

Financial Assistance Opportunities

Steve Dvorak , GHD

There are two types of financial assistance I'd like to talk about and I'm going to make it real easy on myself. We are fortunate enough to have Chris Cassidy here from USDA Rural Development in Washington State. He is in charge of the federal grants for the State of Washington. As he's coming up, I will tell you that there are some unique things happening in the digester business and it's very site specific. There are companies now that are willing to put in turnkey digesters, financed on their nickel. Financing is a problem. We may be able to help on large dairies, say, 1000 cows or more. Basically you'll be giving up the electrical goal, you'll be giving up the fiber, but you'll be getting all the other benefits—odor and manure management. That's something that can be done, not just with our technology, but it certainly applies to other people's technology. That is an option, so you should look at that and, because it is so site specific, if you have questions I'm going to ask you to just talk to Marlin or you can talk to me afterwards.

I think what they really wanted me to talk about is the grants that you can get for digesters, and there certainly are some grants. I'm not going to talk about the State of Washington because I don't really know what Washington does have. A lot of states have grants specific to that state. In Wisconsin we have power companies that are paying penalties for polluting the air with the coal fired plants. The penalty goes back to a state fund, and the farmers are able to get some grant money from that. In Wisconsin right now, we're seeing grants of \$90,000 to \$100,000 per digester. That would be over and above anything you'd get from federal sources. The State of Illinois is funding digesters at about \$250,000. But the federal government does have grants available. You do have to apply for them. I'm going to let Chris talk about that.

Chris Cassidy, USDA Rural Development

I appreciate the opportunity. Steve asked if I could make a few comments about the grants and loan programs that the U.S. Department of Agriculture has. These are federal grants, so it doesn't matter which state you're in, you can apply. After I am done, I'd like to ask my colleague from the Community Trade and Economic Development Branch of the State of Washington to make comments on state-specific financing opportunities that are out there. First of all, I wanted to thank the sponsors for this event. It is great to see so many people interested in

anaerobic digesters and to hear the speakers. This is a world-class lineup and we're very privileged to have you here today.

Under the 2002 farm bill there are two programs that apply to our topic today. The first one is the Value-added Producer grant. Under that grant, renewable energy is eligible. This grant requires a 50% match, so we provide 50%, the applicant provides 50%. You have to be an ag producer, a cooperative, or a rural small business to qualify, and anaerobic digesters, for instance, would be eligible for this. There are two opportunities. Planning grants are for planning, design, engineering, consulting, and permitting. The other provides working capital. If you have a solid business plan, design, feasibility study, and you're going to implement a project, you can apply for a 50% grant to actually cover the working capital, to implement the project. These grants are very competitive. We've been highly successful in the State of Washington in accessing these dollars and putting them to work, but not quite matching Wisconsin.

We still don't have our program budget for this year but, based on history and the proposed budgets, it looks like the planning grants are going to be a maximum of \$150,000 and the working capital grants a maximum of \$100,000.

The second grant program under the 2002 farm bill is the renewable energy systems. Again, anaerobic digesters would qualify. We have some examples that we funded in the past—Van der Haak up in Lynden, the Tulalip and Quilceda Power Company, as well as Bosma here in the lower Yakima valley. They've all been able to successfully access this granting opportunity.

With the renewable energy systems, we're talking about systems that actually generate energy, so an anaerobic digester, wind turbines both large and small, solar, geothermal, they all qualify under this program. The maximum grant is \$500,000, but it's a 25% funding from our side, 75% funding from your side. We also have an energy efficiency improvement program and again that maximum grant is \$250,000. This is for making improvements. Say we wanted to replace turbines or pumps or compressors and we could come out with something that's more energy efficient or if we wanted to go with solar or improving heating and ventilation systems, refrigeration, insulation, glass, windows, doors, whatever, to help with other aspects of your operations—these would be eligible.

The important thing I want to stress about the renewable energy projects is that these are not research and development. We're looking at pre-commercial, commercially available technology that can be replicated. We'll make the investment in one farm or ranch or business in

hopes that this technology is going to take off and spread. We want to help figure out what works best under different circumstances and, hopefully through economies of scale, reduce the cost of implementing these projects. Also, the design criteria are very strict and specific. The economics have to pencil out, and the engineering must be time tested, proven technologies. Projects have to be designed, constructed, and tested by qualified engineers. They have to be certified, we have to meet all the local regulatory requirements for inter-connect agreements and what have you. And we also need some assurance that they can be operated and maintained successfully, so we look at whether there are spare parts available and trained technicians and that sort of thing. It's definitely not a fly-by-night, do-it-on-your-own in the back of the barn and think that Uncle Sam is going to step up and help out financially. This is a very, very competitive process. Also on the energy improvements, there is an energy audit required for those projects requesting more than \$100,000 in funding. Those are basically the grants that we're handling right now.

I also wanted to put in a plug—we do have a loan program, a guaranteed loan program. If your local lender is interested in getting behind a project, we can come in with a guarantee that puts them in a much better position, reducing the risks and hopefully providing better terms for you. We heard this morning that 5 years ago you couldn't get a lender to even listen to you, let alone offer you a seat in his office to discuss this. Now they're stepping forward and there are opportunities out there. If we can participate in that by issuing a guarantee, it's a win-win for everyone. The guaranteed program is a lender-driven program and we'd be happy to discuss that with you after this conference.

I also wanted to let you know that we have a series of workshops coming up in the month of March throughout the State of Washington, for anyone who is interested in learning more about the renewable energy programs and the value-added programs. We can walk you through a step-by-step how to fill in the application. It's a government application so they tend to be a little bit tricky, but if you have someone coaching you and prodding you along, we can do a quick assessment of what the chances are of accessing this and making sure you're an eligible applicant, an eligible area, and an eligible purpose. You can save yourself a lot of time and aggravation and also increase the competitiveness of your application. The bottom line is that it comes down to the technical writing of the application. That seems to be what keeps us in the high success rate here, so we have to continue to be focused on that.

Again, I'll be here after the meeting and during the break, and I'd like to introduce my colleague sitting at the front table here. This is Clint Casa, he's also with the USDA Rural Development. We work out of the state office in Olympia, but we have area offices that can provide you more hands-on approach to this. On the second of March we're having a meeting in Spokane, on the third in Wenatchee, on the eighth in Mount Vernon, on the ninth in Port Hadlock. I think it was mentioned already that there is an outreach meeting on the tenth in Lynden at the Van der Haak digester. The 24th we'll be in Raymond, and the 29th in Chehalis. There will be two meetings in the Yakima valley; they haven't been scheduled yet, but I believe they will be at the very end of March and first week in April, probably in Yakima and Pasco, but we can get you that information as well.

I also wanted to thank the partners. We have a lot of energy partners, most of them are up here as workshop organizers and co-sponsors. It is only through cooperation and identifying what the best technology and where the financing opportunities are available by sharing these resources and cooperating that I think we're going to be successful. I would like to again thank WSU for their assistance. I'd like to ask Tim Stearns from Washington State's Community Trade and Economic Development to discuss his funding opportunities. I can answer any questions now or after the session. Thank you.

Tim Stearns, Dept. of Community, Trade, and Economic Development, Olympia, WA

Thank you. You just heard from our key partner in making most of these projects happen. As most of you read in the paper these days, the State of Washington has quite a budget challenge so, frankly, the amount of money, the number of checks that I've been able to bring along today, I've already handed out. But let me talk about the bigger picture of where funding and technical assistance from the state are coming and the kind of actions you can and need to take to help solidify some of these funding sources.

I can't stress enough how imperative the two federal farm program budget items have been, the 9006 grants and the value-added grants and the renewable energy grants. It is imperative that people let your congressmen and senators know that those need to be in the next farm bill as well. They are really the biggest driver of momentum that we have. As far as state funding goes, we do not charge sales tax on these renewable projects. That's something that

needs to be clarified, but the notion is no renewable projects are going to have sales tax. So that's an 8.6% gift. I realize it's not enough to make these projects economic.

There is a series of grants that are possible if you have some public participation—a port, a county, an irrigation district, conservation district, something that is a public entity. The Washington constitution essentially prohibits us from lending the state's credit to private operations, so that's kind of the mechanism that we need to work through that issue. But also recognize that you're going to be competing for funds with other local priorities—water systems, sewer systems, roads, sidewalks, public safety. So, frankly, grants are going to be tough.

But a couple of other key things. Sixteen utilities in this state now offer green power programs. That's where rate payers voluntarily pay extra money every month because they want power to come from green power. Utilities are then investing in various kinds of projects—a lot of wind projects; we're seeing some solar projects. Puget Power was a large participant in the Vander Haak Dairy in Lynden. I expect Snohomish County PUD to participate in the project that we have going in Snohomish County; Shelton County PUD is going to likely participate in that project. So you need to talk with your local utilities.

Energy Northwest, which is a consortium of public utilities, is already operating one anaerobic digestion project and has shown some interest in exploring participating in others. I don't think they're making any promises to own or buy or loan but they're definitely worth talking to, especially if you are served by one of the utilities that is in the Energy Northwest network. This area is exploring industrial revenue bonds and, frankly, local participation, local public funding, local investment is going to increase the likelihood that you're going to qualify for USDA funds.

Now a couple of interesting new sources—the Tulalip Tribe is going to participate in the Snohomish County project. It would certainly be worthwhile to talk to the Yakima Nation, the Umatilla Nation and others in this area. The tribes are obviously very interested in nutrient problems with rivers. So I think that's a funding source and a potential partner that is just beginning to solidify.

We've also had some success with the Vander Haak project. The Paul Allen Foundation funded WSU's Center for Sustaining Agriculture and Natural Resources to work on AD. Thanks to this funding, WSU was able to participate in the Vander Haak project. I think there are some other private foundations that are open to participate.

Finally, let me close on a couple of things. The worst place to start asking if you're going to build one of these is, who's going to help buy it for me. Because if you're going to get any of us to help, USDA, the state, the local government, the key thing you need to do is demonstrate that you've done your homework, you know what you're talking about. You've put together a business plan. If you're five dairies that are participating together, it's clear who is in charge. No contractor wants to deal with a committee. No contractor can deal with somebody who is not sure how it fits in their operation. So I can't stress enough that the clearer an idea that you have of the project that works in your situation, the more likely that we're all going to be able to help you advance it.

Let me talk about trends. I think over the next decade we're going to see a movement more from grants to loans, a necessity of having producer participation, local government source participation. We're going to need to see costs get more predictable, projects a bit more standardized, and revenue sources improved. Electricity is clearly a revenue, green tags and climate things are revenues, use of the fertilizer or bedding, the more we can solidify those. You're going to hear from Craig Fear and Shulin Chen about efforts that the state is making collectively to try to improve revenue outlooks by identifying and developing other byproducts that you can make, whether it's bio-diesel or anaerobic digestion, basically trying to make more products that are sellable.

Let me close with just a couple of things. There is a bill at the Washington legislature that is being worked on in standardizing utility connection. Now that will standardize some of the rules. It will not overcome your necessity to develop a good working relationship with your utilities. Recognize that utilities find these projects pretty small when they have a much larger service territory to handle. Dealing with 100 little power producers would be a big challenge for utilities. Most of them don't have staff or expertise. So recognize that while you see a utility as a daunting entity to deal with, they look at 100 of you as a daunting entity to deal with. So you need to be ready to be a reliable partner.

Second big thing is, green power purchases have steadily increased in 5 years and they are going to steadily increase. You need to talk to your neighbors and talk to your utilities about, we want to buy green power and we are willing to pay what it costs. Clearly Washington has a key advantage of cheap power. We want to keep that. But new power sources all cost more than Grand Coulee, and if we can get power sources locally that address pollution problems, that

improve your revenue streams and viability, that's something that the state utilities, local governments, all have very dramatic interest in.

Finally, we have 9,000 dirty diesel school buses. To the degree that we can move them to cleaner liquid natural gas, compressed natural gas, bio-diesel, those revenue streams are there. The final thing is, I don't expect this session that you're going to see any new huge state fund developed, but I would expect, as we've already had conversations with the new administration that's in place right now, and who knows for how long if the courts will ever decide, but they have a real interest in advancing this industry. They are interested in how we can do it. But frankly, this budget year I don't think you're going to see any new initiatives. So figure out what you want to do, put together a business plan, go through the USDA funding cycles, meet with your utilities, meet with your local governments and get this a priority, and we will be able to help you put together the right financing package if you have your act together and have thought about it.

Thank you for your time and it's great that everybody came out. Let's make this industry a reality and keep this area thriving in agriculture and deal with our odor and pollution problems.

Thank you.

Steve Dvorak

Just to wrap up a little bit, as Chris mentioned, the USDA rural development grants are a technology-based grant, not R&D. We've been very successful in getting them in Wisconsin. We have one here in Washington and we're willing to write them with you if you want. The other thing that was brought up by Phil is the fact that (I'm not going to call it the energy bill) Congress just passed the amendment to an existing bill that gave poultry producers a tax cut for renewable energy, and dairy is now eligible for 0.9 cents per kilowatt. If you're producing 200 kilowatts, you'd get about \$1.80 per hour tax credit that you can take right off your taxes. That's another \$15,000 per year of value from a digester if you had that size dairy.