Delaware Sustainable Energy Utility
Loan Committee
DESEU Office - 500 W. Loockerman Street, Suite 400, Dover, DE 19904
December 15, 2017, 10:00 AM

Members present were: Kristopher Knight (teleconference), Andrew Slater (teleconference), Anthony DePrima, Doug Bacher, NW Financial Group. Also present were Brent Shaffer, Young Conaway Stargatt & Taylor, LLP (teleconference), Craig Metz, EnSave (teleconference), Heather D'Arcy, EnSave (teleconference), and Lisa Gardner.

As a result of the discussions at the November 6, 2017 Loan Committee meeting, Mr. DePrima requested EnSave, the company that runs the Farm Program, to evaluate the farms and report the findings to the DESEU (attached).

1.a. Chick-A-More Farms - Mr. Bacher stated that Chick-A-More Farms has requested a loan in the amount of $400,000 for the purchase and installation of a ground mount solar array. Because this loan was applied for under the DESEU's Energize Delaware Farm Program, the loan is eligible for a 2% interest rate with an 18 year term.

<u>Project</u>
The Farm is a poultry farm located in Laurel, Delaware. The Farm was incorporated in 1984 and has expanded over the years to 275 acres and 7 chicken houses which produce about 185,000 chickens in each 9-week cycle. The Project includes the purchase and construction of a 260 kW ground mount solar array. The Project will generate 110% of the Farm's electrical usage and provide electric to the Farm's chicken houses.

<u>Loan Request and Security</u>
As noted above, the total Project costs are estimated to be $443,000. The Project construction costs will be funded by the proposed DESEU loan $400,000 and a cash contribution from the owner of the Farm of $43,000. When applying the savings to the payment for a $400,000 loan calculated at 2% interest and providing for a 1.1 to 1 savings to debt payment ratio the loan can be repaid in 18 years.

Repayment of the loan is first and foremost, contingent on the ongoing operation and financial position of the Farm. The Farm operation receives its annual revenue through a contract with Amick Farms. Amick Farms is a chicken processing and hatchery that started operations in 1941 that has grown over the years to include processing and hatchery facilities in South Carolina, Maryland and Delaware. The contract provides that Amick Farms gives the Farm the chicks, the feed, and other materials needed to raise the chicks to chickens (i.e. adulthood). The Farm raises the chicks over a 9-week period and at the end of the 9 weeks, the chickens are sent to Amick Farms for processing. The 9-week cycle is continually repeated over the course of the year. The Farm raises approximately 185,000 chickens in each 9-week cycle. The Farm is paid for chickens delivered on a per thousand basis.

A review of the Farm's Federal tax returns submitted in 2014, 2015 and 2016 show a profitable corporation with taxable income of $428,880, $370,994, and $414,638 respectively. The returns also provide Form 11205 which is a 5 year look back at income. That look shows that income going back to

2010 was greater than $400,000 in each year except in 2012 when an income of approximately $350,000 was reported. The Farm appears to be an ongoing, profitable corporation.

The Project generates energy savings and provides additional monetary benefits to the owner of the Project over the same proposed 20-year term of the loan. The monetary benefits are estimated to be a total of over $1,216,506. These projected energy savings and financial benefits are as reported by Sunrise Solar, the company that provided the energy audit report to the Farm.

Energy Savings:	$ 610,079
SREC Revenues:	$ 283,903
Depreciation:	$ 78,874
Federal Tax Credit:	$ 132,900
REAP Grant:	$ 110,750
Total:	$1,216,506

The REAP grant is not guaranteed. Application for a REAP grant is made and grants are awarded on an annual cycle after each application has been reviewed and graded. Highest scoring applications are awarded and each application following is awarded in order of the scoring until the annual appropriation is depleted.

The Federal tax credit has recently been extended for the next 5 years. Although it is being phased out over the next years, the Farm is eligible for a 30% construction cost rebate when the Project is completed and operational. Assuming the completion of the Project in 2017, the tax credit will be made available to the owner in 2018. Depreciation is received by the recipient over a 6-year period.
As noted in the summary of revenues above, the Project will also be generating SREC revenues which are projected by Sunrise Solar to be $283,903. This revenue is also not guaranteed as they are subject to the efficient operation of the Project, the continuing availability of the SREC revenue and SREC market fluctuations. All that said, the additional revenue sources are income to the Farm and as such are available for repayment of the loan. Additionally, the owners of the Farm have agreed to provide a personal guaranty for repayment of the loan.

<u>Conclusion</u>
The DESEU should consider a loan of 2% at no longer than 18 years. The savings amount generated over the 18 years is adequate to provide repayment of the loan with an energy savings to annual debt payment of 1.1-1.

The Project generates additional income to the Farm that will be available for the repayment of the loan. The owners of the Farm have also indicated that they are willing to provide a personal guaranty for the loan repayment. And as with all DESEU loans, the DESEU should be given a lien on the solar array equipment that is purchased and constructed.

Mr. Knight moved to approve the loan request in the amount of $400,000, with an 18 year term at 2% interest. The motion was seconded by Mr. Slater and unanimously carried.

1.b. J & T Farms - Mr. Bacher stated that J&T Farms has requested a loan in the amount of $400,000 for the purchase and installation of a ground mount solar array. Because this loan was applied for under the DESEU's Energize Delaware Farm Program, the loan is eligible for a 2% interest rate with an 18 year term.

Summary

J&T Farms, LLC ("J&T") has made application to the DESEU for a $400,000 loan for purposes of purchasing and installing a ground mount solar array (the "Project") to provide electricity to the farm and house. Because this loan was applied for under the DESEU's Energize Delaware Farm Program, the loan is eligible for an interest rate of 2%. The applicant has recently received approval for a loan of approximately $490,000 at 4.95% for this project from the Mid-Atlantic Farm Credit, ACA. Due to extenuating circumstances regarding the original loan application made to the DESEU earlier this year, consideration of this loan for J&T is warranted. It is the intent of J&T to pay off the outstanding principal of the existing loan with the proceeds from the DESEU loan.

NW Financial reviewed the following documents in connection with this application: the tax returns of the owners of J&T Farm and LLC for the years 2014, 2015, and 2016; the Energy Audit as provided by Luminous Solar; the Mortgage and recent amendment on the properties from Mid-Atlantic Farm Credit and the loan application submitted by the Farm in connection with the loan request. We also spoke with the owner of the J&T. NW does not challenge the technical information; estimated energy savings and other estimated revenues that are available through the installation of the Project as reported by Luminous Solar.

The Project

The Project includes the purchase and construction of a 183.68 kW ground mount solar array that will provide the electricity to the 2 adjacent farms and the farmhouse. The Project generates estimated energy savings totaling $808,860 over the 25 year useful life of the solar panels ranging from an estimated $25,904 in year one to $39,748 in year 25.

Loan Request and Security

J&T is a Poultry Farm in Millsboro, DE. It is made up of several farms some of which are owned and some of which are rented. The 2 farms to be provided electricity from the solar array is a farm and farmhouse owned by J&T and the 2nd is an adjacent farm rented by J&T. We have reported on the operations of other poultry farms that have made application to the DESEU for energy loans. The J&T operation is similar. J&T raises chicks to chickens over a 9-10 week cycle. At the end of the 9-10 weeks, the "adult" chickens are shipped to a chicken processor for purposes of producing chicken products. J&T has a total of 5 chicken houses and is in the process of building a 6th house. They are currently raising approximately 100,000 chickens in every cycle. J&T currently has an ongoing contract with Purdue for chickens raised.

A review of the personal and corporate income taxes for the years 2014, 2015, and 2016 show that J&T is an operational poultry farm that is making a profit and filing taxes. Annual gross income totals approximately $225,000-$275,000 over those years.

Besides the energy savings reported above, the Project generates additional monetary benefits to the owner of the Project. The additional monetary benefits include annual SREC revenues, a Federal tax credit, REAP Grant, DEC Solar Grant, and depreciation of the asset over a 6 year period. The total additional revenues are estimated by Luminous Solar to total $581,289. These additional monetary benefits will be received over the life of the Project (some in the early years and some over the life of the Project) and are available for the repayment of the loan. The additional monetary benefits include:

SREC Revenues:	$ 238,121 (est. over the life of the Project, received annually)
Depreciation:	$ 116,706 (typically realized over the first 6 years)
Federal Tax Credit:	$ 164,761 (received in year 1 after the Project is operational)
REAP Grant:	$ 58,201 (approved and received in year 1)
DEC Solar Grant:	$ 3,500
Sub Total:	$ 581,289
Energy Savings:	$ 808,860 (realized over the 25 year life of the project)
Total:	$1,390,149

The Federal tax credit has recently been extended for the next 5 years. Although it is being phased out over the next 5 years, the Farm is eligible for a 30% construction cost rebate when the Project is completed and operational. Assuming the completion of the Project in 2017, the tax credit will be made available to the owner in 2018. Depreciation is typically received by the recipient over the first 6 years. SREC revenues are estimated and are subject to the production of the energy by the solar panels and the marketability of the earned SRECs. The REAP and DEC Grants have been approved and will be received in year 1 of the Project.

When applying the energy savings to the payment for a $400,000 loan calculated at 2% interest and providing for a 1.1 to 1 savings to debt payment ratio, the loan can be repaid in no less than 18 years. J&T would prefer the loan be much shorter (10-15 years) but will accept the 18 year term with the understanding that they have the ability to prepay the loan earlier without penalty.

The owner of J&T has agreed to provide a personal guaranty for the loan.

As noted in the summary above, J&T has recently received approval and has closed on a loan of approximately $490,000 for the construction of the Project from the Mid-Atlantic Farm Credit, ACA. Although not yet fully funded, J&T has been making interest payments on the principal received to date. Several comments: The first is that J&T approached the DESEU for a loan for the Project, but for whatever reason, was left with an understanding that the DESEU required recipients of DESEU loans to have Projects constructed using prevailing union wages. The additional costs of prevailing wage versus non-prevailing wage negatively impacted and changed the economics of the Project. As a result, J&T pursued and received another loan. Once the error was realized, they asked that the loan be reconsidered. So, although technically a refunding of an existing loan, the circumstances regarding this loan warrants consideration of this loan request.

I advised J&T to review the existing loan documents to ensure that the existing loan through Mid-Atlantic Farm Credit can be repaid early without penalty. One last comment, the fact that J&T received a loan from another credit institution provides some comfort to the viability of the Project and this loan.

<u>Conclusion</u>
The DESEU should consider a loan of 18 years with an interest rate of 2%. The owners of J&T have also agreed to provide a personal guaranty on the loan. As with all DESEU loans, the DESEU should be given a lien on the solar array equipment that is purchased and constructed.

Mr. Slater moved to approve the loan request in the amount of $400,000, with an 18 year term at 2% interest. The motion was seconded by Mr. DePrima and unanimously carried.

1.c. On the Bend Farms, Inc. - William and Amanda Otwell (the "Otwell's") have made application to the DESEU for a $165,500 loan for purposes of purchasing and installing a ground mount solar array (the "Project"). The requested term of the loan is 20 years. Because this loan was applied for under the DESEU's Energize Delaware Farm Program, the loan is eligible for an interest rate of 2%.

<u>Summary</u>
NW Financial reviewed the following documents in connection with this application: the tax returns of the farm operations and other income for the years 2014 and 2105; the Energy Audit as provided by Sunrise Solar; and the loan application submitted by the Farm in connection with the loan request. We also spoke with the owner of the Farm and a representative from Sunrise Solar regarding the information provided.

<u>The Project</u>
The Project includes the purchase and construction of a 74.1 kW ground mount solar array on the farm which is owned by the Otwell's. The Project will generate 110% of the Farm's electrical usage and provide electric to the Farm's 2 chicken houses. As noted above, the total Project costs are estimated to be $175,500. The Project construction costs will be funded by the proposed DESEU loan $165,500 and a cash contribution from the owner of the Farm of $10,000. The loan request is for a 20 year term at 2%.

<u>Loan Request and Security</u>
The farm operation includes a poultry farm located in Laurel, Delaware that is owned directly by the Otwell's and two additional farms that are leased by the Otwell's. The farm that is owned was purchased in 2015. The farming operation is not incorporated. The income that is shown on the tax returns reviewed includes income from the farm operation, as well as income of Amanda Otwell, from employment she has outside of the farm operation.

As discussed in other applications where only the personal tax returns are available regarding a financial review, the information available is limited. A review of the Otwell's Federal and Delaware State tax returns submitted in 2014 and 2015 are no exception. There is income generated (adjusted gross income of $63,117 and $41,535 respectively) and taxes, both State and Federal, being paid which indicates an ongoing concern. A discussion with Mr. Otwell noted that he has been a farmer for many years.

When applying the energy savings to the payment for a $165,500 loan calculated at 2% interest and providing for a 1.1 to 1 savings to debt payment ratio, the loan can be repaid in no less than 22 years. It is suggested that the loan be no longer than 20 years. To shorten the maturity of the loan we requested of the Otwell's that they provide additional cash to the Project (an additional $16,500 for a total of $26,500) to reduce the amount of the loan to $149,000. A loan at $149,000 with an interest rate of 2% with the inclusion of a 1.1 to 1 energy savings to debt service ratio on an annual basis can be paid down in 20 years.

The source for security and repayment of the loan is the ongoing operation and financial position of the farming operations. The portion of the farm owned directly by the Otwell's produces approximately 40,000 chickens every 9 weeks. When including chickens raised on the leased farms, the total chicken production is approximately 108,000 chickens. The Otwell's operation receives its annual revenue through a contract with Amick Farms. Amick Farms is a chicken processing and hatchery that started operations in 1941 that has grown over the years to include processing and hatchery facilities in South Carolina, Maryland and Delaware. The contract provides that Amick Farms gives the Farm the chicks, the feed, and other materials needed to raise the chicks to adulthood. The Farm raises the chicks over a 9 week period and at the end of the 9 weeks, the chickens are sent to Amick Farms for processing. The 9 week cycle is continually repeated over the course of the year.

The Project generates energy savings and provides additional monetary benefits to the owner of the Project over the same proposed 20 year term of the loan. The monetary benefits are estimated to be a total of over $336,544. These projected energy savings and financial benefits are as reported by Sunrise Solar, the company that provided the energy audit report to the Farm.

Energy Savings:	$202,566
SREC Revenues:	$ 50,081
Depreciation:	$ 31,247
Federal Tax Credit:	$ 52,650
REAP Grant:	$ 0*
Total:	$336,544

*It is anticipated that the Farm will apply for a REAP grant but has not done so to date. Therefore, no additional revenue is anticipated at this time.

The Federal tax credit has recently been extended for the next 5 years. Although it is phased out over the next years, the Farm is eligible for a 30% construction cost rebate when the Project is completed and operational. Assuming the completion of the Project in 2017, the tax credit will be made available to the owner in 2018. Depreciation is received by the recipient over a 6 year period. SREC revenues are estimated and are subject to the production of the energy by the solar panels and the marketability of the earned SRECs so the estimated revenues are not guaranteed.

The Otwell's have agreed to provide a personal guaranty for the loan.

<u>Conclusion</u>
The DESEU should consider an initial loan of no greater than 20 years with an interest rate of 2%. The Otwell's have agreed to put additional $16,500 cash into the Project for a total cash contribution of $26,500 to bring the loan amount down to $149,000. The Otwell's have also agreed to provide a personal guaranty on the loan. As with all DESEU loans, the DESEU should be given a lien on the solar array equipment that is purchased and constructed.

Mr. Knight moved to approve the loan request in the amount of $149,000, with a 20 year term at 2% interest, with a condition that the On The Bend Corporation be added as a guarantor, the motion was seconded by Mr. Slater and unanimously carried.

1.d. Collier Farm – Stephen and Sharon Collier have made application to the DESEU for a $261,900 loan for purposes of purchasing and installing a ground mount solar array (the "Project"). The requested term of the loan is 20 years. Because this loan was applied for under the DESEU's Energize Delaware Farm Program, the loan is eligible for an interest rate of 2%.

<u>Summary</u>

Collier Farm (the "Farm") is located in Bridgeville, DE, and is owned by Stephen and Sharon Collier. They have made application to the DESEU for a $261,900 loan for purposes of purchasing and installing a ground mount solar array (the "Project") to provide the electric energy needs for the Farm. The requested term of the loan is 20 years but as with many of the other farm loans reviewed, the Collier's are more than willing to reduce the term of the loan and have every intention of paying the loan down early with other revenue and financial benefits that will come available through the installation of the solar array. As the loan was applied for under the DESEU's Energize Delaware Farm Program, the loan is eligible for an interest rate of 2%.

NW Financial reviewed the following documents in connection with this application: the tax returns of the Farm for the years 2014 and 2105 and 2016; the Energy Audit as provided by Paradise Energy Solutions; credit reports provided by Credco, and the loan application submitted by the Farm in connection with the loan request. We also spoke with the owner of the Farm.

The DESEU staff received the outstanding mortgage and loan information.

<u>The Project</u>
As noted, the Farm is a poultry farm located in Bridgeville, Delaware. The Farm was purchased in 2012 and includes 2 chicken houses and a residence. The Farm is producing approximately 53,000 adult chickens in each 9 to 10 week cycle. The Project includes the purchase and construction of a 99 kW ground mount solar array. The Project will generate all of the Farm's electrical usage including providing electric to the Farm's chicken houses and residence.

<u>Loan Request and Security</u>
As noted above, the total Project costs are estimated to be $261,900. The Project construction costs will be funded by the proposed DESEU loan. There is no cash contribution from the owners of the Farm. The loan request is for a 20-year term at 2% and as noted earlier a shorter loan term is acceptable to the owner's. When applying the annual savings to the annual debt payment for a $261,900 loan calculated at 2% interest that provides for a 1.1 to 1 savings to debt payment ratio, the loan can be repaid in 19 years.

Repayment of the loan is first and foremost contingent on the ongoing operation and financial position of the Farm. The Farm operation receives its annual revenue through an ongoing contract with a chicken products manufacturer. The Farm raises the chicks over a 9 to 10 week period and at the end of the cycle, the chickens are sent to a chicken products company for processing. The cycle is continually repeated over the course of the year. The Farm raises approximately 53,000 chickens in each cycle. The Farm is paid for chickens delivered on a per thousand basis.

Each farmer's chickens that are delivered to the chicken products company are ranked against other chicken farmer's chickens that are delivered in that cycle. The Farm is proud that in the 24 flocks delivered since 2012 they have been ranked number 1 on three occasions and they have been ranked in the top 10 each time.

The Farm is not incorporated. Both Mr. and Mrs. Collier have employment outside the Farm. The 2014, 2015, and 2016 Federal income tax returns for Mr. and Mrs. Collier were submitted as part of the loan application and were reviewed. But because there is income outside the Farm operation and financial information is limited in a tax return, it is difficult to determine the profitability of the Farm. That said, the tax returns do show that Mr. and Mrs. Collier are showing income through the Farm operation and they are paying Federal income taxes on that income. The credit reports reviewed showed little financial activity and revealed no issues regarding late payment of debts.

The application of a solar array to provide the electricity to the Farm is a monetary windfall to the owners of the Farm as the Project provides revenues and other monetary benefits to the owners beyond the annual energy savings. The monetary benefits are estimated to be a total of over $908,299 over the estimated 30 year useful life of the Project. These projected energy savings and financial benefits are as reported by Sunrise Solar, the company that provided the energy audit report to the Farm.

Energy Savings:	$596,521
SREC Revenues:	$ 92,712
Depreciation:	$ 75,021
Federal Tax Credit:	$ 78,570
USDA Grant:	$ 65,475
Total:	$908,299

The cumulative financial benefits decline to $674,809 when calculated over the 20 year requested term of the loan and remain well above the requested loan amount and are available for the repayment of the loan, if so desired by the owners of the farm. These financial benefits are the direct result of the installation of the Project.

The Federal tax credit has recently been extended for the next 5 years. Although it is being phased out over the next years, the Farm is eligible for a 25% construction cost rebate when the Project is completed and operational. Assuming the completion of the Project in 2018, the tax credit will be made available to the owner in 2018. Depreciation is realized by the recipient over a 6-year period.

As noted in the summary of revenues above, the Project will also be generating SREC revenues which are projected by Paradise Energy Solutions to be $92,712. This revenue is also not guaranteed as they are subject to the efficient operation of the Project, the continuing availability of the SREC revenue and SREC market fluctuations. All that said, the additional revenue sources are income to the Farm and as such are available for repayment of the loan.

Finally, the owners of the Farm have agreed to provide a personal guaranty for repayment of the loan.

<u>Conclusion</u>
The DESEU should consider a loan of 2% at no longer than 19 years. As noted, the energy savings amount generated over the 19 years is adequate to provide repayment of the loan with an energy savings to annual debt payment of 1.1-1.

The Project generates additional income to the Farm that will be available for the repayment of the loan. The owners of the Farm have also indicated that they are willing to provide a personal guaranty for the loan repayment. And as with all DESEU loans, the DESEU should be given a lien on the solar array equipment that is purchased and constructed.

Mr. Slater moved to approve the loan request in the amount of $261,900, with a 20 year term at 2% interest. The motion was seconded by Mr. Knight and unanimously carried.

Meeting Adjourned at 10:30 AM