
Development of Renewable Energy Projects on Agricultural Land

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Primary Stages of Financing

- Start up/Seed Round Financing
- Project Financing



Start-Up/Seed Round Financing

- Project Timeline
 - Post organization
 - Post-feasibility study/Pre-business plan
- Typical Use of Funds
 - Organizational expenses
 - Advisor fees (accounting, legal, consultants)
 - Site search and site option costs
 - Environmental reviews
 - Preliminary engineering
 - Preparation of primary project funding equity offering
 - Office/operations/personnel/rent expense
- Sources of Funds
- Securities law considerations



Primary Project Financing

- Project Timeline
 - Post- business plan
 - Project development activities/Pre-construction
- Typical Use of Funds
 - Site work, site access, utilities, water and discharge facilities, environmental compliance, permits
 - Plant design and construction
 - Feedstock and supplies inventories, product inventories and receivables
 - Management and operating personnel
 - Office and equipment expense
 - Working capital and reserves



Primary Project Financing *(cont.)*

- Types of Funds Available
 - Equity financing
 - Tax credits, grants and other programs
 - Debt financing
- Factors to Consider
 - Project size and total funds required
 - Availability of federal or state government programs
 - Debt financing available or projected
 - Debt/equity ratio considerations



Primary Project Finance

Equity

- Sources
 - Feedstock suppliers
 - Local and regional investors
 - Broad based individual investors
 - Strategic partners
 - Large private equity sources
 - Institutional investors
- Timing Considerations
 - Planning phase: determine amount, structure, securities exemptions or registration
 - Preparation of offering memorandum or registration statement and materials: narrative description, financial statements, subscription documents



Primary Project Finance *(cont.)*

Equity

- **Timing** *(cont.)*
 - SEC and/or state review
 - Offering period: investor meetings, follow up, handling of subscription documents and funds
 - Closing
- **Securities Law Considerations**
 - Federal (SEC) and state (blue sky) compliance
 - Registration or exemption
 - Private offerings
 - Cooperative exemption
 - Intrastate offerings



Primary Project Finance *(cont.)*

Equity

- Other Offering Issues
 - Liability for rescission
 - Fraud liability
 - Quiet period
 - Website
 - Advertising materials
 - Sales practices
 - Changes in offering
 - Changes in material information



Primary Project Finance *(cont.)*

Tax Credits, Grants and Other Programs

- Tax Benefits Overview
 - Production Tax Credit (“PTC”)
 - Investment Tax Credit (“ITC”)
 - Treasury Department Grant
 - Bonus Depreciation
 - Accelerated Depreciation (“MACRS”)



Primary Project Finance *(cont.)*

Tax Credits, Grants and Other Programs *(cont.)*

- Production Tax Credit
 - Based on amount of electricity produced from qualified resource and sold to unrelated person during each year of credit period
 - Credit rate adjusted for inflation each year
 - Credit Period – 10-year period beginning with “placed-in-service” date



Primary Project Finance *(cont.)*

Tax Credits, Grants and Other Programs *(cont.)*

- Production Tax Credit
 - Facility must be placed in service before January 1, 2014 (2013 for wind)
 - Electricity must be produced by taxpayer seeking to claim the PTC
 - Facility must be located in the U.S. and owned by taxpayer claiming the credit
 - Nonrefundable, but can be carried back one year and forward 20 years



Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- Investment Tax Credit
 - Based on the cost of qualifying equipment rather than amount of electricity produced
 - Generally 30% of tax basis (generally the cost) of qualifying property placed in service during year
 - Credit is claimed entirely in the year in which property is placed in service
 - To qualify, property must be “energy property” (not transmission)



Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- Investment Tax Credit
 - Property must be tangible personal property (or other tangible property) that is eligible for depreciation
 - not buildings or structural improvements
 - Integral part of facility
 - Nonrefundable but can be carried back one year and forward 20 years



Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- Treasury Department Grant
 - An owner of a project that qualifies for the ITC can instead elect to receive grant from U.S. Department of Treasury
 - All of the eligibility requirements for the ITC apply
 - Project generally must be placed in service in 2009 or 2010
 - Unless construction begins before 2011



Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- Treasury Department Grant
 - Grant operates in essentially the same manner as the ITC
 - 30% of tax basis of qualifying property (10% for certain projects)
 - Subject to recapture if sold within 5 years
 - Not included in recipient's taxable income
 - Basis reduced by 50% of grant amount



Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- Treasury Grant vs. ITC
 - Grants are similar to refundable tax credits
 - Grant may mitigate the need for tax investor, although losses are still very valuable
 - Timing of benefit realization may differ slightly



Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- ITC/Grant vs. PTC
 - The PTC is spread over 10 years, whereas the ITC/Grant is available in the first year the project is in service
 - PTC is based on production whereas ITC is based on project cost
 - Different recovery times
 - Difference in value depends on cost and expected output of facility
 - Qualitative factors



Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- Biomass Crop Assistance Program

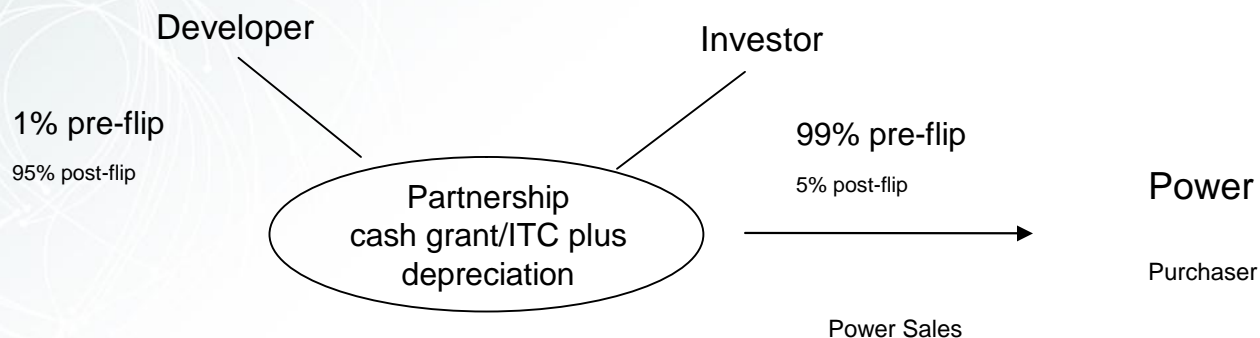
- BCAP was authorized by the Farm Security and Rural Investment Act of 2002, as amended by the 2008 Farm Bill.
- assists agricultural and forest land owners and operators with matching payments for the amount paid for the collection, harvest, storage and transportation (CHST) of eligible material by a qualified Biomass Conversion Facility (BCF).
- Supports establishing and producing eligible crops for the conversion to bioenergy through project areas and on contract acreage up to 5 years for annual and non-woody perennial crops or up to 15 years for woody perennial crops. This provision will be implemented in the future.
- To read the proposed rule:
<http://www.fsa.usda.gov/FSA/webapp?area=home&subject=ener&topic=bcap>



Primary Project Finance (cont.)

Tax Credits, Grants and other Programs (cont.)

- A Partnership Flip

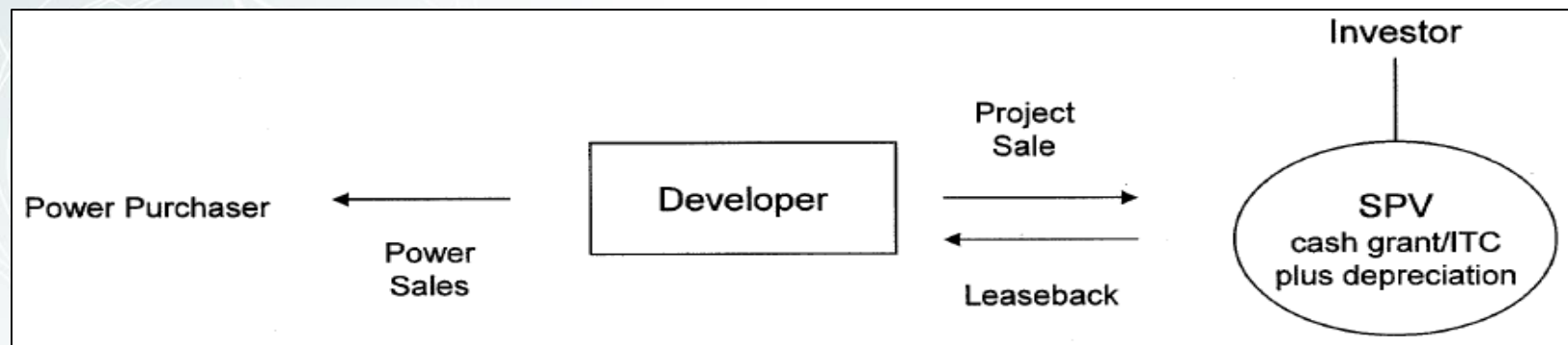


- Ø Investor receives cash grant/ITC plus depreciation
- Ø Flip occurs after investor receives IRR but not within first five years
- Ø Developer generally has purchase option after flip
- Ø Capital account or outside basis issues

Primary Project Finance (cont.)

Tax Credits, Grants and other Programs (cont.)

- Traditional Sale-Leaseback



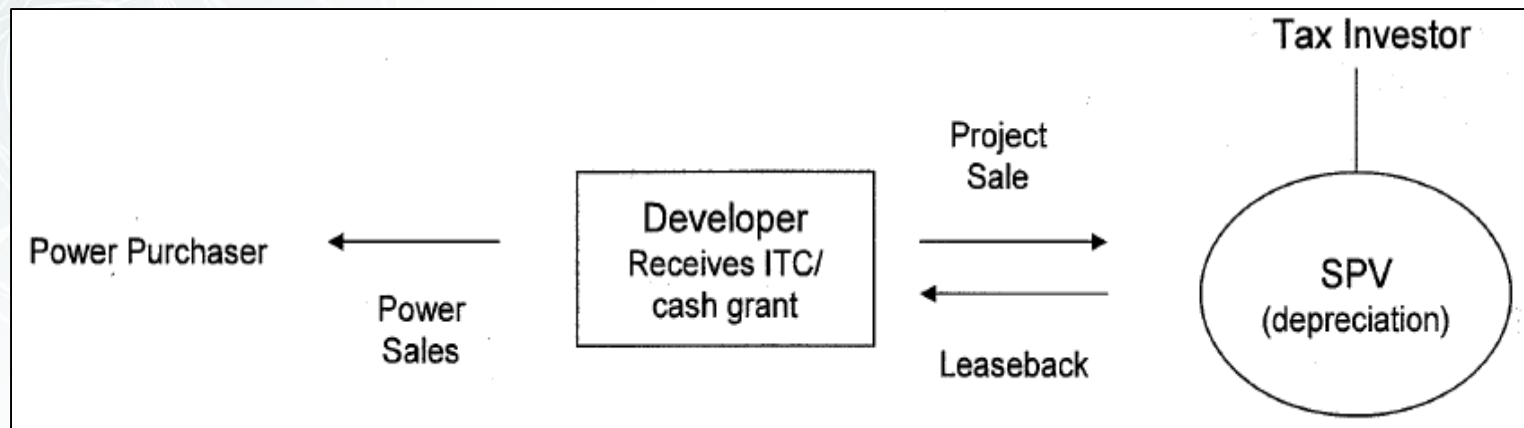
- ∅ Developer generally has option to acquire property at end of lease term
- ∅ Lease must qualify as true lease for tax purposes
 - § Minimum investment – 20%
 - § No put right by lessor
 - § No lessee investment
 - § No lessee loans or guarantees
 - § Lessor profit



Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- Modified Sale-Leaseback

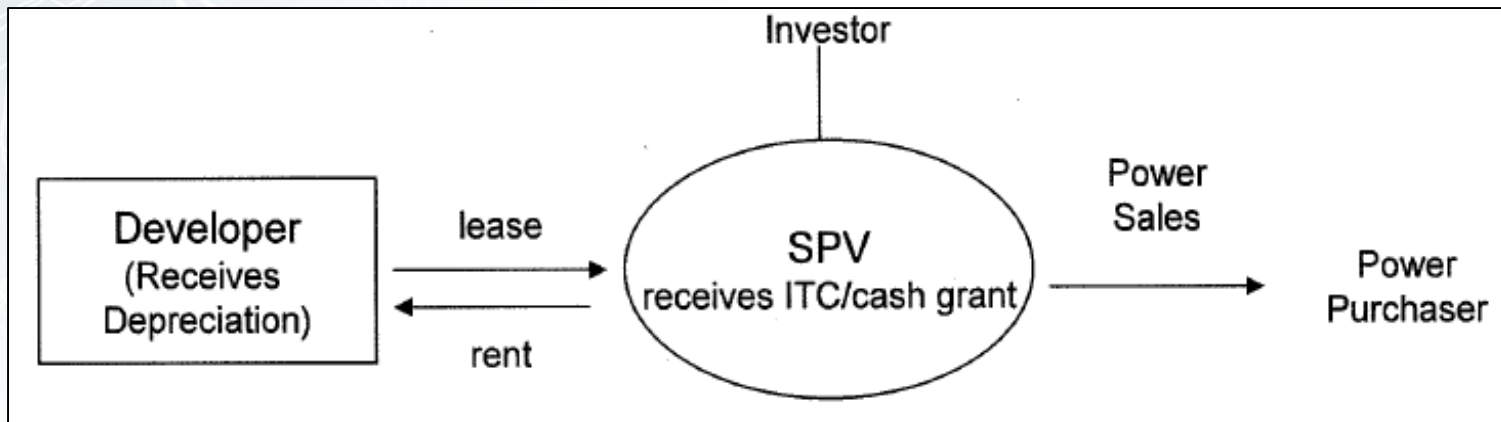


- Ø No basis reduction as a result of ITC/cash grant
- Ø Developer must take half the credit/cash grant into income over five year period
- Ø Lease must qualify as true lease for tax purposes
- Ø Lease must qualify for credit pass through

Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- Inverted Lease



- Ø No basis reduction as a result of ITC/cash grant
- Ø Investor must take half the credit/cash grant into income over five year period
- Ø Lease must qualify as true lease for tax purposes
- Ø Lease must qualify for credit pass through election

Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- DOE Loan Guarantee Program
 - Administered by the Department of Energy (DOE)
 - Created by the Energy Policy Act of 2005
 - Project debt cannot exceed 80% of the total project costs
 - Federal Financing Bank is lender and DOE must have first priority lien



Primary Project Finance *(cont.)*

Tax Credits, Grants and other Programs *(cont.)*

- DOE Loan Guarantee Program
 - Ø Innovative technology – new or significantly improved technology not currently in commercial use in the United States
 - § Technology concerned with the production, consumption or transportation of energy
 - § Only recently developed or a meaningful and important improvement in productivity or value to technology in commercial use
 - § No more than three projects in U.S. that have been in operation for at least 5 years



Primary Project Finance *(cont.)*

Debt Financing

- Terms of the financing:
 - Ø Senior debt
 - Ø Subordinated debt
 - Ø Term
 - Ø Interest rates
 - Ø Equity kickers
 - Ø Covenants
 - Ø Defaults
 - Ø Security
- Sources:
 - Ø Ag Lenders
 - Ø Local/regional commercial banks
 - Ø National/institutional lenders
 - Ø Private lenders
 - Ø Strategic partners



Primary Project Finance *(cont.)*

Debt Financing *(cont.)*

- Finding the Lender
 - Ø Direct contact
 - Ø Consultants and finders
- Lending Limits
- Closing Conditions
- Timing
 - Ø Early contacts
 - Ø Determine principal terms
 - § Amount (project cost/debt and equity ration)
 - § Term, interest rate, etc.
 - Ø Commitment letter
 - Ø Negotiate definitive agreement
 - Ø Coordinate final terms and execution of agreement with status of equity offering
 - Ø Closing

