a message that our farm fami-
Thank A Chicken

Behold the chicken and its appetite -- not just for soybeans, which it consumes in great quantities -- but also for goods and services. The poultry industry spends some $147 million on new facilities, equipment, business supplies and professional services each year on Delmarva. So, thank a chicken. The job you save, and the quality of life you preserve, may be your own.

This site is currently under construction. Please visit again, and often, as we complete the site during Summer 2005!

Brought to you by Maryland and Delaware soybean farmers and their checkoff.
The Good News

• Poultry remains profitable. Young farmers are entering the business
• Politicians at many levels are coming to see that we are smart enough to have agriculture and a healthy environment
• Sound science, public commitment, and cooperation seem to be the modus operandi at this time