

Financing Geothermal Direct Use Projects

Arizona Geothermal Direct Use Conference
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Small business is big business...

- About 25 million small businesses make up 99.7% of all U.S. employers, and create 60% to 80% of net new jobs each year.
- Arizona had 396,318 small businesses in 2004.
- Outstanding loans < \$1 million totaled \$522 billion in June 2004, up 5.5% from 2003.
 - < \$100,000 down 3.64%.
 - \$100,000-\$250,000 up 4.93%.
 - \$250,000-\$1 million up 8.52%.

But...

- Financing a start-up or expansion may be difficult if an entrepreneur or business owner does not know:
 - How to write a business and financing plan,
 - How to find a small business-friendly lender,
 - How to best approach them, and
 - The specific criteria they use to evaluate a loan application.



Questions



- Where is the money?
- How can the Small Business Administration (SBA) help?
- What financing criteria do lenders typically use?
- How can Geothermal-biz.com help?

Where is the money?

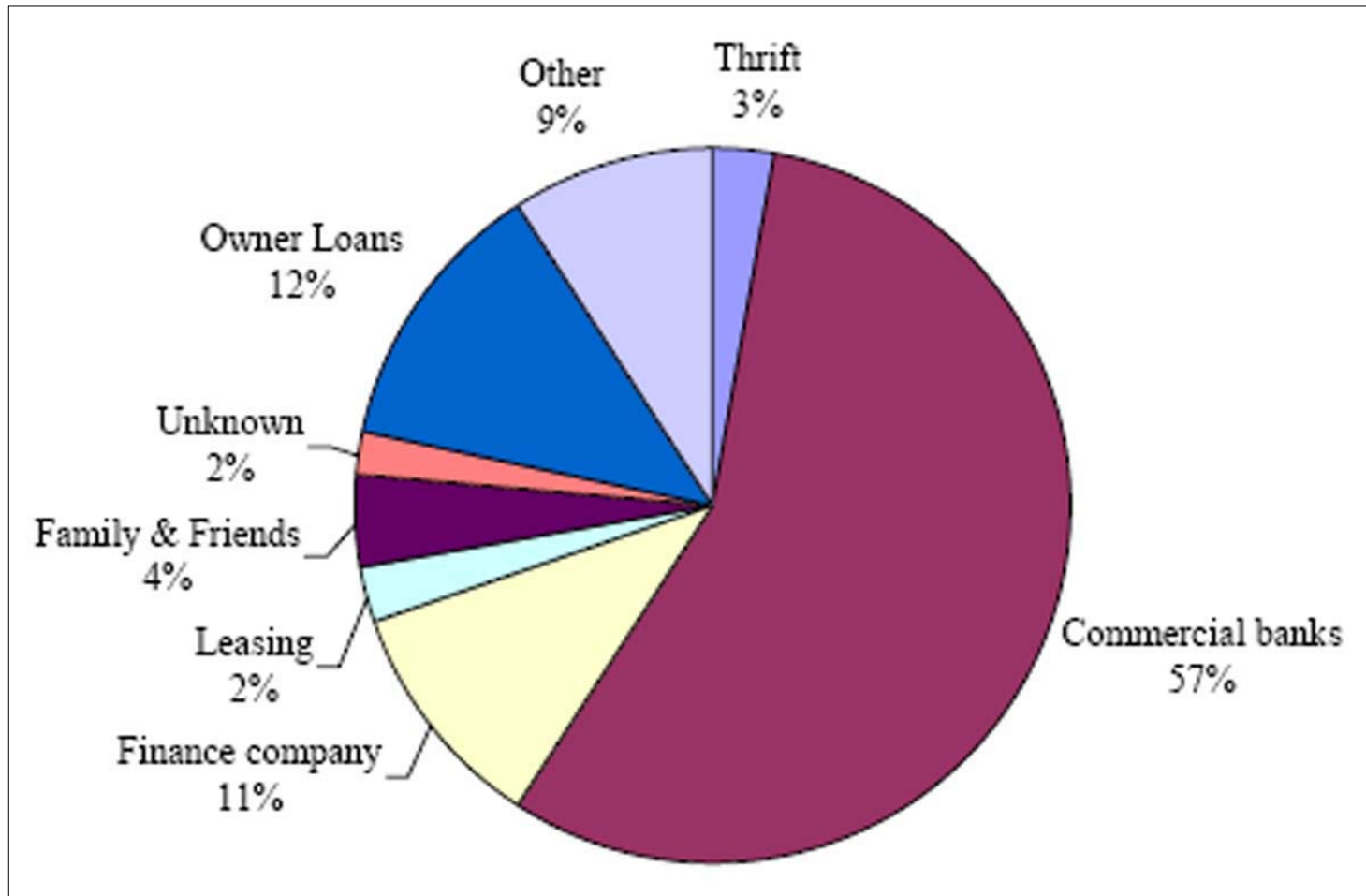
- Where you go for financing depends on the size of your business and the amount of financing you need.
- Businesses with employees tend to use outside credit.
- Very small firms rely heavily on personal credit cards and owners' loans.

Where is the money?

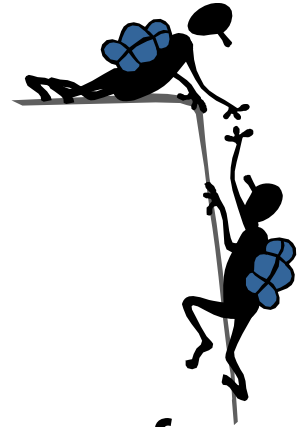
- Personal assets - savings, credit cards, home equity line.
- Friends and family - primary source of capital for most new businesses.
- Your friendly neighborhood bank or credit union – supply > 80% of credit line lending.



Small business debt, 1998



How can the SBA help?



- Financing programs.
- Nation's largest single financial backer of small businesses.
- Backed \$12.7 billion in loans in FY04.
- SBA does not make loans, it guarantees loans.
- Applicant must be for-profit and qualify as a small business as defined by SBA.

SBA Financing Programs

- 7(a) Loan Guarantee.
- Pre-Qualification Loan.
- Low Documentation Loan.
- *SBAExpress*
- CAPLines.
- SBA 504 Loan Program.
- 7(m) Microloan Program (\$500 to \$35,000).
- <http://www.sba.gov/financing/>
- Check with your local bank to see which SBA programs they participate in.

SBA 7(a) Loan Guarantee

- Primary SBA loan program.
- > 80,000 7(a) loans were approved in FY04.
- For small businesses which are unable to secure financing on reasonable terms through normal lending channels.
- Commercial lenders make and administer the loans.
- Lender gets SBA guaranty up to \$1.5 million.
 - < \$150,000 = 85%.
 - > \$150,000 = 75%.

SBA 7(a) Loan Guarantee

- Uses – to expand or renovate facilities; purchase machinery, equipment, fixtures and leasehold improvements; finance receivables and augment working capital; refinance existing debt; finance seasonal lines of credit; construct commercial buildings; and/or purchase land or buildings.
- Terms – 5-10 years for working capital; up to 25 years for fixed assets (real estate, equipment).
- Rates –no more than 2.25% over the lowest prime rate for loans < 7 years; up to 2.75% for > 7 years. Rates may be higher for loans < \$50,000.
- Fees – from 1.0% to 3.5% of SBA-guaranteed portion depending on loan size.
- Collateral – required.

SBA technical assistance

- Free loan clinics.
- Online courses and counseling.
- SCORE's (Service Corps of Retired Executives) 10,500 volunteers have more than 600 business skills.
- Small Business Development Centers.
- Small Business Training Network
- <http://www.sba.gov/training/>

SBA Arizona District Office

2828 N. Central
Avenue, Suite 800
Phoenix, AZ 85004
Tel: (602) 745-7200
Fax: (602) 745-7210

www.sba.gov/az

The screenshot shows the SBA Arizona District Office website. The header includes the SBA logo, the text "United States Small Business Administration", and "Homepage for the SBA office in Phoenix, AZ". There is a language selector for "En Español". The main navigation bar features "Phoenix, AZ", "Local Success Stories", and "Your Local SBA". A sidebar on the left lists various services like "About Us", "News", "Training Calendar", "Counseling and Training", "Resources", "Startup Kit", "Financing", "Opportunities", "Laws and Regulations", "Assets for Sale", "Disaster", "Business Cards", "Local Resources", and "Comments". The main content area has a section for "Local Success Stories" with a photo of a dartboard and a quote from Robert J. Blaney, Arizona SBA District Director, about Willie Gray's success. Below this is a "Resources" section with links to "Government Contracting", "SBA Frequently Asked Questions", "Requests for SBA Presenters - Speakers - and/or an SBA-Staffed Information Table", "International Trade", and "Arizona Resource Guide". On the right, there is a "Your Local SBA" section with contact information for the Arizona District Office: 2828 North Central Ave, Suite 800, Phoenix, Arizona 85004-1093, Telephone: 602.745.7200, Facsimile: 602.745.7210, and Hours of Operation: 8:00 a.m. to 4:30 p.m. (Mon - Fri). Below this is a "What's New?" section with links to "Arizona Press/Media Contacts" and "SBA News", and a "Staff / Directors" section with links to "Robert J. Blaney, District Director" and "Staff Directory".

Finding a small business-friendly bank

- Good first stop: SBA's *Small Business and Micro Business Lending in the United States*.
 - Uses data collected by the Federal Reserve Board.
 - Ranks commercial banks on their lending to small businesses by state and loan amount.
 - <http://www.sba.gov/advo/research/2004.html>

Arizona banks

- Top five small business lenders (< \$1 m)
 1. Sunrise Bank Arizona, Phoenix
 2. Sunstate Bank, Casa Grande
 3. Commerce Bank of Arizona, Tucson
 4. Canyon County Bank NA, Tucson
 5. Bank of Tucson, Tucson

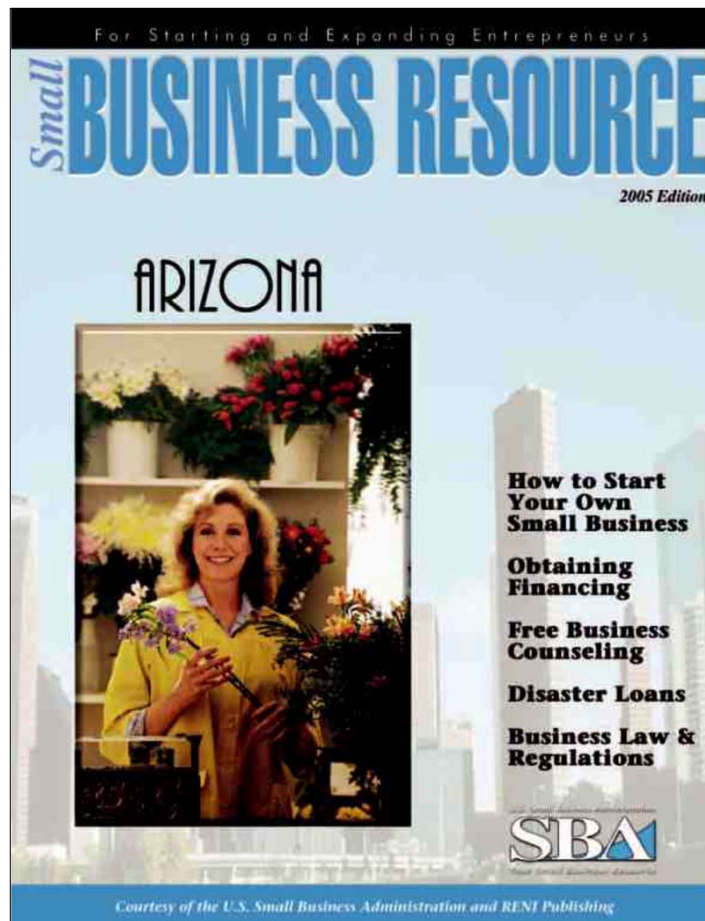
Arizona banks

- Top five micro lenders (< \$100,000)
 1. Sunstate Bank, Casa Grande
 2. Horizon Community Bank, Lake Havasu City
 3. First Street Bank, Flagstaff
 4. Bank of Tucson, Tucson
 5. Western Security Bank, Scottsdale

Finding a small business-friendly bank

- Banks that participate in SBA loan programs:
 - Certified Lender Program (CLP).
 - Preferred Lender Program (PLP).
- CLPs and PLPs provide expedited service on loan applications.
- Listed in *Small Business Resource Guide for Arizona*, 2005 edition.

Small Business Resource: Arizona



- Getting Started
- Regulations
- Entrepreneurial Development
- Financing
- Government Contracting
- Minority Business Development
- Other Sources of Assistance
- http://www.sbaguides.com/en/local/az_guide.pdf

What financing criteria do lenders typically use?

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

— Kin Hubbard (1868-1930)
(a banker perhaps?)

Financing criteria

- Requesting a loan when you are not properly prepared sends a signal to a potential lender.
- High Risk!
- Banks don't like risk.



Financing criteria

- For a start-up, 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

- 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

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

Geothermal-biz.com

- Created in 2002 to help geothermal entrepreneurs develop geothermal direct use and small power generation projects.
- Supported by the U.S. Department of Energy's (DOE) GeoPowering the West (GPW) Program.



**GEOPOWERING
THE WEST**

Geothermal-biz.com

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- Leasing & Permitting
- Why Geothermal?
- FAQs
- News
- www.Geothermal-biz.com

Geothermal
biz.com
Development information for the geothermal entrepreneur

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Why Geothermal?

Welcome to Geothermal-biz.com

Geothermal biz.com was created to help geothermal entrepreneurs-companies, small businesses, Native American tribes, homeowners, and individuals-develop geothermal direct use and small power generation projects.

Geothermal-biz.com is part of the U.S. Department of Energy's [GeoPowering the West \(GPW\)](#) program to dramatically increase the use of geothermal energy in 19 states in the western United States, Alaska, and Hawaii.

- [What's New](#)
- [Public Service Announcements](#)
- [GPW State Leads](#)

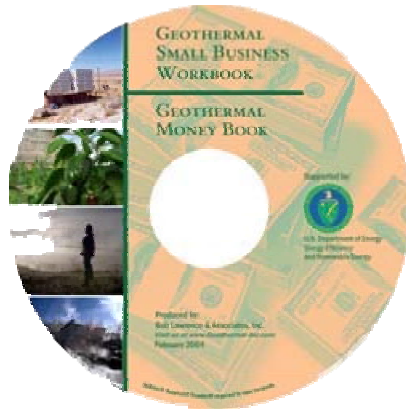
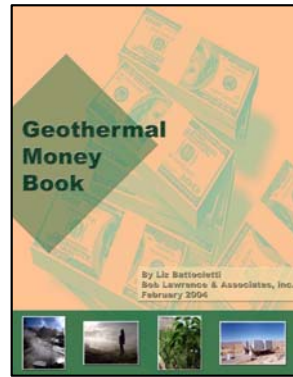
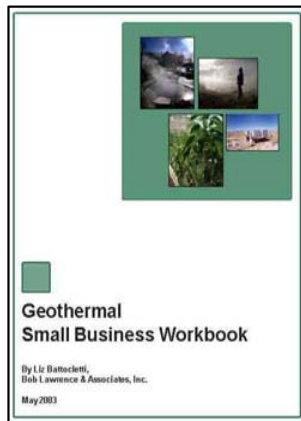
Click on the map below to go directly to the webpage for your state.

Date	News Item
25 February	February 2006 Geothermal-biz.com Newsletter available.
25 February	Supported by DOE's GeoPowering the West Program, Idaho National Laboratory and the Geo-Heat Center have created a template (3.0 MB PDF) to help applicants successfully apply for grant funding from the USDA Section 9006 program.
25 February	The State Energy Program of the Utah Geological Survey is seeking a full-time Renewable Energy Coordinator. needed. Interested parties should apply by 7 March 2006. For more information
15 February	USDA Renewable Energy Systems and Energy Efficiency Improvements Grants and Guaranteed Loans —Applications due 12 May 2006.
13 February	Ethiopia Tendaho Geothermal Site Feasibility Study —Proposals due 30 March 2006.
7 February	12-14 March 2006 - <i>First-ever</i> Geothermal Energy Generation in

Geothermal-biz.com

- *Free resources*
- Small business development and financing
 - Geothermal Small Business Workbook
 - Geothermal Money Book
 - “An Introduction to Geothermal Permitting”
- Geothermal-biz.com newsletter
- Links to other sources of information

Geothermal small business workbooks



- Help entrepreneurs:
 - Understand geothermal applications,
 - Write a business and financing plan and financing proposal, and
 - Identify potential financing sources.
- Available in PDF format on Geothermal-biz.com website or on CD-ROM by request.

Geothermal small business workbooks

<i>Geothermal Small Business Workbook</i>	
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<i>Geothermal Money Book</i>	
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Geothermal Small Business

Workbook

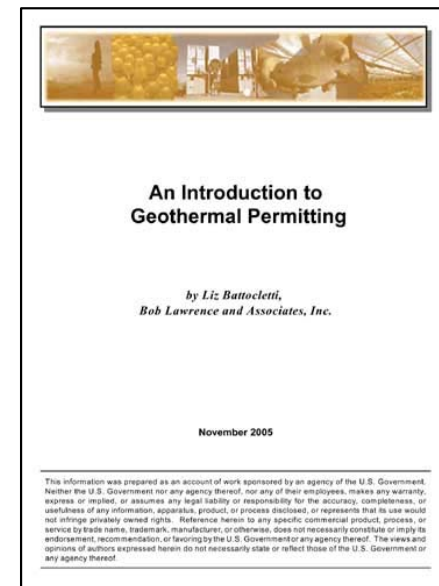
- Provides background, market, and regulatory data for direct use and small-scale (< 1 MW) power generation geothermal projects;
- Refers geothermal entrepreneurs to several sources of useful information including owners of existing geothermal businesses, trade associations, and other organizations;
- Breaks down the complicated and sometimes tedious process of writing a business plan into five easy steps;
- Leads you step-by-step through the process needed to structure a business and financing plan for a small geothermal project; and
- Helps you develop a financing plan that can be adapted and taken to potential financing sources.

Geothermal Money Book

- Explains the specific criteria potential financing sources use to evaluate a proposal for debt financing;
- Describes the Small Business Administration's (SBA) programs to promote lending to small businesses;
- Lists specific small-business friendly lenders for small geothermal businesses, including those which participate in SBA programs;
- Identifies federal and state incentives which are relevant to direct use and small-scale (< 1 MW) power generation geothermal projects; and
- Provides an extensive state directory of financing sources and state financial incentives for the 19 states involved in GPW.

“An Introduction to Geothermal Permitting”

- Helps geothermal entrepreneurs, small businesses, and developers better understand the permitting process.
- Provides a brief and basic introduction to geothermal permitting at the federal, state, and local levels, and in Indian Country.
- Addresses the following questions:
 - What is the importance of where the geothermal resource is located?
 - How does the Federal Government define geothermal?
 - What is a surface managing agency?
 - What kinds of permits do I need?
 - How does my state define geothermal?
 - What state agencies issue geothermal permits in my state?
- Published November 2005.
- Available in PDF format.
- http://geothermal-biz.com/Docs/Intro_to_geo_permitting.pdf



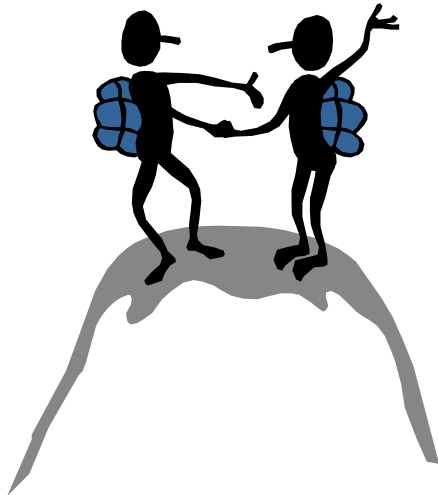
Geothermal-biz.com newsletter

- Tracks what is going on at the national level and in the 19 GPW states including Arizona.
- Published bimonthly.
- Emailed to over 2,300 people.
- April 2006 issue lead stories:
 - Federal Update
 - Bureau of Land Management News
 - GeoPowering the West Announces Project Awards
 - Geothermal power production poised to increase
 - DOE Geothermal Legacy Project
 - <http://geothermal-biz.com/news.htm#subscribe>

Thank you



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



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www.geothermal-biz.com