



FOR VOTE: CFC Levy & ACP Service Charge

Background:

Following the development of Chicken Farmers of Canada's (CFC) new five-year Strategic Plan, CFC Directors approved an increase to the CFC service charge of \$0.02/100kg (or \$0.0002/kg), which will take effect on June 9, 2019, to coincide with the start of Period A-157.

For the following four years (2020 to 2023), CFC anticipates an increase of 0.02 cents/kg (\$0.0002/kg) each year to fund CFC's operational expenses and promotional programs that support the CFC Strategic Plan. This means that there is a possibility for the CFC levy rate to reach 0.63 cents/kg (\$0.0063/kg) in 2023. That said, the CFC Board of Directors will review its financial position each year before determining if future levy increases are necessary.

Enclosed is a Memo from CFC explaining the rationale for the increase and providing further detail.

Proposed Approach for Alberta Chicken Producers:

The Board has considered and discussed multiple options for incorporating to the CFC Levy increase, and the Board is proposing the following:

- to absorb the CFC increase for the 2018-19 fiscal year (impact of approx. -\$16,000 to ACP's revenue versus budget); and
- to increase the ACP Service Charge by \$0.0002/kg effective December 1, 2019, and potentially onward for the subsequent four years to pass through future increases to the CFC Levy.

The Board is seeking approval from Producers to increase the ACP Service Charge by \$0.0002/kg effective December 1, 2019 (fiscal year 2019-2020); and "prior approval" to pass through future increases to the CFC Levy for the subsequent four years in the ACP Service Charge.

Considerations:

- ACP's 2018-2019 budget was based on the CFC service charge known at the time of budgeting.
- ACP's budget was presented to producers with a caveat that it is based on the CFC service charge at the time of budgeting and that the new CFC strategic plan and budget were being developed.
- The ACP Board has the ability to amend the service charge by Board motion; however ACP consults with producers on policy matters and financial amendments impacting producers.
- The approach is consistent with the previous treatment of CFC service charge increases (last CFC increase in 2014 was applied to ACP's service charge in the 2014-15 fiscal year).

PROPOSED MOTION:

Producers will be asked to vote on the following proposed motion at the 2019 Annual General Meeting:

"Approve an increase to Alberta's service charge of \$0.0002/kg effective December 1, 2019; and provide approval to pass through future increases to the CFC Levy for the subsequent four years in the ACP Service Charge."



2019 CFC Levy Rate Increase

On November 22nd, 2018, the CFC Board of Directors (Board) approved a levy rate increase from 0.53 cents to 0.55 cents per kilogram live weight, effective June 9, 2019 (start of period A-157), representing an increase of 0.02 cents per kilogram.

In making its decision, the Board considered the following:

1. As a result of the approved 5-year strategic plan (2019 – 2023) and the 2019 priorities, an increase in revenues is needed for short-term and long-term funding of CFC's branding and promotional programs. Due to the two trade agreements (USMCA and CPTPP), CFC Directors identified the branding program as a critical priority for 2019.
2. The Promotion Fund has funded the branding and promotional programs until it was fully depleted in 2016. Since then, these programs have been funded by the reserve of the General (Operational) Fund.
3. To be clear, the current levy rate of 0.53 cents per kilogram covers CFC's operational expenses, not the branding program and promotional programs.
4. In August 2017, the CFC Directors approved to fund the branding program for five additional years (2018-2022) at a cost of \$1.7 million annually.
5. For years 2020 to 2023, we anticipate an increase of 0.02 cents per kilogram every year to fund CFC's operational expenses and promotional programs. This means that there is a possibility for the levy rate to reach 0.63 cents per kilogram in 2023. That said, the CFC Board of Directors will review its financial position each year before determining if future levy increases are necessary.

6. CFC Directors considered implementing the levy increase effective mid-year 2020. In the end, it was determined that increasing the levy rate in June 9, 2019 would require a lower rate increase over 5 years (0.10 cents versus 0.12 cents per kilogram).
7. In 2005, CFC Directors implemented a policy to maintain the reserve of the General Fund at twelve months of operating expenses. During its meeting, the Board agreed that moving forward, a contingency reserve above 10 months is necessary so that CFC has sufficient funds to meet its commitments and to deal with unforeseen issues.
8. To put the 0.55 cent 2019 levy into perspective, note that:
 - in 1990, the levy rate was 0.50 cents per kilogram
 - in 1998, CFC set a levy rate at 0.44 cents to cover the operating expenses for 5 years
 - due to production increases, the levy rate remained unchanged for 15 years until 2014 when it increased to 0.53 cents to cover operating expenses
9. Currently, the balance of the Promotion Fund is zero. The revenues generated from overmarketing and market development levies are not enough to support CFC's branding and other promotional programs.

