

United States Department of Agriculture

Rural Development

Funding Programs for Rural Businesses
and Agricultural Producers

October 27, 2009



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Highlights for Three Programs

1. Rural Energy for America Program (REAP)
Grants and Loans Guarantees
2. Business & Industry Loan Guarantees
3. Value Added Producer Grants



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Rural Energy for America Program

Program is designed to promote:

- energy efficiency and/or
- renewable energy development

Applicant must be either

- agricultural producer
- rural small businesses



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Rural Development's Role

Grant Assistance

- 25% of the project's eligible costs
- \$250,000 Maximum for Energy Efficiency Projects.
- \$500,000 Maximum for Renewable Energy Projects.

Loan guarantees

- 85% loan guarantee for loans under \$600,000
- \$25,000,000 maximum loan amount



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Expected Available Funding Fiscal Year 2010

\$120 Million provided in Farm Bill and Annual Appropriations

- Funding Available is twice the amount available in Fiscal Year 2009.
- 1,485 projects were funded in FY09
 - \$50,900,000 in Grant funding
 - \$57,000,000 in Guaranteed Loans



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Types of projects eligible for USDA Assistance

- Renewable Energy
- Energy Efficiency



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Biomass and Bioenergy Projects

- Biodiesel, Ethanol
- Wood pellet manufacturing
- Boilers fueled by biomass



Anaerobic Digester Projects



RCM International



GHD, Inc.



Schmack Bioenergy



Wind, small and large



50 kW



10 kW



1.5MW

Solar

Small and Large Projects - Electric and Thermal Projects



Thermal



Thermal & Electric



Electric



Thermal



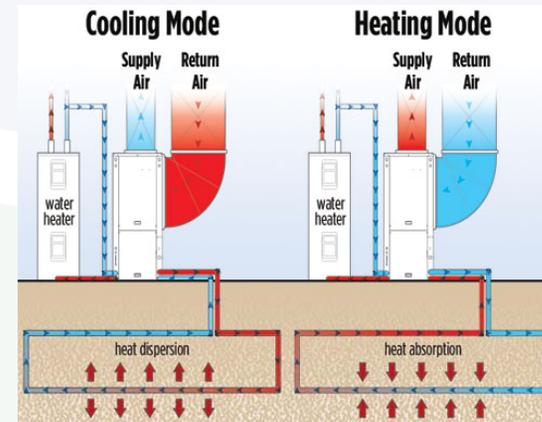
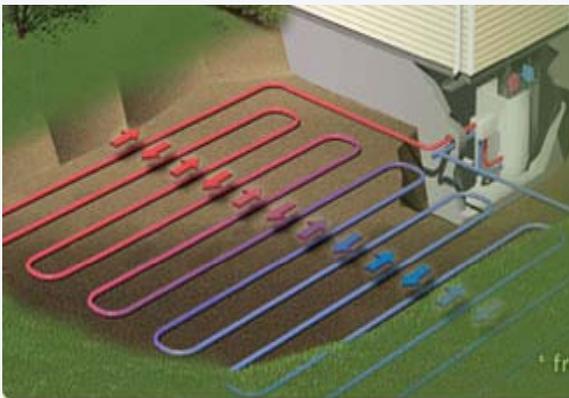
Thermal & Electric



Electric

Geothermal

- Aquaculture
- Greenhouses
- Spas and resorts
- Industrial and agricultural processes
- Space heating and hot water
- Refrigeration



Other Eligible Projects

- Energy Efficiency Improvements
 - Lighting Improvements
 - Insulation
 - Energy curtains
 - Documented efficiency improvements per energy audit



Applicant Eligibility

Grants and Loan Guarantees

Applicant:

- must be an agricultural producer (Greater than 50% of income from farming operation).
- rural small business as defined by the SBA.
- must be citizens of the U.S.
- must not have federal judgments or delinquent federal taxes
- must show demonstrated financial need



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Project Eligibility

Grants and Loan Guarantees

Project:

- Must be for the purchase of a *renewable energy system*
- Must be to purchase *energy efficiency improvements*.
- Must be for commercially available and replicable technology
- Must have technical merit
- Must be located in a rural area
- **Cannot be used for residential improvements.**



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Eligible Project Costs (Grants)

- Post-application purchase and installation of equipment,
- Post-application construction or project improvements
 - Additional eligible costs
 - Permit Fees
 - Retrofitting (Post- Application)
 - Professional Service Fees, except application preparation
 - Feasibility Studies (required prior to application submission)
 - Business Plans (required prior to application submission)
 - Energy Audits (required prior to application submission)
 - *Program **cannot** be used for projects already installed.*



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Grant Amounts

- Renewable Energy Systems (RE System)
 - Maximum Request \$500,000
 - Minimum Request \$2,500

- Energy Efficiency Improvements (EE System)
 - Maximum Request \$250,000
 - Minimum Request \$1,500

- Grant assistance is taxable. A 1099 will be sent to the grant recipient.
- REAP Grant cannot be used with grants from other Federal Sources.



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Guaranteed Loans

- Provides a federal loan guarantee to banks on loans made to customers intending to finance energy related projects.
 - Includes energy efficiency improvement projects such as grain dryer replacement, lighting replacements, insulation improvements, and other items contained in the Energy Audit.
 - Renewable energy systems including biomass, anaerobic digestion, wind, solar, and geothermal.
- This Federal Assistance is intended to provide “gap” financing for energy related projects.



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Guaranteed Loans

- **Guaranteed Loan Considerations:**
 - Guaranteed loan cannot exceed 75% of total eligible project costs.
 - Minimum cash equity injection into the project will range from 15% up to 25% of eligible project costs.
 - May consider market value of real estate as a substitute for cash equity
 - Minimum loan request is \$5,000
 - Maximum loan request is \$25,000,000

Lender Benefits

- Risk mitigation
- Increased Profits
- Increased Confidence of Banking Regulators
- Increased Liquidity

Customer Benefits

- Longer Term Loan
- Better Interest Rate
- Improved Cash Flow
- Helps to ensure a successful project.



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Combined Grants and Guaranteed Loans

- The amount of the Combined Loan and Grant cannot exceed 75% of the total Eligible Project Costs.
- Minimum combined funding request is \$5,000.
- Eligible Costs are the same as the individual loan and grant requirements.
- Combined Grant and Guaranteed Loan Packages receive **Priority Consideration** over Grant only requests.



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Energy Efficiency Improvement Small Greenhouse Application

Existing greenhouse energy consumption	873,034,000 btu's
Proposed energy consumption post improvements	575,947,000 btu's

- Improvements includes
 - Thermal curtain,
 - root zone heating and
 - Solar window film

Expected energy savings	297,087,000 btu's
or	34% Energy Savings



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Energy Efficiency Improvement Small Greenhouse Application

Existing Energy Costs

Annual Heating costs for Propane \$23,595

Expected heating costs after improvements. \$12,452

Annual savings \$11,143

Expected return on Investment

Project costs \$40,280 / Annual Savings of \$11,143 = 3.6 years



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Renewable Energy System

Wind Turbine Installation for Existing Greenhouse.

Company's goal is to reduce reliance on electricity from the grid and become increasingly dependent on energy generated on location. Plan to install a 50kW wind turbine to provide power to the greenhouse.

Existing greenhouse electricity consumption	308,600 kWh/ year
Proposed electricity production	81,600 kWh/ year
Energy Production as a percentage	26%
Expected cost savings	\$7,344 /yr.

Proposed Funding	
REAP Grant	\$ 49,875
REAP Loan Guarantee (Up to 20 years)	\$ 99,750
Equity Contribution	\$ 49,875
Total project Costs	\$199, 500



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Biomass Fired Boiler

Replacement of an existing fuel oil furnace with a biomass fired boiler allowing the greenhouse to save nearly 80,000 gallons of fuel oil or approximately \$160,000 per year.

Biomass Boiler purchase and Installation: \$474,000

Estimated annual savings: \$ 136,000

Return on investment: 3.5 years



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2009 Approved Ohio Projects

41 Projects approved

	Grant	Loan Guarantee
Anaerobic Digester Projects	\$966,560	\$1,266,560
Biomass Fueled Boilers	\$7,865	\$7,500,000
Various Energy Efficiency Projects	\$268,257	\$171,050
Geothermal	\$40,000	\$0
Grain Dryer Replacements 19 Projects	\$510,965	\$86,610
Solar Electric	\$39,024	\$0
Solar Thermal	\$10,320	\$0
Wind	\$1,088,678	\$953,851
Total for Ohio Projects	\$2,931,669	\$9,978,071



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Application Time Line

- Applications can be submitted immediately. Funding would not be available until early 2010.
- Contact Randy Monhemius at 614/255-2424 or at randy.monhemius@oh.usda.gov to discuss the application process.



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Additional Information

Program can be used with State of Ohio grants and loan programs.

- <http://www.dsireusa.org/>
 - Database of State Incentives for Renewables & Efficiency
- ODOD - Advanced Energy Program Grants - Non-Residential Distributed Energy Incentive (25% of project cost up to \$100,000)
- Modified Accelerated Cost-Recovery System (MACRS) + Bonus Depreciation (2008-2009)
- U.S. Department of Treasury - Renewable Energy Grants
- Renewable Energy Production Incentive (REPI)



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BUSINESS & INDUSTRY GUARANTEED LOANS (B&I)



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Objectives of the B&I Guaranteed Loan Program

- Provide for Economic Development in Rural Areas.
- Provide for Job Creation and Job Savings in Rural areas.
- Objective is accomplished through the guarantee of quality loans to businesses in the rural areas.
- Credit enhancement

Applicant Eligibility

- Applicant may be a sole proprietor, cooperative, corporation, LLC
 - Can be a for profit or not-for-profit
 - Can be a public body
- Businesses can include manufacturing, wholesaling, retailing or service oriented
- Business must provide employment; or improve economic or environmental climate.

Applicant Eligibility

- Applicant must be a U.S. Citizen.
- Corporations must have at least 51% U.S. citizen ownership.
- Project must be located in a rural area.
 - Refer to website

<http://www.rurdev.usda.gov/rbs/>

Choose “Rural Area Determination



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Eligible Loan Purposes

- Business acquisitions that will prevent to business from closing and save employment.
- Purchase and development of land, buildings and facilities.
- Purchase of machinery, equipment, leasehold improvements, supplies or inventory

Eligible Loan Purposes

- Startup costs and working capital
- Aquaculture, commercial fishing, commercial nurseries, forestry, hydroponics
- Refinance outstanding debt
 - Must Provide Better Rates or Terms
 - Must Create/Save Jobs



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Guarantee Limits

- Less than \$5,000,000
 - 80% Guarantee
- \$5,000,000 to \$10,000,000
 - 70% Guarantee
- \$10,000,000 to \$25,000,000
 - 60% Guarantee

Interest Rates

- Fixed
- Variable (Adjusted no more often than quarterly)
- Combination of Fixed and Variable
 - Fixed on the Guaranteed Portion
 - Variable on the Unguaranteed Portion
- Rate cannot exceed the rate for a typical commercial customer . Guarantee should provide better rates and terms due to removal of risk.

Loan Terms (maximums)

- Real Estate - 30 Years
- Machinery and Equipment - 15 Years
- Term Working Capital - 7 Years
- Weighted average based on use of funds

Guarantee Loan Fees

- Guarantee fee will be paid to the agency prior to issuance of the guarantee. Standard Fee is 2% of the guaranteed loan portion
- Calculated as follows:
 - $2\% \times \text{Percent of Guarantee} \times \text{Loan Amount}$
 - $2\% \times 80\% \times \$1,000,000 = \$16,000$
- Annual servicing fee of 0.25% of the outstanding guarantee balance as of 12/31 of each year.
 - Balance as of 12/31
 - $\$900,000 \times 80\% \times 0.25\% = \$1,800.$



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Lender Benefits

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Customer Benefits

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Credit Quality

- Cash Flow
- Collateral
- Industry
- Lien Priority
- Management
- Equity
 - Existing Businesses - Minimum of 10% Tangible Book Equity
 - New Businesses - Minimum of 20% Tangible Book Equity



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Examples

- Sawmill and Pallet Manufacturer \$14.4 MM Sales
 - Provide term working capital and debt refinancing
- Veterinary Hospital Expansion \$1.1MM Sales
 - Provide funding for construction of expanded facility
- Assisted Living Facility \$1.5MM Sales
 - Provide funding for construction of new facility
- Nursing Home \$4.3MM Sales
 - Expansion and renovation of existing home
- Gas Station/ C- Store and Fast Food Restaurant \$2.5MM Sales
 - Provide funding for construction of facility and equipment



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ARRA Funding

Tripled the funding available for loan guarantees.

- Nationally, \$2,600,000,000 is available for loan guarantees.
- Provides for higher guarantee percentage
 - 90% versus standard 80% means lower risk for the bank
- Lower guarantee fees
 - 1% fee versus 2% means lower costs to customer
- No annual renewal fee
 - Removes the 0.25% annual servicing fee.



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B&I Contacts

- **Jim Cogan**
 - 614-255-2420
- **Randel Monhemius**
 - 614-255-2424
- **Jennifer Sonnenberg**
 - 614-255-2423
- **Debbie Rausch**
 - 614-255-2425



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Value-Added Producer Grant Program



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Purpose

Program is intended to provide grant funds to agricultural producers for:

- planning activities or
- working capital expenses

Assist them in receiving a greater share of the consumer's dollar for value-added agricultural products.



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Applicant Eligibility

- Independent Producer
- Farmer or Rancher Cooperative
- Agricultural Producer Group
- Majority-Controlled Producer-Based Business Venture

Product Eligibility

- Change in physical state
- Produced in a manner that enhances value - must reference a business plan
- Physical segregation
- Ag commodity that is a source of renewable energy
- Locally-produced agricultural food product

Purpose Eligibility

- Planning Activities (e.g. feasibility study, business plan, marketing plan)

or

- Working Capital (e.g. labor, inventory, advertising)



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Matching Eligibility

- Matching funds of at least 50% of total project costs are required
- Match must be spent at a rate equal to or greater than grant funds
- Match must be provided by the applicant or a third-party in the form of cash or in-kind funds
- Match must be spent on eligible purposes and must be from eligible sources

Other Eligibility

- Applications cannot have a timeframe of more than 365 days.
- Only one application per applicant may be submitted in a funding cycle.

Contact Information

Program Website

<http://www.rurdev.usda.gov/rbs/coops/vadg.htm>

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