Delaware Sustainable Energy Utility
Loan Committee
DESEU Office - 500 W. Loockerman Street, Suite 400, Dover, DE 19904
February 23, 2018, 9:30 AM

Members present were: Kristopher Knight (teleconference), Trey Paradee, Doug Bacher, NW Financial Group (teleconference), and Anthony DePrima. Also present were Brent Shaffer, Young Conaway Stargatt & Taylor, LLP (teleconference) and Suzanne Sebastian.

1.a. Parry Farm - Mr. Bacher stated that Parry Farm has requested a loan in the amount of $318,800 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 a 20 year term.

Mr. DePrima indicated there was confusion regarding this loan request. The Parry Farm consists of two (2) different corporations, with each requesting a loan; however, because of the similarities, one of the loan requests was overlooked. The second application will be presented to the board at a different time.

Project

The Farm is a poultry farm located in Hartly, Delaware and was purchased in 2015. From 2015 to 2017 the owners constructed 6 chicken poultry houses and farmhouse. Each poultry house can house approximately 35,000 chickens. Since April 2017, the Farm has delivered 4 flocks of about 180,000 chickens to Coleman Natural and are about to deliver its 5th. As discussed in previous poultry farm loan reports at the time of delivery the flocks delivered are ranked against other flocks (growers) that are delivered. The Farm has never been ranked at the bottom and has been ranked as high as 2nd with their previous deliveries. Coleman Natural is an organic chicken company owned by Purdue Chicken. As one can deduce, Parry Farm grows organic chickens.

The Farm is organized as 2 separate LLC's, Parry Farm, LLC. and Parry Poultry, LLC. Parry Farm owns the land and each LLC owns 3 of the poultry houses. This is a common practice among poultry farmers with multiple houses as it allows for easier accounting since chickens are delivered to each group of 3 houses on a slightly different schedule. Each LLC receives half of the annual income produced by raising chickens. It is anticipated that the Farm will provide approximately 180,000 chickens for each 10.5 week cycle in 2018 and in the years moving forward.

The Project includes the purchase and construction of a 138.7kW ground mount solar array that is designed to generate the Farm's electrical usage to the Farm's chicken houses and residence. Total cost of the Project is estimated to be $318,800. There is no cash contribution form the owners of the Farm or other source of funds for construction.

Loan Request and Security

As noted above, the total Project costs are estimated to be $318,800. The Project construction costs will be entirely funded by the proposed DESEU loan. The loan was made pursuant to the DESEU's Farm Program making it eligible for a 20-year term at 2%. Annual energy savings are estimated to be $25,754 making the simple payback from energy savings alone to be approximately 12.4 years.

As noted in previous farm loan reports regarding applications where only tax returns are available for financial disclosure, the information that can be ascertained from the tax returns is limited. And as noted, only the tax returns for the LLCs making application for the loan were reviewed for the years 2015 and 2016. A review of the tax returns shows that although income and expenses are limited for the 2 years reported, the owners do pay Federal income taxes on income earned operating the Farm. It further reflects Farm asset values of over $1.8M.

Outstanding loans include: a $3.2M mortgage with Live Oak Bank that is made with the 2 LLCs identified earlier. Both companies are responsible for the repayment of the loan and the loan does carry personal guaranties of Katharine and Dennis Parry. The owners of the Farm have offered personal guarantees for the DESEU loan. The Credit report notes that the Parry's also utilize credit cards.

As with other farm solar array projects reviewed as part of previous farm loan applications for similar loans, this Project is a monetary windfall to the owners of the Farm. Besides the energy savings generated by the solar array estimated to be $772,645 over the estimated useful life of the Project (30 years), the Project generates other revenues and monetary benefits to the owners. They include SREC revenues, Federal Tax Credit, and depreciation. The Farm has also applied for a USDA Reap Grant that is not guaranteed and as of the day of this report has not been approved.

The cash flow analysis provided by Paradise Energy Solutions, the additional monetary benefits over and above the energy savings are estimated to total $308,550. This does not include the Reap Grant that if approved, will provide another $79,900 to the Farm for reimbursement for Project expenses. The additional revenue is broken up as follows: (1) $95,640 tax credit (received upon startup of the Project in year 1); 2) depreciation, estimated to be $99,450 (realized over the first 6 years of the Project) and (3) the SREC revenues that are projected be $113,460 (realized over 20 years). This additional revenue is available to the owners of the Farm for repayment of the loan. For purposes of the cash flow analysis, Paradise Energy Solutions has assumed a 2% loan for a 20-year term, a 2% annual inflation rate on the cost of electricity and a .5% annual solar module degradation rate on the solar panel energy production.

<u>Conclusion</u>
Per the guidelines of the Farm Program, the DESEU should consider a loan of 2% over a 20-year term. 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. Paradee moved to approve the loan request in the amount of $318,800 with a 20 year term at 2% interest. The motion was seconded by Mr. Knight and unanimously carried.

1.b. KC Farms - KC Farms (the "Farm") is located in Marydel, Delaware and is owned by Christopher and Krista Lesiowski. They have 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 the electric energy needs for the Farm. The loan was made as part of the DESEU's Farm Program and as such is eligible for a 20-year loan at 2%.

Project

The poultry farm was purchased in 2013; it includes a residence and 6 chicken houses that were constructed in 2013. The Farm produces approximately 185,000 chickens annually, 33,600 adult chickens in each 9 to 10 week cycle (averaging 5.5 cycles annually).

The Project includes the purchase and construction of a 245.7 kW ground mount solar array that is designed to generate the Farm's electrical usage to the Farm's chicken houses and residence. Total cost of the Project is estimated to be $497,885. The Project also includes the sealing of air gaps that exist between the walls of the chicken houses and the cement slabs. The owners are contributing $97,885 towards the cost of the Project.

Summary

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

The documents examined in connection with the review include the DESEU application; the Federal Tax returns for the years ending 2014, 2015, and 2016; the Project report and cash flow summary submitted by Sunrise Solar; the credit report provided by Credco; and the DESEU questionnaire.

Loan Request and Security

As noted in previous farm loan reports regarding applications where only tax returns are available for financial disclosure, the information that can be ascertained from the tax returns is limited. That said, a review of the tax returns shows that the owners pay Federal income taxes on income earned operating the Farm. Annual income from the Farm operations is approximately $225,000- $295,000 over the 3 years examined. The Federal tax returns are joint returns of the owners showing all household income. They include other income that is generated from an asset management business, set up as a S Corporation, that is owned by Christopher Lesiowski and another family member; the total income on the returns total more than $450,000.

The Farm provided information regarding outstanding debt. Outstanding loans include: a commercial loan to Fulton Bank with a $2.5M balance; 2 outstanding auto loans for $32k and $45k respectively; and an FSA loan of $215,000. The credit report does not indicate any significant issues regarding the repayment of the outstanding loans or charge cards.

As with other farm solar array projects reviewed as part of previous farm loan applications for similar loans, this Project is a monetary windfall to the owners of the Farm. Besides the energy savings generated by the solar array estimated to be $925,392 over the next 25 years, the Project generates other revenues and monetary benefits to the owners. They include SREC revenues, Federal Tax Credit, and depreciation. As shown on the attached cash flow analysis provided by Sunrise Solar, the additional monetary benefits over and above the energy savings are estimated to total $371,650 over the estimated 25 year useful life of the Project. For purposes of the cash flow analysis, Sunrise Solar has assumed a 2% loan for a 20 year term and an annual energy cost escalation rate of 2.5%. The additional revenue is broken up as follows: (1) $149,366 tax credit is received upon start-up of the Project (year 1); (2) depreciation, estimated to be $106,375 will be realized over the first 6 years of the Project and (3) the SREC revenues that are projected at $115,909 are realized over 20 years. This additional revenue is available to the owners of the Farm for repayment of the loan.

As of the writing of this report the owners have applied to the State of Delaware to be organized as a LLC. However, they have not received information from the State of Delaware to confirm. Depending on the organization structure (i.e. personally owned or set up as a LLC), the owners are willing to put a personal guaranty on the loan.

<u>Conclusion</u>
Per the guidelines of the Farm Program, the DESEU should consider a loan of 2% over a 20 year term. 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 a 20 year term at 2% interest. The motion was seconded by Mr. Paradee and unanimously carried.

Meeting Adjourned at 10:45 AM