

Financing Digester Facilities

Bob Le Cocq

*Financial Services Executive
AGSTAR Financial Services*



Financing Strategies

❖ *Clarification AGStar vs. AgSTAR*

- ↪ Over 15,000 clients served.
- ↪ AgStar Financial Services.
- ↪ Serve 69 Counties, N.W. Wisc. & Mn.
- ↪ Serves clients in production agriculture and agricultural related businesses.
- ↪ Loans, leases, business/tax planning, accounting, insurance services & other.
- ↪ Find out more at <http://www.agstar.com>

Financing Strategies

❖ *Clarification AgStar vs AgSTAR*

↪ AgSTAR is a government partnership

↪ Joint effort between EPA, USDA, and DOE

↪ AgSTAR supports bio-gas technologies at CAFO

↪ Find out more at <http://www.epa.gov/agstar/>

Financing Strategies

Why consider anaerobic digesters?

- ❖ *Reduce odors, improve air quality.*
- ❖ *Renewable energy!*
- ❖ *Improved water quality.*
- ❖ *Pathogen reduction (weed seeds, fly eggs etc.)*
- ❖ *Agronomic advantages.*
- ❖ *Reduce negative manure issues, at your site!*

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Continued.. why consider anaerobic digesters?

- ❖ Positive relationships-community, energy Companies etc.*
- ❖ Permitting issues enhanced.*
- ❖ Possibly become net income producing.*
- ❖ Reduce reliance for energy outside our area and nationally.*
- ❖ Lengthen tenure of farm sites and farm families!*

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❖ *Lender Concerns*

- ↪ *Does the business plan support the capital investment based on economics?*
- ↪ *Is it integrated with the operational plan of the business?*
- ↪ *Will the project take the management focus off the core business of profitable milk production?*
- ↪ *Is the risk commensurate with the potential rewards?*
- ↪ *Will there be adequate capital and where will it come from?*

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Appraisal Considerations:

- ❖ *Project will likely be appraised at around 85% of cost, similar to the rest of the new livestock facilities.*
- ❖ *No present reasons to alter this position.*

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Who can afford it...a look at earnings....

2001 *Agriprofits* mid-west dairy data:

	<u>average</u>	<u>Top 25%</u>
140 cow dairies	\$42,000	\$120,000
312 cow dairies	\$72,000	\$234,000
765 cow dairies	\$11,957	\$268,102

Many differences within cow groups!!

Financing Strategies

Who can afford it...a look at Owner Equity and owner equity percentages.....

2001 *Agriprofits* mid-west dairy data:

	<u>average</u>		<u>Top 25%</u>	
140 cow dairies	\$ 715,971	61%	\$ 673,057	64%
312 cow dairies	\$1,303,130	51%	\$1,025,700	41%
765 cow dairies	\$1,755,006	36%	\$2,173,896	46%

Understand clearly where you are at...and going...

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Understanding dairy break even.....three key rules:

- ❖ *Do cash flow by enterprise only.*
- ❖ *Include family living cost in labor expense.*
- ❖ *Usually let principal payments = depreciation, do not double up.*

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Dairy Break even price---in a nutshell.....Three main components.....

Variable cost Including Feed cost \$8.00	+	Labor Including Family living Cost \$2.50	+	Principal Plus Interest Cost \$2.50	=	Breakeven! \$13.00
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Financing Strategies

- ❖ *Finance plan....briefly.*
- ❖ *Add as many grant & low interest programs to the mix as possible. Refer to other workshop material.*
- ❖ *For the base financing: 10 year amortization with one year interest only is most likely, with fixed or variable pricing available.*
- ❖ *Leases may be used for part of the project, cash flow vs. tax driven are considerations.*

Financing Strategies

❖ *Key Success Factors*

- ↪ *Well conceived business and financial plan*
- ↪ *Projects need to be cooperative in nature – Provides the risk sharing component*
- ↪ *Agreement with local utility for a fair price to sell back power*
- ↪ *These projects can illustrate a great story to the general public about livestock agriculture*

Financing Strategies

- ❖ *The how-to.....in a nutshell.....*
- ❖ *Plan well, informally & with written plans.*
- ❖ *Establish your team, then work with them.*
- ❖ *Project needs to work economically as well as environmentally,*

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The ethical person looks at every economic transaction as a test of his or her moral stewardship. That's why humility is the mother of all other virtues....because it promotes stewardship.

Stephen R. Covey

