Biofuel Co-operative Case Study Series –

Integrated Grain Processors Co-operative

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Integrated Grain Processors Co-operative
Aylmer, Ontario

Key Themes:

- The challenge of raising $45 million in member equity
- Locating the right site
- An unwavering commitment from Board members

According to Tom Cox, Chair of the Integrated Grain Processors Co-operative Inc., it is necessary to be naïve about what is involved in starting an ethanol co-operative if you are to have any hope of succeeding. If someone were to tell you how long and how much time and energy it would take, he says, you wouldn't listen anyways. You just have to learn for yourself, as Tom and the other six original Board members have discovered.

According to Tom, by far the two biggest challenges faced by the project were raising member equity ($45 million) and finding a properly serviced site to locate the plant. IGPC will build a $132 million ethanol plant in Aylmer, Ontario, capable of producing approximately 150 million litres of denatured fuel-grade ethanol annually. The plant will also produce approximately 120,000 tonnes of Dried Distillers Grains with Solubles (DDGS) annually as well as 90,000 tonnes of CO_2. The plant will utilize some 15 million bushels of corn annually, representing around seven per cent of Ontario's average corn production. It is estimated that the additional corn consumed by the plant could increase the local basis for corn by up to $0.10 per bushel. The plant will create 35 permanent jobs directly and many more spin-off jobs both during and after construction.

As of April 2007, the Co-operative has brought in nearly 840 farmer and community members, and has raised approximately $45 million in members' equity. Strong support from both the Province of Ontario and the Government of Canada has provided the project with the capital base necessary to attract the remaining debt financing required for the project. The Ontario Ethanol Growth Fund (OEGF) is providing a capital grant of $14 million, of which $2.8 million is repayable, without interest, over ten years. The Government of Canada's Ethanol Expansion Program (EEP) will provide a capital contribution of $11.9 million, which is repayable when the Co-operative's gross profit exceeds $0.20 per litre. IGPC has successfully obtained a commitment letter from its senior lender and the process of loan syndication has begun. Although IGPC has certainly had to do some tough trudging to get where it is today, this farmer and community-owned co-operative is now poised to build Canada's first co-operative ethanol plant.

Early Beginnings…A road de-icer derived from corn?

The idea to build an ethanol plant in southern Ontario began as one of the ideas explored by the Brant County Agribusiness group and the Ontario Value-Added Information Network, which was started as a local farmer economic development project in Brant.

In fact, the ethanol plant was originally conceived of as a means to produce a by-product from the ethanol production process: a liquid alternative road de-icer derived from corn and extracted in the ethanol production process.

The Brant Agribusiness group held a series of five or six public seminars in January and February 2002, attended by about 40 people, to explore opportunities for adding value to farm enterprises. The seminars looked at a number of value-added opportunities, ranging from smaller ventures suitable as part of on-farm diversification strategies to the "big value-added" projects, such as building an ethanol plant, that could provide a significant boost to an entire commodity sector.

At one of the meetings held in early 2002, Bud Atkins, the President of the Seaway Valley Farmers' Energy Co-operative came to speak about his dream of building an ethanol plant in Eastern Ontario. According to Tom Cox, Bud was a passionate speaker and advocate for ethanol and inspired the informal Brant group to investigate further the possibility of building an ethanol plant in the area. At that time, the group was championed by the head of Brant Agribusiness, a retired farmer.

Co-operative or Corporation?

Once the group decided to become more formalized, a business consultant attended a meeting to discuss options for business structures. The two options were to form a corporation under the *Ontario Business Corporations Act* or a co-operative. One of the advantages of the co-operative structure was that it would allow funds to be raised more readily from a broad group of investors, whereas business corporations raising funds from the general public are subject to the rather onerous and costly requirements of the *Ontario Securities Act*.

However, for some members of the founding group it was necessary to get beyond the "co-op baggage" they had, namely, the perception that co-operatives focus more on providing a short-term "service to members" than on building strong and viable business cases. For an ethanol plant, this was particularly a matter of concern. Many members of the founding group wished to ensure that an ethanol co-operative would not sacrifice the business's long-term viability in order to pay producers shipping corn to the plant a higher price than the market would otherwise dictate. The view of the founding group was that the producer members would ship corn to the plant at market price and reap their rewards in the form of a return on their investment in the plant, not in higher prices paid by the co-operative for their corn.

After a decision was made to incorporate as a co-operative, a small group got together to identify prospective Board members. Various prominent farmers in the area were approached and requested to allow their names to be put forth at the founding meeting of the Co-operative. According to Tom Cox, who was approached to be the Chair/President of the Co-operative, he thinks that he was asked because he had experience in leadership positions in other agricultural organizations and, as a corn farmer and businessman who works in a family grain elevator business, has good knowledge of the grain business. Other Board members were also cash-crop/corn farmers; one was an engineer/farmer. Board members were not asked to make a commitment for a limited amount of time, but rather an open-ended commitment. (The by-laws call for a limit of three 3-year terms).

The founding Board was composed of nine members and seven of the original Board members remain as current Directors of the Co-operative. The continuity in Board membership has certainly played an important role in allowing Directors to grow into their roles and gain genuine experience and expertise in the many aspects of developing an ethanol plant.

Tom Cox noted that the Board members have a good, harmonious working relationship. Their camaraderie has been a real asset to the Co-operative and has certainly been one of the reasons why Board members have been unwavering in their commitment to the project even during times of adversity. Board members enjoy working with their fellow Directors and the Board meetings serve to cement the feeling of working for a common purpose. Needless to say, the unity of the Board has also served to reinforce the credibility of the Co-operative with both members and various project partners.

In Cox's view, the ideal Board for a start-up ethanol co-operative would include a mix of personalities: some people who take the bigger picture view, and some people who focus on every detail. It is essential to have people who can raise funds and who are perceived in the community to be "successful" in their businesses. Directors must also have a substantial financial stake in the co-operative in order to have a strong commitment to the project and to make decisions with the business success as a priority.

Initial Seed Funds Raised

Once the Co-operative was incorporated it began raising a small amount of seed money. The initial funds raised, approximately $200,000, were used to commission a feasibility study and business plan, and conduct preliminary due diligence on potential sites. These initial funds were raised from approximately 40 members. In raising this initial seed capital, the Co-operative was able to enjoy an exemption under the *Co-operative Corporations Act* of Ontario which allows co-operatives to raise up to $200,000 without an Offering Statement. Initially the group worked with a U.S. based consultant but, after the feasibility and preliminary business planning stage, the Co-operative decided to work with a local co-operative/business consultant who was more familiar with the Canadian business, financing, and regulatory context.

Is a Feasibility Study Necessary?

At the time that IGPC undertook the feasibility study, the ethanol industry in the United States and Canada was at an earlier stage of development and information on the industry (technology, yields, marketing arrangements for ethanol and DDGS) was not easily available to those outside the industry.

According to the IGPC Chair, undertaking a comprehensive feasibility study examining corn and ethanol markets may not be the first priority for a group considering the development of an ethanol plant. Information about the feedstock available in an area and the demand for ethanol and DDGS is fairly readily accessible and the Directors of a proposed project should be able to assess that themselves. Given that raising equity and finding a site are the major prerequisites to a successful project, Cox suggests that co-operatives undertaking a new project may wish to go directly to the Business Planning stage once they have raised the funds.

The Biggest Challenge: The equity drive

In February of 2003, the Co-operative initiated its first equity drive designed to raise $1.2 million. These funds, none of which were held in escrow, were designated for conducting due diligence on the proposed site in Brantford, initiating the permitting process, undertaking preliminary engineering work, and paying for legal, accounting and professional fees necessary to move the project forward. IGPC's Board was heartened by the response to this initial equity drive. In less than a month, the offering was fully subscribed. Co-operative members and investors were clearly enthusiastic about the project and looked forward to an ethanol plant getting off the ground in the near future. In retrospect, it became clear that a million dollars was a lot easier to raise than $45 million.

After nearly a year of further project development in which project partners were identified, initial Letters of Intent were negotiated, and permit applications were prepared, IGPC's main equity drive started in January 2004. The goal of this equity drive was to raise up to $43 million of what was then envisioned as an $86 million project.

The Co-operative organized 50 of their own meetings and tried to get on the agenda of every meeting held by any other organization in the nine counties surrounding Brantford. Board members attended and spoke at dozens of meetings of soil and crop, corn and other producer commodity associations, local Chambers of Commerce, and many other community and civic associations. Board members were not paid any commissions for raising funds, were not paid for their time, and generally did not even submit claims for their direct travel expenses.

Board members, spouses, friends and supporters spent an enormous amount of time and energy organizing meetings, calling people, inviting them to the meetings, and following up with prospective members/investors after the meetings. According to Tom Cox, "things did not start fast." The Co-operative raised only $5 million in six months and Directors became discouraged at the tough, uphill struggle to attract investors.

Nevertheless, the Board persevered in their efforts. Two more Offering Statements were required to continue raising funds past the initial maximum one year time line established by Ontario's co-operative regulations. Numerous Statements of Material Change were filed to update investors on the status of the project.

IGPC learned a number of lessons in the process. These included:

- Advertising in local media and sending out flyers raises awareness of the meeting and the project but does not bring people to meetings. It may be cheaper (and just as effective) to write a press release.
- Personal invitations (in person or by phone) are necessary to ensure that people actually attend the meetings.
- In the beginning, many people came to meetings to listen to information about the project but did not invest. According to Brent McBlain, Vice-Chair of the

Co-operative and Chair of the Equity Committee, "there were a lot of tire kickers but few cheques."

- Almost every investor in the project can be traced back to a Board member (via a relative, friend or neighbour) so the personal credibility and networking of the Board members is absolutely critical. Prospective investors are as much convinced by the personal credibility and perceived business acumen of the Director as they are by the details of the Business Plan.

- About one-in-five or even one-in-ten people approached will actually invest in the project.

- People need to be spoken to or met with at least three times. According to Brent, "you need to give people 2 to 3 servings, before they will invest." The investment usually comes after a one-on-one meeting.

- Board members need training in how to fundraise, especially how to ask for the investment. It is great to talk about the project, but you also need to ASK for the investment. Most farmers are not altogether comfortable in the role of salesperson, even if they are entirely convinced by their product. And asking family, friends, and neighbours for money is the toughest thing of all.

- Even people you think would not be good at raising funds can be very good once they start asking.

- It is important to create an opportunity for everyone in the community to participate in the project since sometimes people who think they are being excluded can become negative towards the project. In order to be as inclusive as possible and enable as many people as possible to participate in the project, including non-farmer members of the community, a category of 'community investors' was established. This allowed non-members to invest in the project at a minimum level of $500. Although few people actually did invest at this minimum level, it was important to demonstrate that the Co-operative was also open to people of more modest financial means.

- Delays in the project are discouraging and will affect your ability to raise equity. Delays can "bruise your credibility" according to Tom Cox. But since these are difficult projects, you should count on delays, expect further delays, and still be prepared for delays beyond even your own conservative time lines.

- It is important to be honest with investors, but you can count on the fact that if you give them a time frame of 18-36 months for an event to occur, you can be sure they will remember the "18 months" and forget the "36 months"!

- Almost all selling is peer selling based on personal relationships.

- Having an office in the community gives the organization a professional presence in the community and a place for people to drop by, but most people do not ever come to the office.

Raising Equity: How much should you ask for?

IGPC Directors thought carefully about where to set the minimum investment level in the Co-operative. They knew that the minimum set would be the level that most investors would come in at. A decision was made to set the minimum purchase of Class A Preference Shares at $25,000 ("slightly less than a pick-up truck"), although members were able to join as full members with a minimum investment of $5,500 consisting of five $100 Membership Shares, plus 1,000 five-dollar Class B Preference Shares. About 80 members have made a minimum investment of $5,500, while most of the remaining 750 members have purchased at least $25,000 in Class A Preference shares. In accordance with the By-laws of the Co-operative, no one member is able to own more than 10% of the shares of the Co-operative.

Equity Target is Reached!

By March 2007, IGPC had raised approximately $45 million in member equity from nearly 840 members. The average investment was $50,000 with a range from $25,000-$4 million. In addition, as noted above, there were 40 community investors who made a much smaller investment.

Board Compensation

Anyone who has served on the Board of a start-up co-operative knows that no amount of money can compensate for the long and arduous hours dedicated to getting a project off the ground. As the largest co-op start-up in Canadian history, and what promises to be the first successful co-operative ethanol plant to get off the ground in Canada, the efforts required of the Board have been truly Herculean. Once the project is successful, Board members will receive an annual rate of compensation based on their past contributions of time to the project, to be paid in shares.

Community Support...A moving target

The process of developing and building a farmer and community owned ethanol plant is truly a major undertaking, one that takes many years to complete. ICPC found that it experienced many changes in the external environment over the five years it evolved from the concept stage to a reality.

Known internationally as the "Telephone City," Brantford marks with pride that dramatic moment in 1874 when Alexander Graham Bell invented the telephone. The town site was purchased from the Six Nations in 1839. The City of Brantford takes its name from the historic spot where Joseph Brant, Chief of the Six Nations, forded the Grand River.

When the idea of building an ethanol plant was first discussed in the City of Brantford and Brant County, the area was in a depressed economic state. Various divisions of the Massey Ferguson complex, which had at its peak employed several thousand people, had been closed over a period of time and many high-paying industrial jobs had been lost in the community. This had led to a long-lasting economic malaise in Brantford, with a decaying downtown area, depressed housing prices, and persistent unemployment.

At the time that the ethanol project was first being discussed, the City of Brantford was keen on the idea of new economic development in the town and was actively seeking new investment. Years of attempting to attract new investment had not fundamentally altered the sluggish state of the local economy and any new business opportunities were warmly welcomed by both the City and its residents. Since that time a number of things have changed.

First, Highway 403, a major east-west route on the NAFTA superhighway was extended from Woodstock in the west to Hamilton in the East. Second, the Ontario government designated a "Greenbelt" around the Golden Horseshoe around Lake Ontario, which significantly limited growth and construction in the entire area. Brantford and Brant County are on the edge of the Greenbelt and have experienced a land boom and land speculation since these developments. Some people are speculating that Brantford will be the "new Mississauga."

As a result of its new, desirable location and the sustained economic growth in Ontario over the past several years, a number of new "clean" industries decided to locate in Brantford. These include a large call centre, a casino, and a world-class chocolate manufacturing plant. Brantford's decision to attract recession-proof companies in the food processing sector led to the establishment of an industrial park, which specializes in food processing industries and, in addition to the 900,000 square foot chocolate factory, includes major employers such as a large commercial bakery and a food wholesaler. In just a few years, the area had evolved from a region with high unemployment to one in which companies are facing challenges recruiting skilled workers.

Location, Location, Location

One of the challenges facing industrial projects in general and ethanol projects in particular in southern Ontario is the lack of large, fully serviced and appropriately zoned sites. From a physical infrastructure perspective, ethanol plants require significant volumes of good quality water, sufficient natural gas, electricity, railway and highway access, along with a local supply of corn or other agricultural feedstock and proximity to a livestock sector capable of utilising a significant portion of the DDGS produced as a co-product of ethanol production. Proximity to ethanol markets is also critical, as is access to a fuel-blending facility.

The saga of the ICPG site location is a long one.

In the early stages of the project, IGPC purchased a site in a proposed Brantford industrial park from a local developer. The property had access to a sufficient supply of groundwater but there was persistent opposition from a small but vocal group of environmentalists who were concerned about the possible environmental impact of drawing water from the aquifer. This opposition was not appeased by the extensive hydrogeological tests commissioned by IGPC nor by the rigorous screening process required by the Ministry of Environment prior to a permit to take water being successfully granted to IGPC. Subsequent water quality tests also determined that the quality of the water was not suitable for the production of ethanol without costly treatment. Although initial discussions with the town had indicated a willingness to service the site with municipal water and sewer, the substantial investment in public infrastructure required to bring such services to the site proved to be a major barrier.

Due to the fact that the site was not a viable one, and the now luke-warm reception from the city to building the ethanol plant in close proximity to the community, a decision was taken by IGPC to abandon the first site. The land was eventually sold back to the developer from whom it was purchased at the same price plus improvements.

Cainsville

Another site with the appropriate heavy industrial planning designation but without the proper zoning in place was identified in nearby Cainsville. This site was acquired by the same local developer who owned IGPC's original site in Brantford. This site suffered from the fact that a residential community had grown up around the proposed site which was originally designated for heavy industrial use. IGPC anticipated some issues around community acceptance of the industrial plant amidst the more residential community and decided to hold a public meeting and invited the community to bring its concerns and perspectives. The meeting was called by the Co-operative on a voluntary basis and was not a statutory meeting required under the *Municipal Act*.

The meeting was attended by approximately 200 citizens and residents and it quickly became clear that they were not in favour of having an ethanol plant located in their midst. IGPC was not interested in locating the plant in a community that was not fully supportive. An added complication to the Cainsville site stemmed from a claim by some members of the Six Nations that the property was part of the original land grant along the Grand River. IGPC had no desire to become involved in a native land claims dispute with the federal government. The decision not to proceed at the Cainsville site proved prescient, as only a few months later a long and bitter occupation of a residential development in Caledonia was commenced by the Six Nations First Nation.

Finding a Home in Aylmer

After much exploration and considerable frustration, the Co-operative identified and purchased a 48-acre site in the Aylmer Business Park in Aylmer, Ontario. The site is fully serviced with municipal water and sewers, but required the construction of a new natural gas pipeline at considerable cost. Significant time and expense was also involved in planning and obtaining regulatory approvals for the new gas pipeline.

The Town of Aylmer, with a population of 7,000, is located 80 kilometres southwest of the original Brantford site. The town is located on a highway corridor between Buffalo and Detroit, and is strategically positioned in Southwestern Ontario. Aylmer's ready access to the 400 series highways directly links it with major markets both within Canada and the U.S.A., and to major airports located in London and Toronto.

The Mayor and Council of the town, and the neighbouring Township of Malahide, welcomed the idea of the ethanol plant with open arms. After an increasingly cool, if not hostile reception from the City of Brantford, IGPC found in Aylmer a Council and community that were genuinely eager to attract new industrial development into the town. The Mayors of both Aylmer and Malahide, along with a local Councillor and the town's CAO, travelled with a group of IGPC Directors and advisors to visit an ethanol plant in Wisconsin to get a firsthand look at the impact an ethanol plant could have on a rural community like Aylmer. The municipal officials all returned home brimming with enthusiasm about the positive benefits that an ethanol plant could bring to a community. Commonly cited concerns about the environmental impact of an ethanol plant, particularly in terms of odours and emissions, were completely allayed by the trip.

The Imperial Tobacco plant situated in the centre of town had recently announced that it would be closing down, resulting in the loss of some 350 manufacturing jobs, along with additional job and revenue losses for the hundreds of area tobacco farmers relying on the plant as a local market for their product. The impending closure of Imperial Tobacco impelled the community to seeks new ways of rebuilding the tax base, restoring lost jobs, and rekindling a sense of optimism in the community's future.

The move to Aylmer presented both new challenges and new opportunities to IGPC. The challenges included bringing members along to a new site that was located 80 kilometres outside their community. The project had begun as a Brantford community initiative, but the members strongly supported the Board in its move to Aylmer. The opportunities related to the offering of membership in the Co-operative to farmers and community members in the Aylmer area. Additional members were recruited and equity funds raised from the area.

In retrospect, IGPC noted that the search for an ideal site was a costly and time consuming process that has slowed the financing and construction of the plant by about one year. The Board members feel they should have chosen a fully serviced site early on in the process. However, given the shortage of serviced industrial land, this would not have been an easy process.

Almost Ready to Build

After five hard years of planning and development, IGPC is now on the verge of closing on the financing required to build its 150-million-litre ethanol plant. IGPC has secured both its process design technology and its builder. All of its key project agreements have been signed and the required $45 million in equity has been raised. Both federal and provincial programs are in place, which will provide IGPC with the additional $26 million in capital required to bring lenders to the table. IGPC has obtained a commitment from its senior lender to arrange for the debt financing of its project and this lender is now seeking to obtain the participation of the other lenders required to close on the project financing.

IGPC anticipates being in a position to start construction by June 2007. Once the first concrete is poured, the foundation will have been laid not only for the most ambitious co-operative start-up ever attempted in Canada, but also for what IGPC hopes will be a wave of successors inspired by the opportunity for farmers and other rural community members to participate in the new biofuel economy.

Chronology of Integrated Grain Processors Co-operative

January 2002	Informal group was meeting to look at value-added opportunities for farmers and agricultural products
April 2002	Integrated Grain Processors Co-operative incorporated; $200,000 raised for Feasibility Study
June – December	Preparation of Feasibility Study
February 2003	First Equity Drive (Seed Money) $1.2 million raised from 200 members
December 2003	Detailed Business Plan completed
January 2004	Equity Drive ($5 million raised in 6 months)
October 2005	Exploration of Cainsville site; community information meeting
December 2005	Decision to abandon Brantford site
October 2006	Land in Aylmer, Ontario purchased and site preparation work begins
July 2006	Second IGPC office opened in Aylmer, Ontario
April 2007	$45 million in equity raised

Key Challenges and Lessons Learned:

- It is important to be realistic about how difficult it is to raise funds and how long it will take to do so.
- It is also important to be realistic about how much support and time it will require from one's spouse, family and friends.
- As a founding board member you are not compensated for the risk you take by putting your personal credibility on the line.
- Being involved in a project like this gives Board members the opportunity to do new things, and learn new things that would not be available to them if they had not been part of building the project from the ground up.
- Some people will always stand on the sidelines and criticize your efforts. Expect that and do not let it get in the way of the project.
- Find the site and raise the equity first.