

New Generation Partnerships - Community Partnerships of Heartland Pork Management

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■ Introduction

As a direct result of the recent changes to Canada's Grain Transportation Policy, western Canada's grain based economy is in the process of adjusting to the new realities. In an effort to diversify into alternative products, the livestock sector has gained increased attention and investment. One of the new entries into the pork business was the Saskatchewan Wheat Pool through its subsidiary Heartland Pork Management. Since its inception in December 1996 Heartland Pork Management has built and now operates seven production projects totalling 16,500 sows. Four of the seven are community-based projects that have a significant number of local shareholders.

This article provides a brief overview of Heartland Pork Management's history and experience with Community Partnerships. The overview includes a discussion of Heartland Pork Management's conceptual plan, a description of the hog projects partnered with communities as well as the roles of both the community and Heartland, the legal framework of the partnerships and a summary of the experience with the partnerships.

■ Background

In December 1996, The Saskatchewan Wheat Pool (SWP) Board of Directors approved a plan to develop and operate a number of 2400 sow projects in partnership with Saskatchewan Communities. The hog initiative was part of a plan to develop a fully integrated production system to be owned and operated by the Pool. The integrated model included Heartland Pork Management, a new subsidiary of SWP given the mandate to develop and manage a minimum of 25 of these 2400 sow projects within five years; CanGro Feeds, a feed company originated to provide feed for Heartland Pork and also service

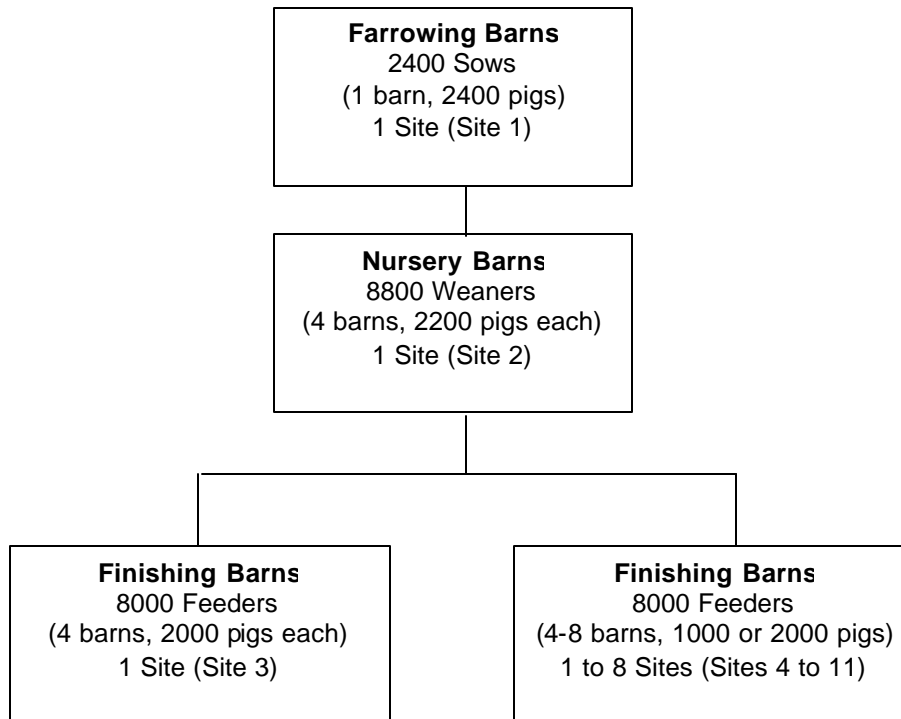
external customers, and the purchase of a significant interest in Fletchers Fine Foods, a hog processing company.

Heartland Pork Management's development model was based on community interest in economic development, local support for hog projects and individual financial investment. Early into the project's development, SWP/Heartland Pork issued a press release stating it would like to partner with Saskatchewan Communities for the development of local community-based hog projects. The response was immediate and very positive; by the spring of 1997 Heartland Pork Management had signed agreements with 25 Saskatchewan communities to partner in 2400 sow projects. The initiative was underway.

■ Development of the Community Hog Projects

Each project consisted of a three site 2400 sow operation as shown in Figure 1. The 2400 sow three site model was chosen for its economies of scale, the health and production advantages of an "all in all out" hog production unit, the ability to specialize labour, and environmental considerations.

Figure 1. Heartland Community Projects - basic layout.



The three site 2400 sow project consisted of a 2400 sow barn (Site1), containing the breeding, gestation and farrowing sections of production; an 8800 head weanling barn (Site 2) at a different location within two miles of the sow barn and two 8000 head grow finish barn locations (Site 3). The 2400 sow project was designed to farrow 120 sows and produce a minimum of 1100 piglets per week. At 17 days of age the piglets were weaned and transferred to the weanling barns (Site 2) where they would stay for approximately 7 weeks following which they were transferred to the grow finish barns (Site 3) where they were fed to slaughter weight.

The projects were budgeted to produce approximately 55,000 market hogs per year, consume approximately 14,000 tonnes of feed, fertilize approximately 2100 acres per year, and employ 15 to 18 people. Cost for each project was estimated to be between \$9.3 and \$12 million dollars depending on the number of finisher barns built by each project.

Community interest in Partnering with Heartland Pork Management in one of the hog projects was based on creating local employment, having the opportunity to sell feed grains, obtain fertilizer through manure application, or as an investment opportunity. The Communities commitment in the Heartland Partnership Agreement was to raise 50% to 75% of the equity capital for the project, to have community support for the hog project, and to assist in the identification, selection and purchase of suitable land for the hog barn locations.

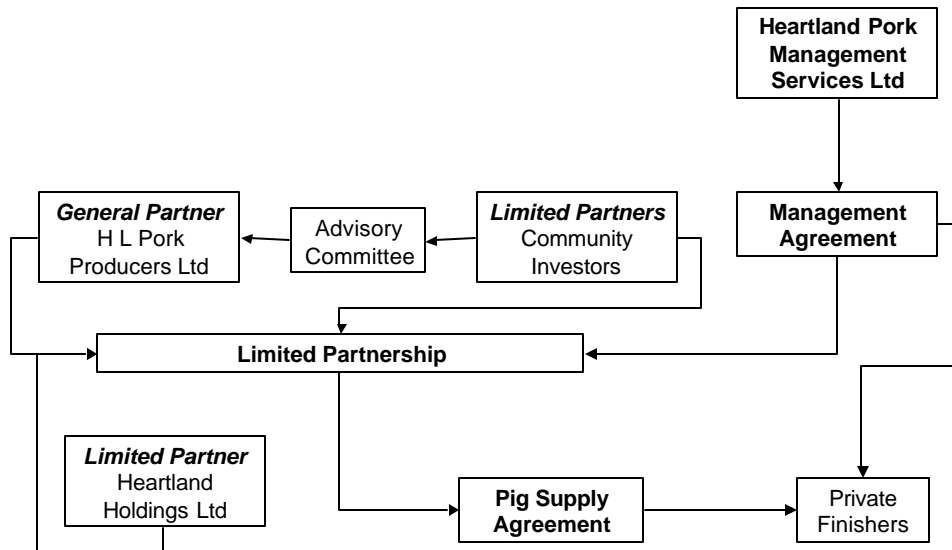
Under the Partnership Agreement, Heartland committed to provide 25% to 50% of the equity capital. Heartland and a local Advisory group managed the development of the project. Heartland staff developed the Prospectus for the share offering, assisted and trained local people to sell shares in the project, assisted in the selection of sites, prepared and shepherded permit applications for the hog sites, and provided support for community and neighbour communications and liaison.

■ Ownership Structure and Responsibilities

A number of ownership structures were evaluated during the conceptual planning for the Community based hog projects. The selection of the Limited Partnership model was based on its tax advantages for local investors, the ability to limit risk to shareholders and its ability to easily convert to a corporate status. The unique feature of the Limited Partnership's was its ability to apply Partnership losses during start-up to be transferred directly back to shareholders so they could use the Partnership loss against their personal tax. As the projects became profitable or the tax opportunities were fully exploited, the Limited Partnerships were planned to be converted into Corporations.

The Legal framework for Heartland's Community based Partnerships is provided in Figure 2.

Figure 2: Limited Partnership Concept



The Limited Partnership is the legal ownership entity for the Community/Heartland Projects. Heartland Holdings Ltd and the local community investors hold the respective shares and the legal rights they empower within the Limited Partnership. HL Pork Producers Ltd acts as the General Partner and as such is responsible for the management of the Partnership and the Project on a day-to-day basis in accordance with the Partnership Agreement. Heartland Pork Management Services Ltd. was contracted by the Limited Partnership to provide operational and financial management to the Limited Partnerships. The Advisory Committee had no legal obligations, however were instrumental in developing the project.

The Limited Partnership owns 100% of the sow, farrowing and nursery facilities and at least 50% of the finishing facilities, which will be on a minimum of three different sites. All of the hogs are finished by the partnership, approximately 50% in the owned facilities and the balance under contract through Heartland Pork Management.

■ Heartland's Community Projects

Given Heartland Pork's mandate to develop 25 – 2400 sow projects within 5 years, the Communities chosen for the first Partnership Projects were those quickest to organize. Due to the size of the project and the amount of money needed to be raised, most of the projects were made up of a number of Communities who had banded together to form a regional group. The regional group often encompassed Communities within a 50 mile radius.

The initial Heartland community based projects were started at Neilburg (The Manitou project), Perdue/Biggar (Bear Hills project), Dinsmore (Horizon project), Strongfield (East Diefenbaker project), Cudworth (Carlton Trail project), Carrot River (Carrot River Valley project) and Elm Springs (Elm Springs project). Within the selected Communities, advisory committees of up to 20 people were established. The Advisory Committees solicited people for the sale of shares, organized and held public meetings to discuss the project, provided advice about prospective land locations for the hog sites, and provided significant support within the region for the projects.

By April 1997, Manitou and Bear Hills had filled a prospectus, were selling shares and permitting sites. By October, 1997 Manitou's sow barn had been built and stocked, Bear Hills was under construction and Horizon, East Diefenbaker, Carlton Trail, Carrot River, and Elm Springs were in the process of selling shares and having sites permitted. Construction of all the projects proceeded as quickly as possible. By May 1999 Carrot River, the last of the seven sow barns had been built and stocked.

While each of the seven projects have a multitude of stories associated with them, with the exception of Bear Hills, each of the projects proceeded very smoothly and experienced very little difficulty with respect to the site permitting and public acceptance aspect of the projects. From a financial perspective, all of the Community groups had difficulty raising the capital for their share of the project's equity. Of the seven groups, Manitou, Bear Hills, Horizon and Carrot River raised sufficient shareholder money to build the sow, nursery and an 8000 head finisher barn. The projects at Carlton Trail, East Diefenbaker and Elm Springs failed to raise the capital requirements to meet the minimum requirement and therefore Saskatchewan Wheat Pool has sole ownership.

■ Conclusion

From a development perspective, Heartland's experience in partnering with communities was very positive. The Community Advisory Committees continue to be an important supportive base maintaining community dialogue and good working relationships.

In terms of financing projects, the Limited Partnership model worked very well however, the Communities found it very difficult to find local people willing to invest more than \$5,000 or \$10,000 each. As a result, the number of investors within the regional area was insufficient to raise the Communities capital commitment to the project. Given the lack of community capital, Saskatchewan Wheat Pool financed the majority of the seven projects.

Overall, the Community Partnerships of Heartland Pork Management achieved the goal of providing diversification into livestock production for many grain-based communities in Saskatchewan.