Liberty seeks farmer interest

By JENNIFER VINCENT

BULLDOZERS are already at work pushing dirt, making way for the big daddy of them all — at least in Michigan.

Liberty Renewable Fuels has broken ground in Ithaca on Michigan’s largest ethanol plant with a 121 million-gallon-per-year capacity. Many of you may have read about it in last month’s Michigan Farmer. However, here’s a little more insight. LRF is “on track” to be farmer-owned and controlled. I say “on track” because time will tell (in the next few months) whether or not farmers are interested in ponying up enough money and squashing the need for corporate investment.

For potential investors, there is great risk. What will ethanol prices be three to five years from now? Will oil still be more than $50 a barrel? What will the market price of corn be, and will the ethanol market oversaturate itself, producing more than the market can use?

Farmer investment
So, you say, what’s so new about an ethanol company offering public investment? Isn’t that the case with the Caro and Riga plants and others planned around the state? I vividly remember Michigan Ethanol LLC of Caro (first ethanol plant in the state) getting a $5 million grant from the state of Michigan in 2002 to support this idea of a “farmer-owned” renewable fuel company. Problem is, even with the state’s generous cash gift (which prompted me to tilt my head a bit sideways at the time), the plant could not raise enough money to see it to financing. Farmer investors were laced with losing their initial investment or looking for a “sugar daddy” to complete the project.

That cash cow was Broin Industries of South Dakota. As a result, the plant is largely owned by Broin, not farmers. Farmer-investors constitute less than 30% ownership and have virtually no say in the operation of the plant and its business.

About the same story holds true for a group of farmers that tried to build and operate an ethanol plant in Riga. Construction was stalled because of early-stage equity problems, and Great Lakes Ethanol eventually had to sell to Midwest Grain Processors of Iowa to continue the project.

According to Liberty Renewable Fuels’ SB-1 filing, it has already raised almost $16.5 million, with the bulk of that coming from its farmer-agribusiness-dominated board of managers. It’s definitely a good beginning and enough to start construction before the public offering. It is, however, a long ways away from meeting the total projected price tag of about $233 million. That’s more than double the cost of other plants because of its size and its intent to purchase Auburn Bean & Grain Co. with its 13 million bushels of grain-storage capacity.

Michigan focus
Liberty intends to finance the project with net proceeds from a public offering (coming soon), debt financing, governmental grants, bond financing and other sources.

The SB-1 filing and intent for a public offering is a first in the state for an ethanol plant. No other project has gone through the expense and time-gobbling effort to file with the U.S. Securities and Exchange Commission. By doing so, LRF is proposing to offer units of stock in the plant. Each unit is $5,000, with a minimum purchase of $20,000.

According to LRF President and CEO David Skjaerlund, who farms more than 1,100 acres in central Michigan, the board hopes to raise between $50 million and $100 million, with no one entity having more than 20% in the company, thus preventing controlling interest. The idea is to first get it majority owned by farmers, then keep it that way. Michigan farmers are given priority for investment.

Greenstone Farm Credit Services is backing that effort by financing 75% of an investor equity purchase using LRF membership units as security.

If LRF is not able to raise $50 million, there is always the option of traveling the road already traveled and joining hands with corporate investors to keep the project moving. It will be interesting to see if Liberty Renewable Fuels can maintain its farmer focus. That will depend, ultimately, on farmers’ willingness to invest and keep the project “on track.”

To read the Security and Exchange Commission filing, visit www.sec.gov/Archives/edgar/data/1373820/000119312507090142/d1.htm from 1661721.