

February 22, 2021

VIA EMAIL

BC Hatching Egg Producers

Dear Producers,

LEVY INCREASE AS PART OF RESTORING AND REPURPOSING COMMISSION FINANCIAL RESERVES

This letter is to follow up on the discussion at the February 9, 2021 Winter Producers Meeting.

As everyone knows, COVID-19 has had a critical impact on the BC hatching egg sector, including on the financial reserves of the BC Broiler Hatching Egg Commission. The purpose of this letter is to describe that financial impact and outline the Commission's plans to restore those reserves. At its January 21, 2021 board meeting, the Commission determined that a levy increase to \$0.021 saleable chick effective Period A-168 (March 7, 2021) was a necessary part of those plans, given the continued reduction in production due to COVID-19. Facing a deficit at \$0.019 per saleable chick, the Commission now estimates a surplus of \$57,660 because of the increase. This levy increase is solely to permit the Commission to navigate the impact of COVID-19 and will be re-assessed as soon as those circumstances and the overall financial situation of the Commission allows. As will be seen below, the Commission is exploring options to address its funding issues.

The attached table and the following are provided to put this levy increase in context and show the other initiatives the Commission is undertaking to restore its financial reserves as soon as possible; especially since we are still operating in a risk from COVID-19 environment for at least the next several months. As well, it will be necessary for the Commission to establish the funding necessary to implement a Salmonella Enteritidis (SE) insurance program in 2022, following SE mitigation in 2021.

Losses

At the outset of COVID-19, the Commission had a total of \$3,096,249 in financial reserves, broken down as follows:

Reserve for the Unforeseen: \$1,000,000, fifty percent slated for industry relief (i.e., AI response), fifty percent slated to maintain Commission operations in the event of an industry shutdown resulting in no levy revenue. Of this, \$167,000 is assigned as security to Canadian Hatching Egg Producers in the event of overproduction and an LDA being applied.

Ontario Broiler Hatching Egg and Chick Commission (OBHECC) Fund: \$1,179,249, with \$837,000 approved for the building project after being held in reserve for over twenty years.

Building Fund: \$750,000 originally set aside by the Commission for a new building and following BCFIRB approval to use OBHECC funding instead, repurposed to fund the COVID-19 response.

Plus \$80,000 in a fund to replace the Small Egg Program truck and \$60,000 in an office fund that was used to furnish and equip the new building.

To date, COVID-19 has resulted in \$666,589 hard costs to the Commission:

\$537,641 to producers for eggs dumped or composted because surplus to reduced market and restricted breaker market.

\$66,937 to render flocks.

\$53,220 to compensate producers whose flock were rendered instead of receiving \$0.20 kg for spent fowl processed for market.

\$6,791 to bring a producer to an even lay cycle of 54 weeks (flock processed earlier than industry average).

\$2,000 to hatcheries to cover their labour costs for dumping surplus eggs.

The remaining \$83,411 has been left as a float in the Commission's operating account to cover other miscellaneous expenses incurred because of COVID-19.

Other Funding Options Being Explored

The Commission worked closely with BC Ministry of Agriculture, Food and Fisheries (MAFF) staff in preparing an AgriRecovery application to cover \$548,000 of COVID-19 related costs. The Commission has followed up with both the federal and provincial ministers of agriculture and has been advised by way of a January 11, 2021 letter from MAFF that the federal government has declined to support AgriRecovery applications from the supply-managed poultry sector. The Commission continues to explore with MAFF potential assistance from the Province, but it is not known whether this will be successful.

The Commission is also discussing with the BC Chicken Marketing Board (BCCMB) whether some of the OBHECC funds used on the BCCMB's behalf for tenant improvements can be transferred back to the Commission (see attached BCCMB February 10, 2021 letter). Originally, the BCCMB was to repay these monies over 10 years, subsidizing the Commission's leasing costs. The BCCMB now may have the reserves to repay the Commission up front. As this will immediately increase the Commission's monthly lease costs it will have no financial benefit in the longer term but in the short term, increase the operational reserves currently available to the Commission. The Commission will need to confirm with BCFIRB that this amendment to its original approval for the use of OBHECC funds is acceptable.

As well, the Commission would like to approach BCFIRB with a request that the outstanding balance of the OBHECC funds (\$342,249) and the one-half of tenant improvement costs due from BCCMB (approximately \$400,000), be transferred to the restricted Reserve for the Unforeseen. This would continue to restrict and dedicate the remaining OBHECC funds to the overall strategic interest of the BC hatching egg sector in that the funds could only be used in crisis (AI) situations or, optimally, in support of start up costs for AI insurance when a suitable product becomes available.

In turn, the Commission could then transfer \$342,249 out of the existing amount in the Reserve for the Unforeseen and use that funding to commence replenishing its operational reserves. If thought necessary to substantiate its submission to BCFIRB, especially given how rapid and substantive the drain on financial reserves by COVID-19, the Commission may also consider increasing the Reserve for the Unforeseen. For example, increasing it by \$167,000 to cover off the assignment to CHEP and have a full \$1,000,000 set aside for industry relief and Commission emergency operations might be an option. This would reduce the amount freed up from \$342,249 to \$175,249 but would still represent a significant increase in the Commission's reserves.

Finally, CHEP currently has a budget surplus and, with Farm Products Council of Canada approval, will be transferring monies back to the provinces. BC expects to receive a grant of approximately \$80,000.

It is too early for the Commission to determine whether its discussions with the Ministry and BCFIRB will result in successful outcomes. In the meantime, it remains a critical objective to replenish its operational reserves as quickly as possible, including through the proposed repositioning of the OBHECC funds. Should this objective be realized sooner than currently expected, the Commission's priority will be to assess the feasibility of reducing the \$0.021 per saleable chick levy as soon as possible.

As also discussed at the February 9, 2021 meeting, there are many pricing factors in the current BCFIRB supervisory review that remain in play, including a transition to a standalone cost of production formula for BC hatching egg producers and addressing a hatchery margin and breeder chick/vaccine pricing. Once again, however, the outcome of the Review remains to be determined.

Questions and comments are invited but specifically, any objections to approaching BCFIRB to transfer the OBHECC funds as outlined above (including whether the Reserve for the Unforeseen should be increased as well) are requested by Monday, March 1, 2021.

Thank you for your attention to this matter.

Yours truly,


Jim Collins
Chair

Attachments

cc: BC Egg Hatchery Association

**BC BROILER HATCHING EGG COMMISSION
FINANCIAL RESERVES**

2020-21 TRANSACTIONS	<i>01-Jan-20</i>		<i>Purpose</i>	<i>Current</i>
Internally restricted:	<i>Balance</i>	<i>Transactions</i>		<i>Balance</i>
Reserve for the Unforeseen				
Industry relief (i.e., AI response)	\$ 500,000	\$ -		\$ 500,000
Commission operations*	500,000	-		500,000
	<u>\$ 1,000,000</u>	<u>\$ -</u>		<u>\$ 1,000,000</u>
OBHECC funds	\$ 1,179,249	- 837,000	Building Project	\$ 342,249
Truck Fund	80,000	-		80,000
Building Fund	750,000	- 750,000	COVID Response	-
Office Planning	60,000	- 60,000	Building Project	-
	<u>\$ 2,069,249</u>	<u>-\$ 1,647,000</u>		<u>\$ 422,249</u>
Total	\$ 3,069,249	-\$ 1,647,000		\$ 1,422,249

*\$167,000 is assigned as security to CHEP in the event of overproduction and an LDA being applied.

PROPOSED REPURPOSING

Internally restricted:	<i>Current</i>	<i>Transactions</i>	<i>Transactions</i>	<i>Transactions</i>	<i>Purpose</i>	<i>Proposed</i>
	<i>Balance</i>	<i>Transactions</i>	<i>Transactions</i>	<i>Transactions</i>		<i>Balance</i>
Reserve for the Unforeseen						
Industry relief (i.e., AI response)	\$ 500,000	\$ 342,249	-\$ 342,249		Repurpose	\$ 500,000
Industry relief (other)	-	-	175,249	480,000 [†]	Repurpose & new funds	655,249
Commission operations	500,000	-				500,000
Commission operations*	-	-	167,000		Repurpose	167,000
	<u>\$ 1,000,000</u>	<u>\$ 342,249</u>	<u>\$ -</u>	<u>\$ 480,000</u>		<u>\$ 1,822,249</u>
OBHECC funds	\$ 342,249	- 342,249	-	-	Repurpose	\$ -
Truck Fund	80,000	-	-	-		80,000
	<u>\$ 422,249</u>	<u>-\$ 342,249</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 80,000</u>
Total	\$ 1,422,249	\$ -	\$ -	\$ 480,000		\$ 1,902,249

[†] \$80,000 transaction is the approximate grant receivable from CHEP in February 2021; \$400,000 is the approximate receivable from BCCMB.

* \$167,000 is assigned as security to CHEP in the event of overproduction and an LDA being applied.



February 10, 2021

Stephanie Nelson, Executive Director
BC Broiler Hatching Egg Commission
Sent by email: stephanie@bcbhec.com

RE: Correspondence dated January 28, 2021

Dear Ms. Nelson,

Thank you for the above noted letter in which you, on behalf of the BCBHEC (“the Commission”) request repayment by the BCCMB (“the Board”) of the Board’s share of tenant improvement costs at our joint premises due to unforeseen financial pressures related to the COVID-19 pandemic.

At their February 9, 2021 meeting, The Board undertook a fulsome discussion pertaining to your request and is prepared to proceed with an amendment to the terms of the existing con-tenancy agreement under the following conditions.

1. The Commission to provide assurance to the Board that all other financial options have been explored and considered.
2. That the Commission demonstrate that BCFIRB has been consulted and that there will be no consequences to the Board for repayment of these funds to the Commission.
3. That the Commission be responsible for any legal costs associated with the required amendments to the current con-tenancy agreement.
4. That the balance owing be calculated to include any rent payments made subsequent to December 31, 2020 and up to the date of actual repayment of the outstanding amount due.

If the Commission is in agreement with the terms as outlined, please provide confirmation.

Thank you for your attention to this matter.

B. Vanderspek, Executive Director
British Columbia Chicken Marketing Board