WEDC Project ID: IRB CY20-52293
Project Lead: James Rosenberg
Underwriter: Steve Sabatke
Date Prepared: 12/08/2020

REVISED STAFF REVIEW

INDUSTRIAL REVENUE BOND PROGRAM
WI RNG Hub North LLC
Project Location: Town of Gillett, WI (Oconto County)
Total Project Costs: $50,855,767
WEDC Recommended Volume Cap Allocation: up to $35,000,000
2020 Volume Cap Balance: $291,447,785

MANAGEMENT REVIEW:

Division Vice President: Mary Gage **Date:** 12/16/2020 ☑ **APPROVE** ☐ **DENY**

Senior Financial Underwriting Director:
Shelly Braun **Date:** 12/16/2020 ☑ **APPROVE** ☐ **DENY**

CEO or Designee: ____________ **Date:** 12/16/2020 ☑ **APPROVE** ☐ **DENY**

Awards Admin. Comm (if applicable):

___________**NA**____________ **Date:** ____________ ☐ **APPROVE** ☐ **DENY**

WEDC Board (if applicable):

___________**NA**____________ **Date:** ____________ ☐ **APPROVE** ☐ **DENY**

Underwriting Checklist
Industrial Revenue Bonds (Volume Cap Allocation) CY20
NOTE: Any "No" responses must provide an explanation of the extenuating circumstances warranting a deviation from the guideline.

Statutory Requirements (including Federal Internal Revenue Code)– Act 278 ***Supplemented by: §§ 238.10, §§ 66.1103, 66.0621 and Federal IRC 103 and 141-149.***	**Yes**
Qualified bond pursuant to IRC 141.	To be met by executed Bond Counsel opinion
Volume cap is allocated on a state-wide basis, pursuant to § 238.10. WEDC will ensure that the amount of private activity bonds issued in a calendar year does not exceed WEDC's volume cap for such calendar year.	x

<u>Program Guideline Requirements</u>	**Yes**	**No**	**Explanation**
The facility being financed must be located in the state of Wisconsin unless otherwise allowed by law.	x		
Notice of Intent to Obtain a Municipal Industrial Revenue Bond – notification must occur at least 30 days prior to entering into the revenue agreement or signing the loan contract.	x		
No later than 20 days after receipt of this notice, WEDC will issue a <u>Job Impact</u> to the municipality or county, estimating whether the project is expected to eliminate, create, or maintain jobs on the project site and elsewhere in the state and the net number of jobs expected to be eliminated, created, or maintained as a result of the project	x		
A good-faith estimate of the attorney's fees to be paid from IRB proceeds is required to be filed with the clerk of the municipality or county and WEDC before the adoption of the initial resolution by the local government that is issuing the IRB.	x		
A copy of the approved initial resolution and the proof of its publication shall be filed with the WEDC within 20 days following publication of notice.	x		
Final report due within 12 months after the project is completed or two years after the IRB is issued, whichever is sooner. This report includes the net number of jobs eliminated, created, or maintained on the project site and elsewhere in the state.			Received post-closing
A non-refundable fee equal to 0.10% of the amount of the bond issue must be submitted with the notice of bond issuance.			Received post-closing
Recipient is a manufacturer using the IRB proceeds for building, land or equipment (not working capital).		x	Exempt facility bond

<u>Guidelines</u>	**Yes**	**No**	**Explanation**
Recipient is current on all previous awards			Not applicable. No prior awards.

Post-Closing Requirements
A notice of the IRB closing must be filed with WEDC within five business days from the date of the closing. The notice must include the following information: buyer/underwriter, type of sale (public or private), term, interest rates, closing date, any substantive changes made to documents previously filed with the corporation, and the principal amount of the financing. (pursuant to <u>*§§ 66.1103*</u>*).*
If bonds are not sold within 30 days from the certification date or by December 1, whichever comes first, the applicant must submit a deposit of 0.5% of the allocation (a 1.0% deposit if the allocation is requested on or after October 1) to WEDC. (pursuant to §§ 238.10.) The deposit may be waived if circumstances warrant.
All of the proceeds must be used within a three-year period. (Fed. IRC)

<u>Revision (12/08/2020</u>

The revised staff review contains the following changes:

- **The project description narrative reflects that a portion of the bond proceeds will be used to finance, in part, the project at the Dairyland farm in the Town of Green Bay.**
- **A revised total project cost and budget.**
- **A request for volume cap on a carry-forward basis as the bonds will not be issued in 2020.**

- **A continuance of the waiver of the deposit reserving the volume cap allocation.**

I. PROJECT SUMMARY

WI RNG Hub North LLC**,** the Borrower, is seeking up to $35,000,000 in 2020 volume cap from WEDC for Industrial Revenue Bond financing for an exempt facility project in the Town of Gillett and the Town of Green Bay for the production of renewable natural gas.

II. COMPANY DESCRIPTION

WI RNG Hub North LLC is a Delaware-based limited liability company that was established in December 2019. The company was formed to undertake a project to produce renewable natural gas (“RNG”) by digesting dairy cow manure in anerobic digesters at the Zahn’s Dairy Farm located in the Town of Gillett in Oconto County, the Dairyland Farm in the Town of Green Bay and at other farms.

WI RNG Hub North LLC is headquartered in New Orleans, LA. The company registered with the Wisconsin Department of Financial Institutions as a foreign LLC on 08/05/2020.

Management and Ownership:
WI RNG Hub North LLC is owned 100% by Progressive Energy Co. LLC which has four members that collectively own 96.5% of the company. Progressive Energy is a Delaware, Limited Liability Company that was established in December 2019. It serves as the holding company for the various Renewable Natural Gas developments which the principals plan to develop It has raised "early stage equity" and will provide development capital for individual projects which will be planned and developed.

Nick Cioll, CEO and Managing Member – Cioll has 30 years of experience in the energy and commodities industries with extensive experience in retail, wholesale, and trading of electricity, natural gas, and green energy. Cioll is a Managing Partner for the energy management companies TotalCoGen LP and TotalGen LLC. Prior to joining TotalGen, Nick served as CFO and Chief Risk Officer of the Houston-based electricity retailer Sperian Energy Corporation, VP Financial Operations and Chief Risk Officer for energy retailer Commerce Energy, and Senior Director of Risk Management and acting Chief Risk Officer at TXU Corporation.

Bernie Hoffmann, COO– Hoffman has more than 30 years of expertise in energy, biofuels, and merchant banking. His biofuels industry experience includes key positions with The Broin Companies (now Poet), industry leader ICM, and COO of Babcock & Brown Biofuels.

Steven Spensley, Director of Business Development – Spensley has been in all aspects of the dairy business specifically and the agricultural business in general in Wisconsin over the course of his 40-year career and had deep contacts throughout the industry and in the upper Midwest. Specifically, he owned and managed an agribusiness for 40 years, he was a livestock specialist for ADM, and has been involved with dairy waste management and renewable energy for 20 years.

Steve Dvorak, DVO Renewables – VP of Engineering - Dvorak, PE, designed DVO’s patented digester in 1999 and built the first of this unique new design in 2001. DVO Renewables has since installed over 120 digesters at 90 sites in 18 states within the U.S. (with more in other countries). Currently, DVO has ten additional digesters under construction.

WI RNG Hub North LLC – Schedule of Ownership	
Name	**Percentage**
Progressive Energy Co. LLC	100%
Total	**100.00%**

Progressive Energy Co. LLC – Schedule of Ownership	
Name	**Percentage**
Nick Cioll	36.5%
Bernard Hoffman	20.0%
Steven Spensley	20.0%
Stephen Dvorak	20.0%
All others	3.5%
Total	**100.00%**

Background checks showed no issues of concern.

III. PROJECT DESCRIPTION

WI RNG Hub North LLC is seeking a total of $35 million in volume cap for IRB financing for a multi-jurisdictional project consisting of the following:

- The design, development, construction and operation of an anaerobic digester to be located at 11620 County Road H on 7.5 acres of land in the Town of Gillett owned by Zahn's Farms, LLC and leased to the Borrower ("Zahn Site 1") for the production of renewable natural gas.
- The acquisition and installation of an anaerobic digester and related equipment at 6613 Mueller Hill Road in the Town of Gillett ("Zahn Site 2"), and at Dairyland Farm LLC located at 5420 Gauthier Rd., New Franken in the Town of Green Bay.

The design concept of the project and others to follow, is a "hub and spoke" plan. The Zahn farm is designated the "hub" where methane gas captured from manure digesters is "scrubbed" and converted to natural gas. A pipeline injection point is also located at the hub dairy site. The concept contemplates that other dairies within a 60-mile radius of the hub could also participate – each a "spoke". Some of these dairies have existing, underperforming digesters, others do not. Methane gas will be captured at these spoke dairies and transported to the hub for scrubbing, conversion and injection into the pipeline. The Dairyland farm has an existing, underperforming digester. This digester will be repaired or replaced, an additional digester will be constructed, and additional necessary equipment will be installed. Dairyland is the first spoke of this project.

Zahn's Farms, LLC is a sixth-generation family-owned dairy farm that has been in continuous operation at the same location since 1878. The dairy production operation is a state of the art, three times a day, milking facility, currently utilizing 4,500 Holstein cows. The farm produces 1,100 tons of manure per day. Current disposal methodology for the manure is a "lagoon system" on the farm site. The dairy farm is in the process of expanding the herd to 9,000 head of cows by the end of 2021. The dairy farm currently produces 10 million pounds/month of milk.

Within a 60-mile radius of the Zahn dairy farm, there are 14 existing digesters located on smaller dairy farms (average of 2,500 head of dairy cattle each). These digesters were built with the intent of producing electricity and to take advantage of the sale of electricity at subsidized rates under a State of Wisconsin program to Wisconsin electric utilities. This program has expired according to the application and renewal of the program is not anticipated. Therefore, the potential "spoke" dairies cannot produce electricity at a profit according to the application.

The plans call for each such Spoke Farm to continue to own, operate and maintain the digester at their respective farms. Under a proposed contract with the Borrower, each Spoke Farm will provide digester gas for transport to the Hub Project Site. The Borrower will purchase specially designed trailer tanks to transport the digester gas from these Spoke Farms to the project site.

One of the Spoke farms is Dairyland Farm LLC, a large dairy farm located at 5420 Gauthier Road, New Franken in the Town of Green Bay. The Towns of Gillett and Green Bay are expected to enter into an Intergovernmental Agreement providing that the Town of Gillett will be the conduit Issuer for tax-exempt and taxable bonds in an amount not to exceed an aggregate of $50 million, together with $15 million of equity, to finance project costs at both Zahn and Dairyland.

The project will utilize the digester technology designed, developed and patented by Stephen Dvorak of DVO Renewables, Inc. and one of the members of WI RNG Hub North. The DVO **technology has been utilized in production since 1999 and currently is employed in 120 digesters** at 90 sites in 18 states throughout the U.S.

The project will also include the installation of a CO2 "scrubber" located at the Zahn dairy farm which will process the collected digester gas from the onsite digester and also from the Spoke Farms to an engineered standard allowing the pipeline quality gas to be distributed into the existing ANR interstate natural gas pipeline utilizing a gas injection tap. The ANR interstate pipeline runs directly through the dairy farm's property. This will allow the project to inject the RNG directly into the pipeline to take advantage of EPA RINs and the California CARB low carbon fuel standard to achieve highly advantageous prices for the RNG according to the application. The project is projected to produce 934 MMBTU per day of pipeline quality natural gas initially, increasing to 1134 MMBTU per day in year 2 with the addition of cattle to the herd. The RNG, once collected and scrubbed, will be purchased by an investment grade, nationally recognized energy company subject to a contract for all of the RNG produced.

Initially, it was expected that tax-exempt proceeds would be spent only on the Zahn sites located in the Town of Gillett; however, it is now expected that some tax-exempt proceeds will be spent at the Dairyland site located in the Town of Green Bay. This budget revision does not mean that the borrower is requesting additional volume cap. The volume cap need remains at $35 million for the portion of the project financed using tax exempt bonds.

Budget Code	Eligible Project Costs	SOURCES				TOTAL
		IRB	Equity (Owner)	Equity (Investor)	Grant	
0110	Land Costs	$1,200,000	$0	$0	$0	**$1,200,000**
0240	Equipment	$33,800,000	$2,193,129	$5,759,871	$500,000	**$42,253,000**
0470	Working Capital	$0	$3,419,638	$0	$0	**$3,419,638**
0310	Miscellaneous	$0	$1,013,233	$2,969,896	$0	**$3,983,129**
	Total	**$35,000,000**	**$6,626,000**	**$8,729,767**	**$500,000**	**$50,855,767**

The bond proceeds will be allocated as follows:

ZAHN (Town of Gillett): Machinery, Equipment & Building = $32,257,000
DAIRYLAND (Town of Green Bay): Machinery & Equipment = $2,743,000

The company plans to apply for a $500,000 grant from the Rural Energy For America Program through USDA.

IV. EMPLOYMENT

WI RNG Hub North LLC will create 19 new full-time positions at an average hourly wage of $36.43. According to the company, a medical insurance plan will be offered when funded and more employees are hired.

JOB CLASSIFICATION	POSITIONS CREATED			TOTAL JOBS/AVERAGE STARTING WAGE PER HOUR
	Year One	Year Two	Year Three	
Executive Positions	3	0	0	3/$54.49
Directors	1	1	0	2/$62.50
Administration	1	0	0	1/$21.65
Operators	2	1	1	4/$28.00
Truck Drivers	4	4	1	9/$30.00
Total	**11**	**6**	**2**	**19/$36.43**
TOTAL PAYROLL IMPACT FOR JOBS CREATED ANNUALLY				**$1,439,714**

V. FINANCIAL INFORMATION

[redacted]

VI. PREVIOUS DEPARTMENT OF COMMERCE/WEDC AWARDS

WI RNG Hub North LLC has received no prior financial assistance from the Wisconsin Department of Commerce/WEDC.

VII. OTHER

The bond attorney is Lynda Templen of Husch Blackwell.

The Town of Gillett will be the sole conduit Issuer pursuant to an Intergovernmental Agreement between the Town of Gillett and the Town of Green Bay, which authorizes the Town of Gillett to be the conduit issuer for tax-exempt and taxable bonds to finance a portion of a multi-jurisdictional project located in the Town of Gillett and the Town of Green Bay. The Gillett Town Board approved an initial resolution for the IRB financing on 07/20/2020 while the Town of Green Bay Board approved its initial resolution on October 13, 2020. The required TEFRA public hearing on the bond issue was held by the Town of Gillett in November. The Town of Green Bay plans to hold its TEFRA Hearing on the bond issue in January.

The financing timetable had projected marketing of the bond issue by December 1, sale of the bonds on or about December 13, and closing of the bonds prior to year-end. This timing no longer pertains according to bond counsel. Bond counsel stated the following regarding the timing of the bond issue and the need for carry-forward volume cap.

"Before Robert W. Baird (the "Underwriter") can market bonds, a comprehensive Preliminary Limited Offering Memorandum ("PLOM") must be fully documented. Because these bonds are not enhanced with a Letter of Credit, and are sold only to "qualified institutional buyers" and "accredited investors", the disclosure in the PLOM requires numerous supporting consultant and construction studies with respect to engineering, feasibility, licensing, permitting, etc. Due to significant limitations resulting from the COVID pandemic, this supporting inspection, review and analysis by independent professionals could not be completed on the original timetable. The authorizing parameters resolution approved by the Town of Gillett, the issuer of the bonds, requires that the closing occur by March 31, 2021. We believe that the bonds will close before that date, probably during the month of February."

The Bonds are being issued as "exempt facility" bonds pursuant to Sections 141 and 142 of the Internal Revenue Code. There are many categories of exempt facilities, and this project qualifies as a solid waste disposal facility. Under Section 142 IRC, at least 95 percent of the net proceeds are to be used to finance this solid waste facility(ies). Solid waste is defined pursuant to Section 203(4) of the Solid Waste Disposal Act to include solid waste material resulting from agricultural operations. The project can qualify costs up to the point that the process results in a "first useful product". In this case, the first useful product is the natural gas produced when the methane from manure digesters is captured and scrubbed to produce natural gas. Bond issued under this Section are considered "private activity bonds" and therefore require an allocation of volume cap.

As permitted by Section 146(f) of the Internal Revenue Code, an exempt facility bond is eligible for a carry forward election, allowing the allocation made in 2020 to be used in 2021. Pursuant to the Program Guidelines for the IRB program, volume cap is allocated on a state-wide basis pursuant to 238.10, Wis. Stats. and the Policy on the Allocation of Volume Cap. WEDC may elect to carryforward excess volume cap from a calendar year to the following calendar year if it identifies the amount and use of such excess.

VIII. RECOMMENDATION

Staff recommends the carry-forward allocation of WEDC 2020 volume cap of up to $35,000,000 to the Town of Gillett as the issuer on behalf of WI RNG Hub North LLC for industrial revenue bond financing for the exempt facility anaerobic digester project in the Town of Gillett and the Town of Green Bay.

The applicant is seeking a total of $35,000,000 in volume cap allocation to cover any last-minute changes in costs that may occur just prior to the bond closing.

WEDC approved a waiver of the deposit requirement for volume cap allocation on 11/11/2020. Staff recommends that the waiver continue for the carry-forward allocation for the same reasons that were cited in the original underwriting documentation exception form.

Industrial Revenue Bonds Project Measurements				
Measurement	**Measurement Type**	**Baseline**	**Goal**	**End/Due Date**
Bond Issuance	Contractually Explicit	0	1	12/31/2021

TERMS & CONDITIONS
WI RNG Hub North LLC
Industrial Revenue Bond FY20-52293

IRB VOLUME CAP ALLOCATION

RECIPIENT: WI RNG Hub North LLC

ISSUER: Town of Gillett

AMOUNT: up to $35,000,000

VOLUME CAP CERTIFICATION DATE: December 16, 2020

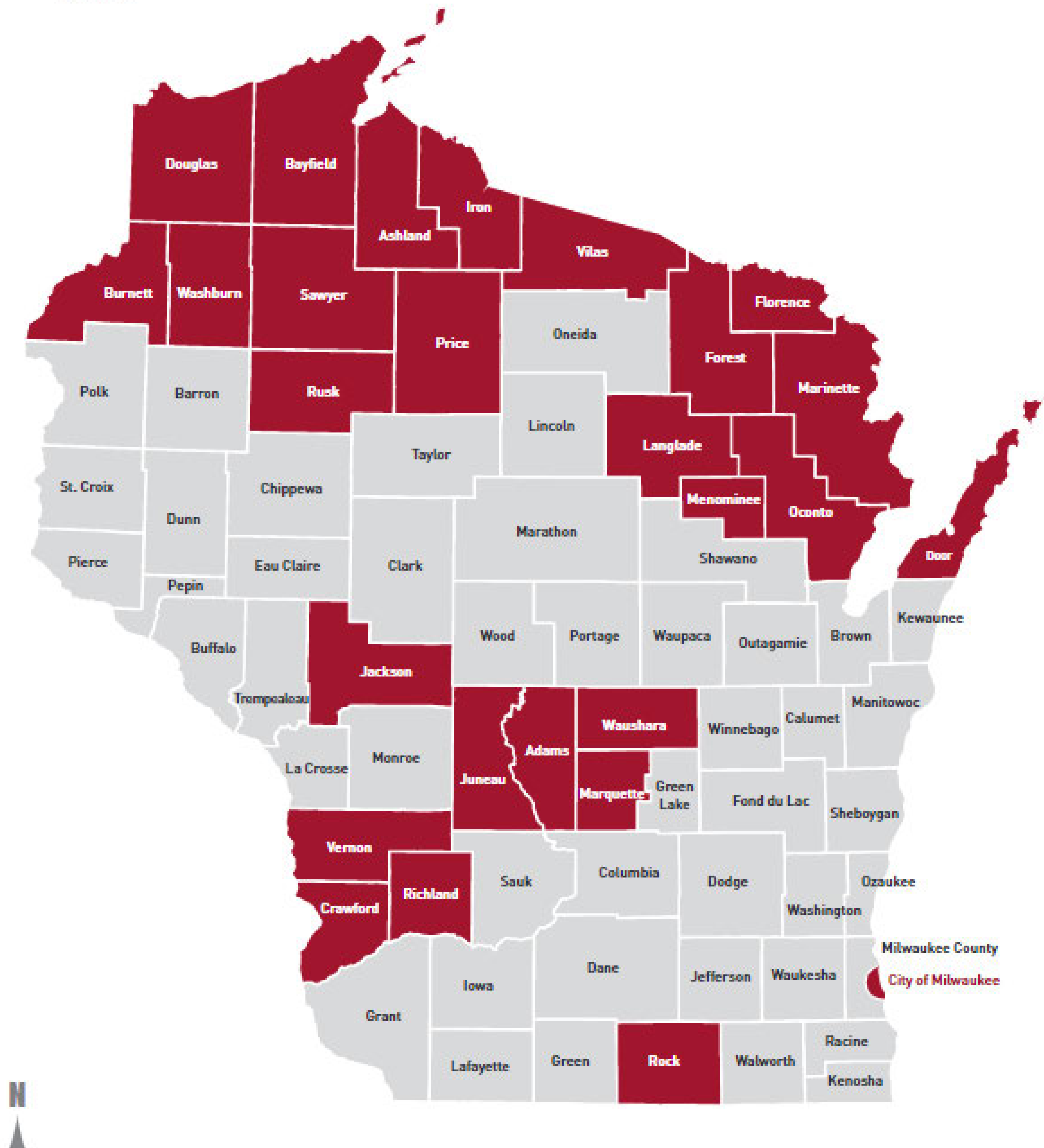
FEE: 0.10% of the amount of the bond issue

RECIPIENT INFORMATION

Recipient's Principal Place of Business: 524 Nashville Avenue, New Orleans, LA 70115

Signatory to Documents: R. Nick Cioll, CEO/Managing Member

WISCONSIN DISTRESSED / TIER I OR TIER II COUNTIES OR MUNICIPALITIES



LEGEND Updated July 2020

Distressed / Tier I

Non-Distressed / Tier II