

Economic Vitality – So, how are you going to pay me back??

- Cash Flow – at least 1.5 times expenses
 - Revenues \geq 1.5 (Operating costs + Debt service)
- Contracts
 - Must have demonstrated positive cash flow
 - Terms (with renewals) should exceed loan life
 - May have to assign contract to bank
- Letters of Intent
 - OK, basically letters of reference



Economic Vitality – Proving Your Point

- Explain dual nature of income (tip fees, compost sales) and for each source:
 - How much market share do you have?
 - How are you going to grow market share?
 - Who are you competing with and what are their strengths?
- Base *Pro Formas* only on tip fee revenue
- Show cash flow in winter enough to cover debt
 - If you need product sales to be profitable, comfort level will drop



No, this is not a landfill

- Must address environmental liability
 - Have clear closure plan that shows no post-closure care need or requirement
- Show strong operational controls over waste
 - Contracts, Feedstock Acceptance Protocols, incoming waste inspections
- Explain contingency plans
- Arrange for visits by bankers



Acquiring Equity Investments (or C'mon Uncle Joe, lend me some dough!)

- Multi-step process
 - # 1 – Develop accurate *pro formas*
 - # 2 – Define risk criteria & assess risks
 - Is volume of tip fee material enough?
 - Is that volume secured by contracts?
 - Do we have a firm estimate of construction costs?
 - # 3 – Accurately model operational costs
 - Is Internal-Rate-of-Return (IRR) > 10-15%?
 - IRR = yield on invested capital



The Fine Print

- Length and tightness of strings attached is directly proportional to their comfort level
- Periodic (monthly or quarterly) financials will be required – may need to be audited annually
- Some may want explanations of variations from budgeted operational revenues/costs – explain openly
- Some may want a seat on your Board – agree to this
- Recognize nothing is gained by concealing anything



Government Support (Huh? What's that?)

- State governments may be source of support
- Grants
- Tax credits
- Direct loans (through 3rd party)
- Loan Default Repayment guarantees
 - Small Business Admin.
 - USDA – Rural Development



Support mechanisms

- Grants
 - Might be available for equipment; rarely for land or labor
 - May not be available for “for-profit” entities
- Tax Credits for “Recycling” Equipment
 - Credits on personal property, sales, income, property taxes
 - Meant to encourage solid waste recycling, may be reduced if handling biosolids or manure



Support mechanisms, cont.

- Direct loans
 - Recycling Loan Funds – lower interest rates
 - Mass. RLF – up to 40% of project costs, up to \$500K, at 4% APR
- Loan Guarantees – i.e. USDA - RD
 - Guarantee up to 80% of defaulted amount, post-liquidation
 - Extensive due diligence will be done
 - Upfront loan fee of 2%



Raising the Comfort Level

- Be thorough and complete in all documentation
- Teach lender about nature of composting
 - It's both recycling and product manufacturing
 - You've got plans to address both sides
- Have a good financial history
- Remember – you're talking to the whole credit committee, not just the loan officer



Questions?

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