



## Recurring Revenue Strategy for Farms and Ranches

### Overview



There are at least two million private farms and ranches with an estimated one in four in operational or financial jeopardy primarily due to **revenue shortfalls**. That equates to 500 thousand farmers that need a non-foreclosure, no-surrender, no-eviction option to save their farms or ranches. STARS' Recurring Revenue strategy offers a solution that would accomplish all three things, provide **new income and a legacy estate trust fund** that allows the owner to continue to live on the land, and protect the legacy operation with **a structured succession plan**. The following provide a plan for a **public-private partnership (P3/LLC, the "Program") with equity ownership of on-farm and off-farm revenue-generating business units**.

### Seed Funding



There are generally three values to consider; the tax assessment value, the appraised value, and the market value. For example, there could be a \$200k tax assessment, an \$180K mortgage appraisal, and a \$160K market value based on local comparables. The farmer would place the property in irrevocable trust that would settle out to the estate after capitalization is recovered. Windfalls and lump-sum payments could be used as **seed funding for the Program trust** and be placed under financial risk management for investment directions. The Program trust would use the \$200K as an equity share investment in the P3 with rights to recover, reclaim, or redeem as negotiated and outlined in the transfer document.

### Use of Funds



The Program will use the seed funding to secure a line of credit for the initial costs and expenses of the STARS program and to capitalize the local Program. Those expenses will include the accrued expenses of the program professionals with total combined costs not-to-exceed \$55,000. (See Initial Fees and Expense Chart)

The Program will also secure a loan or line of credit for an escrow account for paying liens, payment plans, taxes, insurance, or other debts. **The owner and creditors may also negotiate a loss-mitigation plan** to protect the other assets. The amount of the loan will be determined on an individual case basis. For example, \$60K to cover the total payments for the first year held in escrow and paid by a pay agent as they become due.

The seed funding and the lines of credit are short-term debt for capitalization of the P3LLC and loss mitigation for the operator. Both investments will be included in the Funding Mechanisms which will include green and conduit bond for tax-exempt **bond financing for the entire Programs projects portfolio**. The process for obtaining full funding should take less than four (4) months. Overall project funding will vary by case but will generally be in the range of **\$5M-\$10M** depending on the scope and scale of the project portfolio.

### Example

The chart below shows representative numbers. Plans will vary by individual case.

| <i>Relative Values and Amounts</i> |           |            |           |          |             |          |          |
|------------------------------------|-----------|------------|-----------|----------|-------------|----------|----------|
| Asset / Item                       | Tax Value | Loan Value | Mkt Value | Mortgage | Est. Equity | Line 1   | Line 2   |
| Land / Farm                        | \$200,000 | \$180,000  | \$160,000 | \$0      | \$180,000   | \$50,000 | \$60,000 |

| <i>Applicable First Year Costs and Expenses</i>   |                |                      |            |                 |                      |             |               |
|---|----------------|----------------------|------------|-----------------|----------------------|-------------|---------------|
| Total Lines   | Debt           | Lien                 | Payments   | Insurance       | Taxes                | Misc.       | Total         |
| \$110,000   | \$0            | \$10,000             | \$0        | \$12,000        | \$2000               | \$0         | \$134,000     |
| <i>Funding Considerations and Impacts</i>   |                |                      |            |                 |                      |             |               |
| 1 <sup>st</sup> Year Costs & Expenses   | Legal Services | Real Estate Services | Risk Mgmt. | Overall Project | Bond Fees / Expenses | Misc. Costs | Total Project |
| \$134,000   | Accrued        | \$10,000             | Accrued    | \$7,500,000     | \$75,000             | \$750,000   | \$8,325,000   |
| <ul style="list-style-type: none"> <li>Based on Projections and Industry Averages. Actual cases will vary.</li> </ul> |                |                      |            |                 |                      |             |               |

**Legal**



If legal actions require sale of the property, then the Program will buy it and the owners may stay on the property with an irrevocable lease for \$1/year + 50% of their P3 distribution share until the initial expenses are repaid and also have an **option to buy-back the property** at a negotiated prices using the same trust deed or a separate agreement to determine the price.

In severe cases the farmer might be forced to file a bankruptcy petition to protect the property and submit a plan to reorganize. The Program Trust will hold the equivalent of the required annual payments in escrow for the payment plan so the owner/operator can show “recurring income” from the program until they receive payments from shared revenues. **Payments from the escrow account(s) will be paid directly to the trustee, creditor, or lien holder.**

**Strategic**



The strategic applications and implications are complex but our legal team will guide stakeholders and providers throughout the process as needed or desired. Our primary objectives are to protect legacy operations and to provide startup capitalization for the enterprises providing **sustaining, recurring income streams** for the farmers and ranchers.

The STARS Program or Strategic Partners might request **placement of tower infrastructure and/or business units** on a predetermined section of the land. Any such use will be considered permanent use of the land and negotiated under a separate agreement.

**Administrative**

The STARS Program Strategic Partner is your immediate contact for moving the strategy forward. They will also provide detailed overviews and next steps. Please contact them for project-specific considerations. Be sure to ask to be notified of public meeting regarding the Programs and Strategies as there are others that might better **suit your situation, interests, or capacity.**

Professional and legal services for the Program will be provided by **Foley and Lardner LLP** ([www.foley.com](http://www.foley.com)) with consultation with advisers and stakeholders including financial, and/or real estate program partners.

Solution Development and Project Management will be provided by Advanced Technology Group LLC. ([www.atg4u.com](http://www.atg4u.com))

For more information about the STARS Program please visit <http://atg4u.com/broadband-champion.html> or contact Ed Hudson, [edhudson@atg4u.com](mailto:edhudson@atg4u.com).

