

City of Scottsbluff, Nebraska

Friday, November 15, 2019

Regular Meeting

Item Western1

Receive Information and Consider Application for Western Farms.

Staff Contact: Starr Lehl



WESTERN FARMS, LLC

City of Scottsbluff LB840 Application

ABSTRACT

Western Farms is perpetuating sustainable and multi-faceted hemp solutions focused on enhancing quality of life, growing local economy, and supporting Nebraska farmers. Join us!

Double I Development, LLC

City of Scottsbluff
Economic Development Grant Application

1) Applicant Information:

Business Name: Western Farms, LLC

Address: 3109 Avenue B, Scottsbluff, NE 69361

Applicant Contact: Patrick Hoehn, President

Business Phone: 308-631-6941

E-mail address: pj@western-farms.com

2) Business Information:

Structure of Business (proprietorship, partnership, LLC, corporation, etc.):

Domestic Limited Liability Corporation with five equal partners.

Ownership breakdown (include percentages for each Owner):

Mark Johnson (20%), Patrick Hoehn (20%), Mike Hoehn (20%), Ed Hoehn (20%), Art Hoehn (20%)

General Description of Business:

Western Farms, LLC, was created by five (5) business partners collectively sharing over seventy-five (75) years of agricultural experience and a vision of growing a high quality and multifaceted hemp seed and related hemp products. This vision is being realized through business and agricultural acumen, diligence, a detailed business plan, strong partnerships, and a permit to grow and process hemp in Western Nebraska. The primary function of the corporation is to grow hemp for seed, hemp for various products (such as textiles and other industrial and wellness purposes), and to process hemp locally.

Three (3) limited liability corporations are being formed to manage the project, including:

- 1) Western Farms Seeds, LLC will be the operating company and responsible for getting financing for operation of the seed business.
- 2) Western Farms, LLC is the property owner and landlord for all operations that will be managed out of the facility.
- 3) A separate LLC will be formed for the retail operation.

The mission of Western Farms is to perpetuate sustainable and multi-faceted hemp solutions focused on enhancing quality of life, growing local economy, and supporting Nebraska farmers. As a future premier industrial hemp and hemp seed producer, distributor and processor in the region, Western Farms will develop and produce a high-quality and low-THC genetic strain of hemp seed, and partner with local farmers to grow hemp plants to be locally processed for the retail sale of CBD oil and other hemp-based products. Western Farms will additionally provide a local hemp processing plant to be used by Western Farms, as well as growers nationally.

Products/Services:

City of Scottsbluff

Economic Development Grant Application

The 2018 Farm Bill changed federal policy regarding industrial hemp, including the removal of hemp from the Controlled Substances Act and the consideration of hemp as an agricultural product. The bill legalized hemp under certain restrictions and expanded the definition of industrial hemp from the 2014 Farm Bill. The 2018 bill allows states and tribes to submit a plan and apply for primary regulatory authority over the production of hemp in their state or in their tribal territory.

LB657, passed by the Nebraska Legislature and signed into law by Governor Pete Ricketts, adopted the Nebraska Hemp Farming Act and amended existing statutes to establish a state hemp program within the Nebraska Department of Agriculture (NDA). The legislation gave NDA the authority to regulate the growing, harvesting and processing of hemp for research purposes in Nebraska under a licensing agreement until further action is taken by the U.S. Department of Agriculture. To legally grow hemp in Nebraska, interested parties must receive a signed license agreement from NDA, which was obtained by Mike Hoehn, Western Farms, LLC partner.

The hemp seed will be produced at the Western Farms greenhouse, located at 3109 Avenue B in Scottsbluff, Nebraska. The seed produced in the greenhouse will be sold to other hemp farmers, as well as used by Western Farms to plant in the 150 acres of land that will be grown by Western Farms and contracted farmers. The harvested hemp will be processed locally by Western Farms, as opposed to shipping it to a processing plant elsewhere.

The hemp products, such as CBD oil, will be sold retail at the CBD Retail Center attached to the greenhouse. Other hemp by-products will be sold to various businesses that can use it for bioplastics, textiles, fiber, health and beauty products, etc.

The Hoehn family and Mark Johnson, along with a partnership with the University of Nebraska Extension, want to establish themselves at the forefront of the progressive industrial hemp production movement in Nebraska. The five (5) business partners collectively have seventy-five (75) years of extensive background and involvement in farming and agriculture. Coupled with the decades of experience, the partners have invested in partnerships that will ensure the success of this revolutionary project that has the propensity to impact the local economy, local farmers, and the community at large.

With all the uncertainty within the agricultural economy in recent years, the recent introduction to the billion-dollar hemp industry has provided a pathway for the partners to blend their expertise with massive opportunity. By actively engaging with other successful hemp growers and producers, including touring, observing, and strategizing, the partners quickly identified the vast need as well as the short window of opportunity that would allow them to effectively address the two primary concerns and gaps within the industry: the lack availability of high quality seed and the shortage of access to extraction and processing functionality.

The newly purchased greenhouse and building, located on the corner of Avenue B and Hwy 26, was previously owned by the Aulick family, who ran the business as TLC Nursery and Spa. By purchasing a building that meets all the needs of hemp growing and offers space for a

City of Scottsbluff

Economic Development Grant Application

processing plant, spa, and a retail CBD Center, Western Farms demonstrates a commitment to the community.

The greenhouse includes five (5) grow bays totaling approximately 21,000 square feet on two acres of open land. At full capacity, the five bays can support growth of 1,750 industrial hemp plants. The sizeable building that was recently remodeled to accommodate a spa and wellness retail business, spans 13,300 square feet.

Initially, during the early stages of the business, Western Farms will focus on perfecting and growing quality industrial hemp seed, which will be sold to growers located primarily in the Midwest. In tandem, focus will be placed on providing functionality to the first processing plant and building the local contract farming network.

Dually important will be identification of a market for other hemp products and actual production of an industrial hemp manufacturing business, which will include the sale of industrial hemp for a variety of commercial items including paper, textiles, clothing, biodegradable plastics, paint, insulation, biofuel, food, and animal feed; retail sale of CBD oil and related health and wellness products. Western Farms plan to explore all uses of hemp to maximize revenues and meet the market needs.

Number of years in Business:

As further outlined in the bio-sketches (Appendix A) for each business partner, over seventy-five (75) collective years of experience in agriculture equip the business with the necessary acumen to ensure success.

Proposed Location Address:

3109 Avenue B, Scottsbluff, NE 69361 is the proposed location for the greenhouse, processing plant, and future retail sales space. One acre of farmland two miles East of Mitchell will continue to be harvested annually, as well as up to 150 acres of land that will be contracted to local farmers.

Current Zoning Classification:

The attorney for Western Farms is Thomas Holyoke of Chaloupka, Holyoke, Snyder, Chaloupka & Longoria, PC, LLO. Mr. Holyoke is admitted in Nebraska and the U.S. Tax Court. He is a Fellow in the American College of Trust and Estate Counsel and a designated Super Lawyer in the areas of estate planning/probate and real estate by Super Lawyers.com. Through consultation regarding the purchase of real estate, Western Farms partners were advised that the building/greenhouse were zoned for multiple purposes and properly zoned with no excessive easements, covenants, or other encumbrances.

3) Employment:

Base (current) number of full-time positions:

Currently, the five (5) business partners are managing the business, with PJ (Patrick) acting as the President and Art as the Vice President.

City of Scottsbluff

Economic Development Grant Application

Full-time positions to be created:

Forty-one (41) full time positions will be created in the next two (2) years. The remaining fifty (50) positions will be seasonal.

Salary/Wage Range:

In order to provide maximum benefit to the local economy and ensure retention of a reliable and talented workforce, the salary/wage range will be \$16.00/hour to \$50.00/hour (See Appendix G for details on salary/wages and corresponding benefits).

Benefits provided to employees (include any contribution required by Employees):

Western Farms believes employees are the heart of any great business, and key employees and leaders are essential to long term success. Benefits are no longer a perk in today's business world; they're an expected part of compensation. Although the full details of the future benefit package have not yet been finalized, qualified full-time employees will be offered a mid-range benefits package that will include: paid holidays; paid vacation days; paid sick days; paid personal days; bereavement or funeral leave; disability insurance; matching employer contributions for Social Security and Medicare; and a 401K Retirement Plan. Western Farms will also carry unemployment insurance and workers' compensation insurance.

The projected average full-time salary for Western Farms employees will be \$43,077.00/year, and \$16/hour, (\$33,280.00/year) for full-time hourly employees. The average benefit package, figured at roughly 9%, averages to \$3,337.00 annually, with significant deviation between the higher salaries and lower wages. Further specific salary, wage, and benefit information can be found in Appendix G.

4) Financial Need:

Total project cost estimate: Year 1: \$2,597,498.33; Year 2: \$2,764,336.94; Year 3: \$3,921,460.40

Date funds are needed:

Because Western Farms opted to initiate the business to align with the permit and growth season, including purchase of the building on Ave B, costs have and continue to be incurred. LB840 funds would be utilized immediately to offset expenses and providing capital to begin hiring vital employees.

Investment to be made by Applicant (Amount & Source):

Western Farms has invested a total of \$340,000 to include purchase of property and capital improvements to date.

Loan(s) to be obtained (Amount & Bank Name):

Nebraska bankers have not moved forward with financing hemp businesses, as identified after approaching several financial entities. Though recent legislation appears to be moving in the direction of changing loan policies for hemp producers, immediate capital support will be

City of Scottsbluff

Economic Development Grant Application

unavailable to initiate the project. Because of this, capital expenditures have primarily been paid out of pocket by the partners. The exception was the purchase of the building and greenhouse, which was guaranteed by HVS, LLC through a purchase agreement. The purchase agreement (Attachment X) outlines the role of HVS, LLC as the private lien holder, with interest, and Western Farms expending an initial \$200,000 down payment with monthly installments.

LB840 financial assistance amount requested for the Project:

There will be a total of eighty-one new positions created over approximately two (2) years, totaling \$3,304,236.00 in salary and benefits. Western Farms will hire 17 new positions in year one, at a total of \$896,424.00 (salary and benefits) and 64 new positions in year two, totaling \$2,407,812.00 (salary and benefits).

At \$10,000.00 for each new position created in the two years, Western Farms is respectfully requesting \$810,000 for these positions, which will be approximately 25% of the total to be expended on employees over the first two years (total = \$3,304,236.00 for two years).

Additionally, Western Farms is requesting \$1,000,000.00 in financing from the City of Scottsbluff LB840 Committee to cover capital expenditures. As demonstrated in the final Purchase Agreement (Appendix D), the building was purchased at \$1,000,000.00. Western Farms put \$200,000 down and the Guarantor agreed to finance them over the term for the remainder, with interest. Western Farms will additionally put in \$200,000.00 for capital expenditures. A total of \$175,000.00 has already been expended at this juncture.

Other Loans/Grants (CDBG, TIF, Re-Use, etc.):

No other loans or grants have been secured at this juncture, but Western Farms is interested in exploring all potential options that would support business start-up while simultaneously benefiting the local economy.

5) Security Available:

Guarantor(s): HVS, LLC

Real Estate: 3109 Avenue B, Scottsbluff, NE 6936, purchased by Art Hoehn, Partner

Existing Liens: Purchase agreement between Western Farms, LLC and HVS, LLC outlines the private lien for the spa/greenhouse property. (See Appendix D)

Personal Property: Mike Hoehn is the owner of the one (1) acre East of Mitchell, where the first hemp crop was harvested on September 28, 2019.

Existing Liens: Not Applicable

Stock / LLC Interests: None

Other: None

City of Scottsbluff Economic Development Grant Application

6) Eligibility:

Principal Source of Income from (circle one):

- a. ☐ Manufacturing
- b. ☐ Research & development
- c. ☐ Processing, storage, transport or sale of goods or commodities in interstate commerce
- d. ☐ Sale of Services in interstate commerce
- e. ☒ Headquarters facilities relating to eligible activities
- f. ☐ Telecommunications activities
- g. ☐ Tourism-related activities
- h. ☐ Construction and rehabilitation of housing
- i. ☒ Retail trade where the principal source of income is from retail sales of products manufactured on the premises.
- j. ☐ Film production (Nebraska Film Office Activity Registration Form is also required).

Statement of how project is consistent with the goals of the Scottsbluff Economic Development Program:

Like the Scottsbluff Economic Development Program, Western Farms is focused on the community's economic growth and aims to create and sustain a new business, which will create and retain new quality jobs that provide health insurance and other benefits in the local area.

With the hire of approximately forty (40) full-time employees (with benefits) and fifty (50) seasonal employees over the next two (2) years, the project will have a significant impact on the community with jobs that have not previously been available. The positions will require skilled and educated employees with opportunities for learning and growth, with wages ranging from \$16/hour to \$50/hour. These positions will have significant and positive impact on the City of Scottsbluff and surrounding communities. In year one, new positions will inject \$896,424.00 into the community, followed by \$2,407,812.00 in year two, and \$3,304,236.00 in year three.

In addition to the impact that new positions will have on the economy are the local services, products and resources that will be purchased locally. In year one, Western Farms will inject \$2,597,498.33 into the local economy with capital expenditures and services, followed by \$2,764,336.94 in year two and \$3,921,460.40 in year three. A total of \$9,283,295.67 will be expended in the community over the next three (3) years.

New positions impact the local economy and are multiplied when the community has a vibrant commercial center, as it creates ample opportunities for the workers to shop at other local small businesses. They grab lunch or dinner from local restaurants, run errands on their break, and grab drinks from local bars. This keeps money local and further creates a tight-knit community vibe.

The purchase of an existing and vacant building that was the primary property housing a large business that was specific to growing plants, is located near the heart of Scottsbluff, allowing for

City of Scottsbluff

Economic Development Grant Application

this connection of employees to local retailers. The building and greenhouse were on the market for a long span of time and the recent purchase allowed utilization of an empty building that is a visible landmark upon entry to the city of Scottsbluff. This new project allows usage of a unique space and removes the vacancy of a large building.

By providing retail sales at the former spa, local shopping is made available. This, in turn, keeps tax dollars within the local economy, helping to improve our community as a result. Likewise, Western Farms intends to buy locally, whenever possible, pumping more profits back into the community than chain store counterparts or online sales, helping with economic development.

Western Farms will produce one-of-a-kind and locally made products that will attract customers to the community, bolstering tourism. Locally made goods are also attractive to residents who want to minimize their carbon footprints, support local businesses, and keep their tax dollars close to home.

Describe any pending legal action(s), to include the amount at risk and a summary of how ownership is reacting to the action(s): Not Applicable

7) Additional Information to be submitted:

Resumes of Owners, Management & Key Employees (include experience, training, credentials & work history).

Management functions will initially be accomplished by the five (5) business partners, with each holding a specific role in the business. Key positions will be added as the business progresses, as further demonstrated within the Organizational Chart that has been provided in Appendix G.

Patrick (PJ) Hoehn will perform the functions of acting President and CEO of Western Farms and will be responsible for the overall direction, key strategic planning to fulfill the mission, administration of programs, products, and services provided by Western Farms, including financial performance, credit quality, business development, operations, regulatory compliance, and risk management.

Art Hoehn will perform the functions of acting Vice President and will be responsible for managing client accounts and assisting in growth and development of staff as well as the overall business. This will include expanding and securing new business, managing project various portfolios that meets or exceed projections, and participating in the internal management of the company. Art will guide staff development through identifying skills needs, delegating tasks appropriately and motivating project staff to provide outstanding client service.

Josh Pinkernell will perform the functions of lead geneticist, community outreach and education coordinator, and greenhouse management, with his title being Lab Director. As described in his bio-sketch, Josh will hold a primary role in the implementation and ongoing operation of Western Farms, bringing a rich history full of experience with hemp.

City of Scottsbluff

Economic Development Grant Application

Bio-Sketches for each of the five (5) business partners and Josh Pinkernell can be found in Appendix A.

Brief history of your business and where you see your business going in the next 5 years, with emphasis on the impact to the City of Scottsbluff:

Mike Hoehn, 20% Western Farms partner, was awarded a Nebraska industrial hemp grower permit for an acre of land two (2) miles east of Mitchell, NE. In partnership with four (4) other individuals that have an established respect within the agricultural and business environment, Mike proceeded to plant hemp while concurrently strategically planning with the four other partners to develop what would become Western Farms.

The original acre of hemp was harvested on September 28, 2019, following testing, which was deemed under the proper 3% THC threshold, by the Department of Agriculture and the University of Nebraska Extension. The shared sampling occurred on the same plant and allowed comparisons in testing between the two entities. The next step after harvest is for the hemp to be processed in house with a newly purchased small-scale processor. As a first generation genetic, CBD will not be extracted from the test plot farmed hemp, but instead will be used for production and retail sale of crude CBD oil with the new Western Farms brand and labeling.

Western Farms, in close partnership with the University of Nebraska Extension, will undergo a multi-phased approach over the next five years, that will result in:

- 1) University supported greenhouse production of a genetically developed, multi-faceted, low-THC, high-quality hemp seed
- 2) Use of the genetically developed seed for growth on 150 acres of designated research plotted land (Pending UNL & Dept. of Ag approval)
- 3) Sale of the seed sale to other interested growers
- 4) Creation of a local Processing Plant to produce high quality, low TCH CBD oil retail products
- 5) Utilization of the hemp pulp and/or biomass for fibers, textiles and various products found to be locally marketable and environmentally sustainable

Hemp plant are currently being grown in Colorado for the purposes of being transplanted to the nursery for the first indoor crop in early October. There will be three varieties of seed, with one single male to breed against the three varieties of seed to create new seed, bearing the Western Farms brand. Upon planting of the approximately 350 plants, the University staff will begin their research and be on-site at the greenhouse at least twice per week with research-focused objectives, as described in the attached MOU.

Upon harvest of the first indoor crop, the plants will be processed in-house for production of a high quality and low THC CBD oil product to be sold at the Western Farms Retail Center. The CBD Center will be developed to align with an existing model that has proven successful in other states, including with Midwest Farms, a partner business that provided initial consultation. Included in the licensed CBD Center will be the retail products produced, as well as well-trained educators that will assist customers to understand CBD, hemp, and determine individual needs and which product might best suit those needs.

City of Scottsbluff

Economic Development Grant Application

Western Farms will initially purchase a small processor, which will allow small-scale extraction on 150 acres of hemp land, designated as a research test plot by the University of Nebraska Extension. As the local industry grows and market research continually drives progress, Western Farms will invest in upscaled processing. The theory behind this model is simple-prove the local model and then scale up, keep it local, build the economy, improve the industry.

In the second round of greenhouse growth, specific favorable traits will be identified and tied into new plant, with a focus on 1-2 solid genetics. All five bays of the greenhouse will be used for production of approximately 1,750 hemp plants, with each plant needing 9 square feet for optimal growth. During this timeframe, market analysis will continue, with intent to explore the local, regional and national atmosphere in order to create products that hold market value.

Throughout the second and third project phases, hemp products from the 150 acres of land across the region will continue to be processed and seed will continue to be sold, leading into the third project phase - creation of a processing plant. The processing plant will be a sizeable facility with many community benefits, including creation multiple jobs, sustainable and long-term growth in the local economy, and notoriety for addressing environmental issues through creation of various fibers, textiles, bioplastics and more.

The hemp industry continues to expand, yet there remain opportunities for growth, particularly in Nebraska are prevalent, particularly through recognition of barriers in the existing system being utilized by other growers nationwide. There are a plethora of farmers growing hemp, but there is currently a bottle neck between plants finishing growth in the field and the final extraction process leading to products. Western Farms, in addition to creating quality seeds, will fill the gap in the final project phase, which has prevented many farmers from finalizing rapidly by creating a mechanism for processing hemp locally.

Western Farms partners contemplated the option to send out the plants for extraction and processing, like other growers, but determined that by creating an internal operation that includes final processing of products, these products will be expedited for more rapid sale.

Genetics will play a vital role in the success of this project, and Western Farms has enlisted the assistance of leaders in the industry, including Josh Pinkernell, a geneticist with years of experience. He will utilize genetics, in partnership with the University, to create a multi-faceted crop that will be flexible enough to focus on fiber, textile, and high-level CBD, CBG, CBC oil. The multifaceted genetics and processing capabilities will be available at the Western Farms project site.

Personal Financial Statement of Guarantors and anyone owning 25% or more of the business.
Note: documentation verifying assets and liabilities shall be made available upon request.

At 20% shared ownership, each of the five (5) partners owns less than the 25% threshold. However, the five (5) partners have completed thorough credit checks with the purchase of the new property.

City of Scottsbluff

Economic Development Grant Application

Income statement covering the past 2 years of business operations, if in business for that long. Copies of filed tax returns are acceptable, and the most recent year's return must be included.

Western Farms, LLC is a new business and has not yet had to file taxes.

Business Plan, to include:

Western Farms elicited assistance from the Nebraska Business Development Center to create the final business plan, in conjunction with Double I Development, LLC, a private consultant. The process of developing the plan provided an opportunity for the partners to dedicate time and thought to creation of a sustainable and lucrative business model, that is presented as Appendix B.

The Business Plan provides the following required categories of information, in addition to several additional sections, such as Risk Management Plan:

- **Total project costs to include itemized use of funds**
 - o Section 7-Business Project Financial Plan; 7.2-Project Costs; 7.4-Project Sources & Uses:
- **Lender Commitments**
 - o This information will be found in section 8 – Appendix; It will be its own page for Lender Commitments
- **Investor Commitments**
 - o This information will be found in section 8 – Appendix
- **Financial projections for the next 3 years**
 - o This information will be found in section 8 – Appendix; Some of this information will also be stated in the financial plan.
- **Employment projections for the next 3 years**
- **Identification of jobs to be created by description, number, average wage, benefits, etc.**
 - o Both sections will be found in section 8 – Appendix; It will be its own page for Project Employment Information
- **Information as to suppliers, and, those in the Scottsbluff area**
 - o This information in section 2 – Business Description and in 2.3 Project Suppliers/Wholesalers/Vendors Plan

References, to include name, position, address and phone number:

Jerry Darnell
Vice President of Agriculture, South Region
Western Sugar Company
Scottsbluff, NE
308-631-5890

Shane Aulick

City of Scottsbluff
Economic Development Grant Application

Formerly of Aulick Leasing
Entrepreneur, Local Business Leader
308-641-2345

Jack Whittier, Director
Panhandle Research and Extension Center and District, University of Nebraska
308-765-0218
jwhittier2@unl.edu

Any other information that you feel will assist the City in evaluating your Application. Please include any marketing or sales brochures.

Product samples and pictures will be provided at the presentation.

With respect to the Business, or any persons owning 25% or more of the business and any officers, indicate if there is any past or pending litigation which either has resulted in or could result in a judgment against the Business or any such person. List the nature of the judgment or pending action, and whether any portion remains unpaid as of this date.

At 20% shared ownership, each of the five (5) partners owns less than the 25% threshold, however there are no past or pending litigations.

With respect to any persons owning 25% or more of the business and any officers, indicate any who have been convicted of or plead guilty to any criminal charge or violation of law, excepting minor traffic offenses. List the nature of the charge, where the charge occurred and the year and month of the conviction or plea.

City of Scottsbluff
Economic Development Grant Application

At 20% shared ownership, each of the five (5) partners owns less than the 25% threshold, however there are no convictions or guilty pleas to criminal charges or law violations.

Applicant agrees to sign waiver form provided by the City of Scottsbluff for Background and Credit Check.

Western Farms partners agree and are prepared to sign waivers to complete these checks.

8) Nebraska Advantage Act:

The Applicant certifies to the city as follows (select one):

☒ The Applicant has not filed, nor does it intend to file an application with the Nebraska Department of Revenue to receive tax incentives under the Nebraska Advantage Act with respect to this project.

☐ The Applicant has filed or intends to file an application with the Department of Revenue to receive tax incentives under the Nebraska Advantage Act for this project. If so, indicate if such application includes or will include, as one of the tax incentives, a refund of the City's local option sales tax revenue: ____; and whether such application has been approved under the Nebraska Advantage Act: ____.

I certify that the information presented in connection with this Application for Economic Development Assistance is true and correct. Consent is given to the City of Scottsbluff to contact references, conduct one or more credit checks, criminal background checks, and to verify the information contained in this Application.

Dated: 10-4-19

Signed: 

Title: President