



Exploring Utah Geothermal Opportunities: *How to Finance Development*

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Small business lending is big business and growing...

- About 82.5% of small firms used some form of credit in 1998.
- Loans < \$1 million totaled \$460 billion in June 2001, up \$23 billion from 2000.
- Number of loans under \$100,000 grew by 10.1%.
- The dollar value of loans.
 - < \$100,000 up 4.4%.
 - \$100,000-\$250,000 up 4.1%.
 - \$250,000-\$1 million up 6.4%.



But...

- Getting a loan can be difficult if an entrepreneur or business owner does not know:
 - How to write business and financing plans (see [Geothermal Small Business Workbook](#)).
 - How to find a small business-friendly lender.
 - How to best approach them.
 - The specific criteria they use to evaluate a loan application.



Outline



- Small business lending
- Locating a small business-friendly bank
- Small Business Administration (SBA)
- Financing criteria for debt financing
- Federal incentives and solicitations
- Other sources of financing information
- Conclusion



Small business lending

- Where you go for financing depends on the size of your project and the amount of financing you need.
- Most common sources of financing:
 - Personal credit cards.
 - Spouse.
 - Bank loan.
- 67% of all small firms that borrowed from traditional sources obtained their money from commercial banks. (1998).



Locating a small business-friendly bank

- Good first step: SBA's *Small Business Lending in the United States: A Directory of Small Business Lending Reported by Commercial Banks*.
 - Ranks small business lenders in each state based on data collected by the Federal Reserve.
 - Lists the top small business lenders in each state (for all reporting banks).
 - Only includes banks which made small business loans of > \$50 million in 2000.



Small business-friendly banks in Utah

Bank Name	HQ State	Lending < \$1 M		Lending < \$250K		Lending <\$100K	
		\$ (000s)	Number of loans	\$ (000s)	Number of loans	\$ (000s)	Number of loans
Zions Bancorporation	UT	298,266	3,072	134,487	2,759	56,260	2,305
Wells Fargo & Company	CA	277,071	2,572	122,374	2,244	60,017	1,891
Keycorp	OH	100,106	1,217	44,452	1,107	22,400	986
U.S. Bancorp	MN	85,954	1,409	35,247	1,318	21,188	1,245
Bou Bancorp Inc.	UT	57,659	491	26,056	429	11,850	342
American Express Centurion Bank	UT	57,477	7,873	57,477	7,873	57,034	7,870

Source: *Small Business Lending in the United States: A Directory of Small Business Lending Reported by Commercial Banks in June 2001*, Table 4.

Locating a small business-friendly bank

- Also, banks that participate in SBA loan programs:
 - Certified Lender Program (CLP).
 - Preferred Lender Program (PLP).
- CLPs and PLPs provide expedited service on loan applications.
- Check with your local bank to see which SBA programs they participate in.



CLPs and PLPs in Utah

- American Bank of Commerce
- American Express Centurion Bank
- America West Bank (PLP)
- Bank of American Fork (PLP)
- Bank of Utah (PLP)
- Bank One, NA (PLP)
- Barnes Banking Company
- Brighton Bank
- Business Loan Express (PLP)
- Cache Valley Bank
- Capital Community Bank
- Central Bank & Trust
- Celtic Bank
- CIT Small Business Lending Corporation (PLP)
- Comerica Bank California (PLP)
- Community First National Bank (PLP)
- Far West Bank (PLP)
- 1st Centennial Bank (PLP)
- First National Bank of Layton (PLP)
- First Utah Bank
- Frontier Bank
- GE Commercial Finance (PLP)
- Goldenwest Credit Union
- Irwin Union Bank & Trust
- Key Bank (PLP)
- Matrix Capital Bank
- Mountain America Credit Union
- Mountain West Bank
- Premier Bank (PLP)
- Silver State Bank (PLP)
- State Bank of Southern Utah
- Sunfirst Bank
- Transportation Alliance Bank
- U.S. Bank (PLP)
- Utah Independent Bank
- Village Bank, The
- Washington Mutual - Western Bank (PLP)
- Wells Fargo (PLP)
- Zions First National Bank (PLP)



Small Business Administration (SBA)

- Nation's largest single financial backer of small businesses.
- Backed > \$12.3 billion in loans in 2002.
- SBA does not make loans; it guarantees loans to lender.
- Loans are made by private and other institutions.
- Applicant must be for-profit and qualify as a small business as defined by SBA.



SBA Basic Financing Programs

1. Basic 7(a) Loan Guarantee.
2. Section 504 Certified Development Company (CDC) Program.
3. Microloan, a 7(m) Loan Program.



1. SBA Basic 7(a) Loan Guarantee

- For small businesses which are unable to secure financing on reasonable terms through normal lending channels.
- Commercial lenders make and administer the loans.
- Interest rates are negotiated between the borrower and the lender.
- Lender gets SBA guaranty up to \$1 million.
 - < \$150,000 = 85%.
 - > \$150,000 = 75%.



SBA 7(a) funding under Continuing Resolutions

- Program suspended in early January due to volume constraints under the Continuing Resolution.
- The SBA reopened its 7(a) loan program on 14 January 2004.
 - Received additional \$470 million in lending authority through 1/31/04.
 - Loan cap of \$750,000 per loan recipient.
- SBA's FY04 appropriation is still awaiting approval in the U.S. Senate.



2. SBA Section 504 Certified Development Company (CDC) Program

- Long-term, fixed rate financing for investment in fixed assets (e.g., land, buildings).
- Typically includes a senior lien from a private-sector lender of 50%; 40% from CDC, and 10% from borrower.
- Interest rates pegged to U.S. Treasury issues.
- Terms of 10 and 20 years available.
- Extended through SBA-approved Certified Development Companies.



CDCs in Utah

Deseret Certified Development Company

2595 East 3300 South

Salt Lake City, Utah 84109

Phone: 801/474-3232

<http://www.deseretcdc.com/>

Scott@deseretcdc.com

Utah CDC (formerly Northern Utah Capital, Inc.)

2404 Washington Boulevard, Suite 1000

Ogden, Utah 84401

Phone: 801/627-1333

<http://www.nucdc.com/>

rrichards@nucdc.com



3. SBA Microloan, a 7(m) Loan Program

- Up to \$35,000 for small businesses.
- For working capital or inventory, supplies, furniture, fixtures, machinery, and equipment.
- Applications submitted to local intermediary.
- All credit decisions made on the local level.
- Lenders required to also provide business training to borrowers.
- Maximum term: 6 years; interest rates vary.
- Currently, no Microloan lenders in Utah.



Utah SBA District Office

- For more information:

125 South State Street
Room 2227

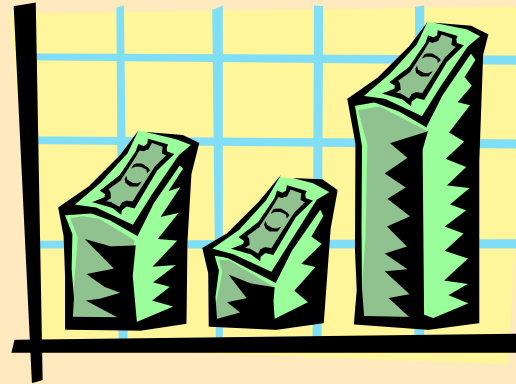
Salt Lake City, Utah 84138

(801) 524-3209

<http://sba.gov/ut/>



Financing criteria for debt financing



“The safest way to double your money is to fold it over and put it in your pocket.”

— Kin Hubbard (1868-1930)



Financing criteria for debt financing

- For a startup business, financing sources will look for:
 - Feasible business plan with realistic projections.
 - Management expertise and commitment to make the business succeed.
 - Capital injection (generally a minimum of 30%) by the owner.
 - Owner's personal financial strength.
 - Collateral.



The six “Cs”

- Bankers typically use six broad criteria to evaluate a request for financing:
 - 1. Character – willingness to pay.
 - 2. Capacity – ability to pay.
 - 3. Conditions – of economy and business.
 - 4. Collateral – business or personal assets can secure the loan.
 - 5. Credibility – plan and past performance.
 - 6. Contingency plans – “what if”.



Qualitative factors

- Bankers also use qualitative factors:
 - Credit Score
 - May use average from 3 credit companies.
 - Average high approval score is 680 or above.
 - Cash Flow Coverage Ratio
 - Company's cash flow to its outstanding debt.
 - 1.35 to 2.0
 - Leverage (aka Debt to Worth Ratio)
 - Total liabilities to net worth.
 - 3.0 or less.



Qualitative factors cont'd

- Collateral Coverage (aka Loan to Value).
 - The value of collateral is amount after assets are liquidated.
 - Personal residence = 80% of market value less mortgage.
 - Furniture, equipment = 50-80%.
 - Stocks = 70-80%.
 - CDs and cash = 100%.
 - Banks look for collateral coverage ratio of 25-50%.



Financing criteria for debt financing

- Use the Risk Management Association's *Annual Statement Studies* to compare your ratios to companies in the same industry.
- Check with your bank for their specific criteria.



Federal incentives

- Investment Tax Credit
 - 10% tax credit for commercial businesses that invest in or purchase qualifying geothermal energy property.
 - Up to \$25,000 per year.
 - See IRS Form 3468: Investment Credit
- Accelerated depreciation
 - 50% first-year bonus depreciation for property acquired between 5 May 2003 and 1 January 2005.
 - IRS Form 4562: Depreciation and Amortization
- Tax exemption for energy grants and subsidized energy financing received by a business from federal, state, or local government entities (IRS Form 6497)



Federal solicitations

- Enhanced (Engineered) Geothermal Systems Research and Development.
 - U.S. Department of Energy.
 - For R&D.
 - Approx. \$3 million for FY04.
 - 20 awards of \$50,000-\$500,000.
 - 20% cost share is required.
 - DE-PS36-04GO94001.
 - Due 30 January 2004.



Federal solicitations

- Research and Development in the Area of Distributed Energy Systems Application Integration.
 - DOE through Oak Ridge National Lab.
 - For Distributed Energy/Combined Heat and Power.
 - Approx. \$1 million/year/subcontract.
 - Minimum cost share of 50% required.
 - RFP No. 6400003574.
 - Due 12 February 2004.



Federal solicitations

- USDA Renewable Energy Systems and Energy Efficiency Program.
 - Authorized by 2002 Farm Bill (Section 9006 of Title IX).
 - Provides funding to farmers, ranchers, and small rural businesses (including cooperatives).
 - Grants of \$10,000-\$500,000 for up to 25% of eligible project costs.
 - No geothermal direct use or power generation projects funded in 2003.
 - Richard Carrig, Rural Business Programs Director, USDA, Utah.



Tracking Federal solicitations

- Federal Business Opportunities / FedBizOpps
 - For USG procurement > \$25,000.
 - Includes DOE and USDA solicitations.
 - Searchable by agency, lab, location, posted date, class code, key word, etc.
 - You can register to receive notification when a specific solicitation is issued (once synopsis is released).



www.FedBizOpps.gov

The screenshot shows a Netscape browser window displaying the FedBizOpps.gov website. The browser's address bar shows the URL <http://fedbizopps.gov/index.html>. The website header features the text "Fed Biz Opps" and "Federal Business Opportunities" above a banner image of the US Capitol and an American flag. The main content area is divided into several sections:

- Find Business Opportunities** (with a search input field containing "90")
- General Information**
 - Section 508 Vendor Notice
 - Interface Description
 - Management Responsibility
 - Frequently Asked Questions
- Privacy and Security Statement**
 - Privacy and Security Statement
- FedBizOpps News**
 - What's New?
 - FBO Awards
 - 508 Compliance
- Related Links**
 - Demo FBO
 - DoDBusOpps
 - Federal Agency Business Forecasts
 - Federal Assets Sales
 - Federal Commons
 - Firstgov
 - Minority Business Development Agency
 - PRO - Net
 - SUB - Net (Subcontracting Opportunities)
 - Vendor Notification Service
- Contact Information**
 - Email: fbo.support@gsa.gov
 - Phone: 877-472-3779 (Toll Free)

The central text block reads: "FedBizOpps.gov is the single government point-of-entry (GPE) for Federal government procurement opportunities over \$25,000. Government buyers are able to publicize their business opportunities by posting information directly to FedBizOpps via the Internet. Through one portal - FedBizOpps (FBO) - commercial vendors seeking Federal markets for their products and services can search, monitor and retrieve opportunities solicited by the entire Federal contracting community." Below this text are two buttons: "FedBizOpps BUYERS" and "FedBizOpps VENDORS". At the bottom of the page, a statement reads: "The FedBizOpps Team is committed to Section 508-compliant accessibility." The browser's taskbar at the bottom shows the Start button, several open applications including "Federal Business Oppo...", "Microsoft PowerPoint - [B...", and "AT&T Webmail - Netscape", and the system clock showing 3:31 PM.



Other sources of financing information

- Geothermal-biz.com website and newsletter.
- Geothermal Small Business Workbook (May 2003).
- Geothermal Small Business Financing Book (February 2004).



www.Geothermal-biz.com



The screenshot shows a Netscape browser window displaying the Geothermal biz.com website. The browser's address bar shows the URL <http://www.geothermal-biz.com/>. The website's main header features the text "Geothermal biz.com" in a large, stylized font, with "biz.com" in orange. Below this, it reads "development information for the geothermal entrepreneur". To the right, an orange box contains the text: "Whether you want to grow flowers, nurture alligators, or generate power...
...We can tell you where to get the information you need to develop your geothermal resource."

On the left side of the page, there is a vertical navigation menu with buttons for "Q&A", "State Info", "News", and "Contact Us". Below this menu is a "Subscribe to the Geothermal biz.com Newsletter" button and a "Commercial Geothermal I ttle" button.

The main content area contains the following text: "Geothermal biz.com is part of the U.S. Department of Energy-led **GeoPowering the West (GPW)** effort to dramatically increase the use of geothermal energy in the western United States, Alaska, and Hawaii." Below this is the "GEOPOWERING THE WEST" logo, which features a stylized sun and a mountain range. The text continues: "Geothermal biz.com was created to help the geothermal entrepreneur—companies, small businesses, Native American tribes, homeowners, and individuals—develop geothermal direct use and small power generation projects by providing information, including:"

- What is geothermal energy?
- How can geothermal resources be used?
- Where can I find more information on geothermal resources?
- Why is the development of renewable geothermal resources vital to the United States' energy and national security?
- How do local, state, and the Federal governments support the development of geothermal resources?
- Where are geothermal resources located in my state?
- What is happening with geothermal development in my state?
- Who can I contact for more information in my state?

At the bottom of the main content area, it says: "For answers to the above questions, refer to [Q&A](#)."

The browser's taskbar at the bottom shows the Start button, several open applications including "Geothermal bi..." and "Microsoft Power...", and the system clock showing "4:32 PM".



Geothermal-biz.com e-newsletter

- Quarterly publication features:
 - **Headline News** — News of interest to the geothermal community and geothermal entrepreneurs,
 - **What's Going On** — Calendar of events in the 19 GPW states and across the country,
 - **State Roundup** — Summary of what is going on in the region as a whole and the GPW states, and
 - **Current Solicitations** — Money available from state and federal governments and private sources.

Utah

For further information on the Utah Geothermal Working Group, contact:

Bob Blackett
Senior Geologist, Utah Geological Survey
Tel: (435) 865-8139
Email: blackett@suu.edu

- The Utah State Legislature's Energy Policy Task Force discussed the creation of a sales tax exemption for "energy-related equipment and machinery used in the generation of electricity" at its 5 November meeting. The sales tax exemption was passed out of the task force unanimously but was not passed by the full committee. It will be considered during the legislative session starting in January. For more information, see the [Task Force's website](#).
- The Utah State BLM held a competitive geothermal lease sale on 9 December. During the sale BLM offered 18 parcels totaling more than 33,800 acres in Beaver, Millard, and Juab Counties. Parcels that received bids (see table below) were located in the Cove Fort-Sulphurdale and Roosevelt Hot Spring areas where two existing geothermal plants are located. The high bid of \$9,407 (\$10.10 per acre) was received by Recurrent Resources for a Sulphurdale parcel near a geothermal plant they are currently expanding. Leases will be issued for a primary term of 10 years and will continue for as long as geothermal resources are produced in commercial quantities up to 40 years. The last geothermal lease sale in Utah was in 1988. For more information see the [Utah BLM website](#).

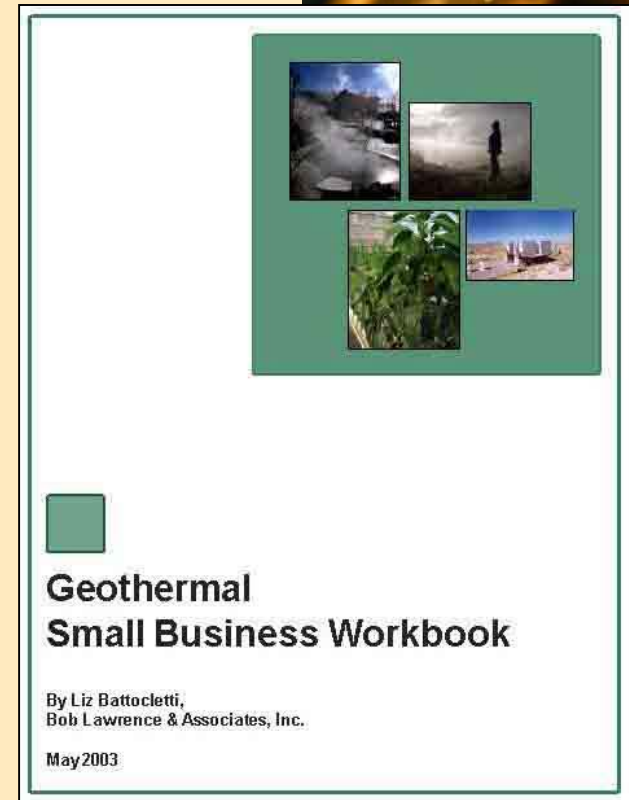
Geothermal Parcel No.	Lease No.	Successful Bidder
002	UTU-81048	Recurrent Resources LLC
016	UTU-81049	Recurrent Resources LLC
018	UTU-81050	Recurrent Resources LLC
019	UTU-81051	Recurrent Resources LLC

- The Utah Geothermal Working Group, the National Geothermal Collaborative, and the Geothermal Resources Council invite you to participate in "Exploring Utah Geothermal Opportunities," on 20 January 2004. The meeting will engage landowners, business owners and developers in the agricultural or industrial sectors, public lands managers, policymakers and staff, energy efficiency advocates, utilities, government representatives, the Farm Bureau, leading geothermal experts, and the USDA in a dialogue to explore issues and opportunities pertaining to geothermal development in Utah. The meeting will take place from 9:00 a.m. to 4:30 p.m. at the Marriott downtown, 75 South West Temple, Salt Lake City. For more information, email Bob Blackett, Senior Geologist, Utah Geological Survey, at blackett@suu.edu.

▲ [Select another state](#)

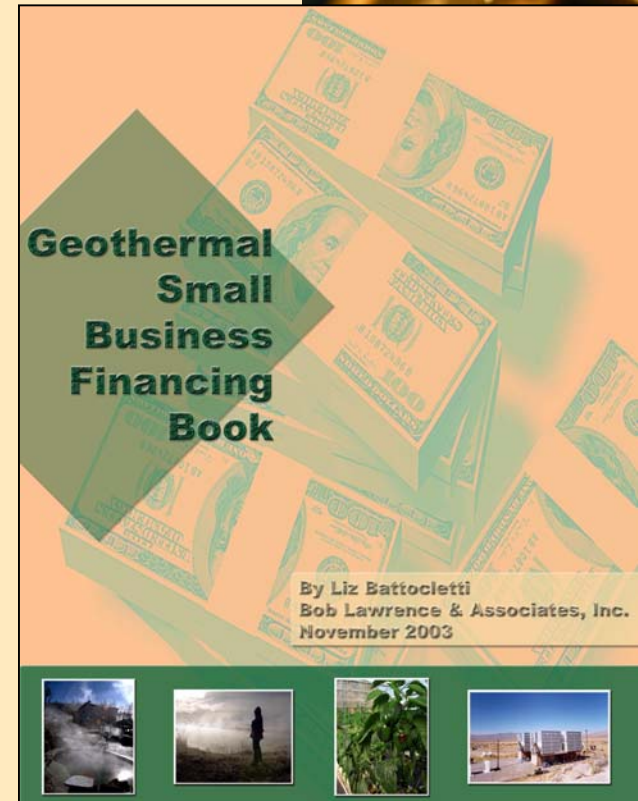
Geothermal Small Business Workbook

- Helps geothermal entrepreneurs, small companies, and project developers:
 - Understand different types of geothermal projects, and
 - Structure a business and financing plan for a small geothermal project.
- Available in PDF format on Geothermal- biz.com website.
- Written by BL&A.
- Supported by DOE Geothermal Technologies Program.



Geothermal Small Business Financing Book

- Describes:
 - Criteria financing sources use to evaluate a loan application.
 - SBA programs.
 - Small-business friendly lenders.
 - Federal and state incentives which are relevant to direct use and small-scale (< 1 megawatt) power generation geothermal projects.
- Contains an extensive state directory of financing sources and state financial incentives for the 19 GPW states.
- Will be posted in PDF format on Geothermal-biz.com website February 2004.
- Written by BL&A.
- Supported by DOE Geothermal Technologies Program.



Conclusion

- There is public and private financing available for small geothermal projects.
- Financing challenges vary based on size of project and amount of financing needed.
- Direct use projects are usually self-financed, at least in the startup stage.
- Core issues for financing sources are:
 - Cash flow,
 - Whether project is a viable business, and
 - Strength of management.



Thank you

This presentation will be posted on
the Geothermal-biz.com website.

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