Recommendation #18
Subcommittee: Access to Capital
Submitted by: Bradley Guse

Problem Statement: The capital required to enter the dairy industry as either a producer or a processor creates a barrier to entry preventing the continual evolution of the industry. The large capital requirements to enter result in a higher financial risk profile limiting available options to gain start up financing. While programs exist at both the USDA – Farm Service Agency (FSA) and Wisconsin Housing and Economic Development Authority (WHEDA) , each of them has limitations when it comes to supporting entry. The first is limitation is in the new farmer's entry into operations through ownership in a Corporation, LLC or LLP structure. This is often times a more efficient way for a new farmer to transfer ownership and should be facilitated rather than limited. Secondly, where those entities are not used, shared facility arrangements and rules with regards to what constitutes an operating entity, impacts borrower eligibility.

Recommended Solution:

1. That WHEDA and FSA both make appropriate changes to their programs eligibility requirements to allow:
    a. Making beginning farmer loan programs available to members of a LLC, LLP or Corporation, if the individual otherwise would meet the beginning farmer definitions, helping the individual to become an owner, through purchase of a portion of the business, rather than hard assets.
    b. Modernize and facilitate a method simplifying shared facility agreements to insure eligibility for beginning farmer loans is not impacted.

2. That WHEDA modernize their loan guarantee programs to include an effective tool to support beginning and start up dairy manufacturers and processors furthering innovation and market development expanding our world class specialty cheese and dairy product industry.

Recommendation #19
Subcommittee: Access to Capital
Submitted by: Bradley Guse

Problem Statement: Clean water and management of nutrients continues to be an area that dairy processors and producers work to improve upon through implementation of new technologies. The challenge is that many times these new and emerging technologies have no or limited track records of performance in the production agriculture or processor space resulting in limited collateral value which in turn impacts the availability of capital/financing available to fund the implementation. Additionally, the implementation represents an added layer of financial risk for the operation, further impacting availability of financing.

Spurring the development of new environmental technology systems and adaptations to the dairy producer and processor space is also seen as a key component to development of proven and reliable systems that can add value to the operations where they are implemented, thus making traditional financing a viable option.

Recommended Solution:

Mark Binversie – Investors Community Bank, Sam Miller – BMO Harris Bank and Greg Steele – Compeer Financial, penned a Nutrient Environmental Technology Program proposal that provides for a loan guarantee program and developer grant program as detailed below, modified by the access to credit committee to include dairy processors as eligible users.

Nutrient Environmental Technology

Loan Guarantee Program

Purpose:	To encourage the adoption of new nutrient management and odor mitigation technology by reducing financial risk.
What is Eligible:	New waste management technology like anaerobic digesters and electricity production systems, separators, lagoon covers, aeration systems, and additional reception pits, pipes and pumps needed to accomplish the process of the waste management technology.
Who is Eligible:	Any livestock producer, dairy processor or company working on a program to handle waste and odor mitigation issues.
What is Ineligible:	Traditional systems/technology like clay lined or concrete storage pits or lagoons, or any vessel that as its function stores manure or waste. Equipment used to convey or transport waste.
Guarantee Limit:	$1,000,000

Collateral:	2nd or 3rd real estate mortgage and fixtures disclaimer on the items financed and best obtainable lien on any other available assets.
Guarantee:	90%
Financial requirements:	25% post close owner equity and 1.25 debt coverage ratio. **Or** 40% post close owner equity and 1.1 debt coverage ratio. (Based on 3-year average using proforma numbers and 20-year amortization on real estate and 7-year amortization on personal property.)
Loan Parameters:	Loan can be any amount (TBD) per site with multiple loans (sites) eligible. Requiring at least a 10% down payment from other sources on each project. Lender can provide interest only for 1 year. This loan is designed to be in a **junior position** to existing financing and is eligible to **subordinate** to future financing needs. Loan can exceed the appraisal amounts by up to $500,000

Loan Guarantee Program Examples

Example A

Digester system	$ 600,000
plus soft costs	60,000
less ineligible	(40,000)
subtotal	$ 620,000
less down payment (10%)	(62,000)
Total Loan	$ 558,000
Guaranteed amount (90%)	$ 502,200
unguaranteed amount	$ 55,800
plus down payment and ineligible	$ 102,000

Example B

Manure separator system	$ 90,000
plus soft costs	10,000

less ineligible	(5,000)
subtotal	$ 95,000
less down payment (10%)	(9,500)
Total Loan	$ 85,500
Guaranteed amount (90%)	$ 76,950
unguaranteed amount	$ 8,550
plus down payment and ineligible	$ 14,500

Nutrient Environmental Technology
Technology Developer Grant Program

<u>Guidelines</u>

Purpose: To facilitate the development and commercialization of new nutrient management and odor mitigation technology.

What is Eligible: The installation of commercial scale pilot systems for the research and development new nutrient management and odor mitigation technologies. These projects must lead to new or significantly improved products or processes and have a high probability of commercial success within a relatively short time period (2-3 years). Technologies must provide significant economic benefit to Wisconsin.

Who is Eligible: Any Wisconsin company or consortium working to develop on a system to better address nutrient management and odor mitigation issues can apply for funds. A consortium is an association between a Wisconsin business and a Wisconsin higher educational institution.

What is Ineligible: Technologies that have already been commercialized.

Grant Limit: $100,000

Participation Limit: Maximum of 50% of total project Cost

Grant Parameters: The scientific and technical merit of the technologies would be evaluated by an independent peer review panel.

Recommendation #20
Subcommittee: Access to Capital
Submitted by: Jon Accola

Problem Statement: Milk price volatility has become greater over the past several cycles. In high price years, like 2014, farmers seek to avoid income taxes by investing in productive assets—many of which can be expensed in the income-earning year. These assets can contribute to excess milk production in the subsequent years causing deep and/or prolonged downturns in milk prices.

Recommended Solution:

Based off the premise that farmers could use a way to delay paying taxes on farm income for a specified period. The Farm Savings Account (FSA) would allow them to save income in good years and use this income in years when farm income is down.

There have been numerous programs such as this introduced over the last 10-20 years. Sen Charles Grassley introduced a similar program in a bill that never made it to passage. The idea has been intriguing since it uses the same thought process as the tax deferred retirement accounts most of us use today.

The FSA is another risk management tool that farmer could use. In the most basic form, it does not generate any more revenue than the interest income that would accumulate in the "tax deferred saving account". Some of the ideas brought forth in years past had incentives and matching funds tied to these savings accounts.

Taxes would be deferred on the funds in the FSA until the funds are needed as income or the time limit has been reached for having the funds in this tax deferred account.

The primary thought process is that at the end of good income years farmers use their excess cash to make capital purchases to reduce their tax burden. In most all business' purchasing an item solely for the purpose of reducing taxes is usually not the best use of funds. There are many factors that go into making purchases of equipment and other capital items. Most notably is that there is a plan and a budget to follow that most likely was developed many months or even years ago.

The programs that have been introduced previously had specific limits on the percent of gross income that could be contributed each year. Some even had a maximum contribution which would limit the potential benefit to the largest farmers. There was also discussion of using this program to help offset income in low farm income years.

We do know that most farmers have the ability to do income averaging that could produce similar tax savings to what has been proposed above. Once again this takes planning and the ability to know what your current tax liability might be at any point in time during the year.

Recommendation #53
Sub-committee: Access to Capital
Submitted by: Bradley Guse

Problem Statement: With current dairy economics, farm margins are strained resulting in additional risk to lending institutions providing credit to dairy producers. This additional risk adds cost to the lending institution which could result in less willing creditors in the agricultural lending space, or an increase in cost passed on to producers that will further decrease margins for dairy farmers further impacting one of the state's most vital industries. In addition, this levels the playing field between lending institutions in the ag space.

Recommended Solution:

The Wisconsin Bankers Association has proposed through public comment for consideration by the access to credit committee a bill to address the taxation of interest earned on loans made for primarily agricultural purposes. A summary of the bill is as is follows

The Access to Better Credit (ABC) Act will incentivize greater credit access to farmers. Patterned after a federal bill - H.R. 6260, Enhancing Credit Opportunities in Rural America Act of 2016 (Rep. Jenkins, Lynn (R-KS-2)- this provision will provide an opportunity for increased access to cheaper credit for farmers in an increasing interest rate environment. It also provides parity in the tax code in relation to the treatment of tax on agricultural loans – it treats credit unions, banks in a similar fashion for agricultural loans under $10 million. Specifically, the provision creates an income and franchise tax deduction for the income of a lender derived from a commercial loan of less than $10,000,000 to a person residing or located in this state and made primarily for an agricultural purpose.

Highlights

- Loans MUST be made to Wisconsin businesses for the purpose of a project in Wisconsin. No financial institution will receive any benefit from this provision unless it makes a loan as defined by the statute.
- Lowering the cost of the loan means cheaper credit and/or more credit available for farmers.
- The ABC Act defines eligible loans as certain loans of up $10 million to businesses with an agricultural purpose.
- To incentivize credit to farmers, the bill creates an income and franchise tax deduction for the income of a lender for these agricultural loans.
- Patterned after a federal bill - H.R. 6260, Enhancing Credit Opportunities in Rural America Act of 2016 (Rep. Jenkins, Lynn (R-KS-2)- this budget provision will provide increased access to cheaper credit for farmers in an increasing interest rate environment.