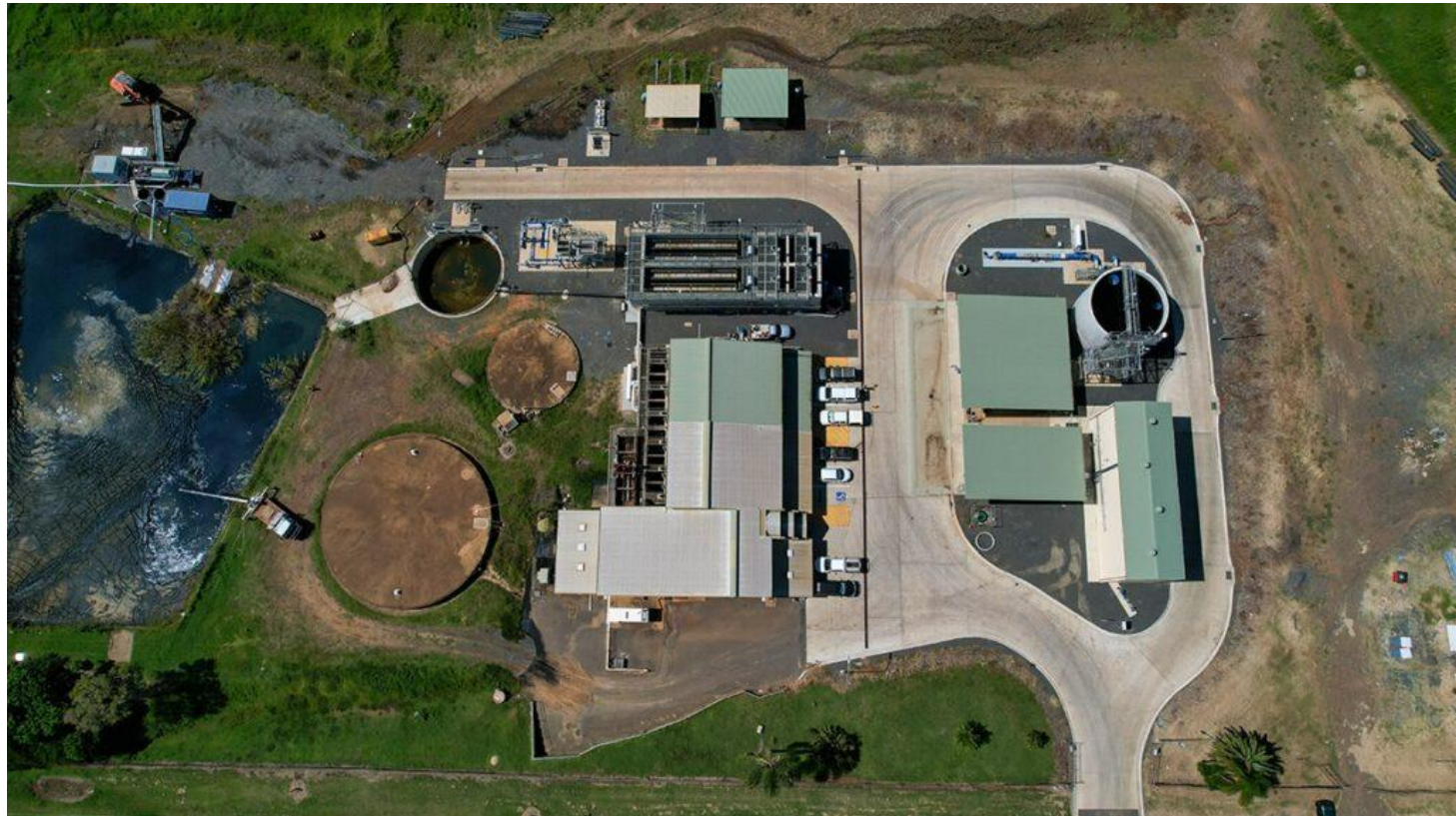


Welcome to Business Succession Planning



What is Succession Planning in a Business?

Succession Planning is an important part of any business to help it run smoothly and without interruption whenever there needs to be a change in leadership. Changes can be a result of people leaving the work force or unexpected circumstances, such as illness or death.



Can I see a raise of hands of whom in this room has a Succession Plan in place?
Succession Plans take time to develop and to implement.

Septic Business and Municipal Wastewater Treatment Plant Succession Plan

Who needs a Succession Plan?

- Small size companies (Ma & Pa)
- Medium size companies
- Large companies
- Family – owned companies
- Municipal Wastewater Treatment Plant

Why should septic businesses have a Succession Plan?

- In case of illness or death
- Vacation (gone south for the winter)
- Owner retiring
- Selling of a business or transferring of a business
- To train key employees to move up in position
- To comply with NR113 & NR114 Codes requiring an OIC

Why should Management of a WWTP have a Succession Plan?

- In case of illness or death.
- Management retiring.
- Management taking a new job with a different municipality.
- Employees moving up in job position.

So, if you are a Utility Director, Supervisor or Foreman, you should have a Succession Plan in place.

In developing a Succession Plan, ask yourself if an employee within the ranks could move up into your job.

How long is it going to take to train an employee? 5 years? 2 years? or 1 year?

You would need to train the employee in every aspect of your job

Such as,

How you operate your wastewater treatment plant

Management paperwork

- Such as DNR paperwork
- Permits
- Testing Reports
- Work schedules

Employee Meetings

- Planning
- Presenting

Trouble-shooting plants' problems

- Such as, pumps
- Not meeting discharge limits
- Do you need to turn more blowers on? (the list can go on and on)

Preparing for a Utility Council Meeting

I know that it is scary to train someone to take your job. You might be afraid of losing your job before you are ready to.



A wise man told me to surround yourself with good trained employees. Employees will enhance your position in the Company.

BUT KEEP A COUPLE THINGS IN YOUR BACK POCKET!

The biggest challenge facing septic companies is selling or transferring their business.

Issues in selling

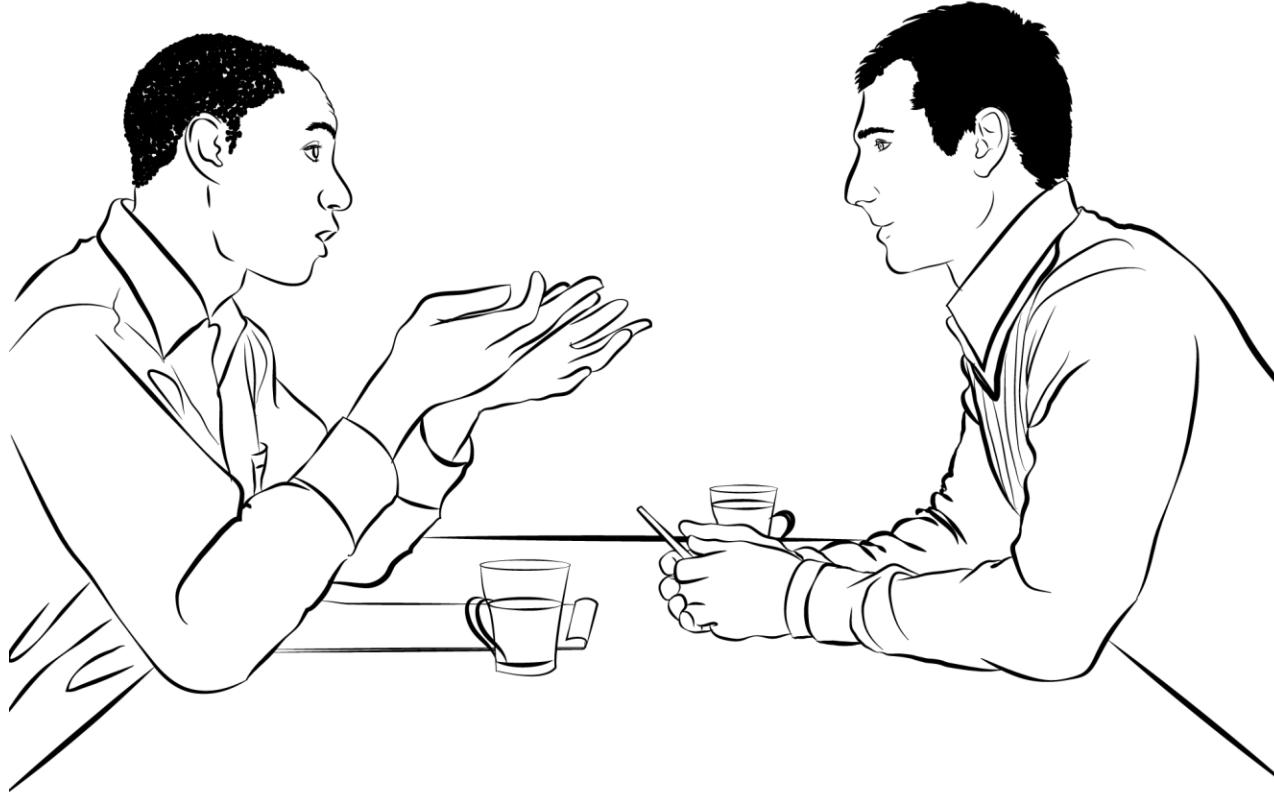
1. Trying to find an individual who works hard.
2. Septic work may be perceived as a dirty job.
3. Finding a buyer
 - A. It takes money (expensive trucks and equipment)
 - B. Hard-working person
 - C. Nature of septic work may be considered a dirty job.
 - D. It takes a “people person” to meet all kinds of customers.
 - E. Emergency type of work (after hour calls & weekend work, NOT an 8-5 job)

Example: A septic company with employees and the owner wants to retire in 5 years.

- Owner started to train & groom a key employee in every aspect of his company.
- Owner held the OIC for his company, so had key employee get his Master Operator license.
- Key employee that wants to buy the business helps owner with a buy-out plan.
- When the 5 years came up, the owner has a plan with an employee to buy his company.
- Employee was able to become OIC.
- Because of the Succession Planning the owner was able to smoothly exit the company.



My son, Cory graduated from college in 2003. He said “Dad, I would like to come back home and someday own Ken-Way Services. I don’t want to be like some family - owned businesses where I work for the business my whole life and only end up with a wage.”



Trust -----Trust

needs to have trust in each other

How We Accomplished Our Succession Plan

1. Created a “C” Corporation

- This allowed us to have a set amount of stock. In our case 2000 shares. The value of the company was set and we acquired a starting point for our share value.

2. The Corporation purchased a whole life insurance policy on me (the owner of the 2000 shares of stock) and overfunded the policy. Cory also purchased a term life insurance policy on me, which Cory owned. These policies served multiple purposes. I also purchased a term life insurance policy on Cory.

- One, it created a funding source for the corporation as a “Gap Protection” in case the majority share holder would pass away unexpectedly.
- Two, by overfunding the policy, it created an investment account to build equity to pay for future Deferred Compensation.
- Three, the term life insurance policy provided a necessary funding for Cory personally in case it was needed to purchase remaining shares at any point during the process.
- Four, the term life insurance policy provided additional funds for me in case something happened to Cory and the Succession Plan was able to come to maturity.

3. It created a Deferred Compensation Agreement and a Buy/Sell Agreement. This was created with the help of our accountant, financial planner and lawyer.

- The Deferred Compensation Agreement set up 10 years of payments from the corporation to me starting on a specified date. This would equate to repayment of the value of the company as of the date of incorporation in exchange for 80% of the stock shares to go to Cory.
- The Buy/Sell Agreement set boundaries on who could buy and sell shares and created an equation to figure out stock value at time of sale.

4. Cory became a Master Operator so that he could transition into OIC at any point in time.

5. Once all the pieces were in place, stock gifting occurred on an annual basis from me to Cory. The number of shares varied each year based on the stock share price as to not exceed the yearly gifting allowance by the IRS. This occurred annually until 80% of the shares had been gifted. Once that was accomplished, the Deferred Compensation distributions began.

My Insights Into This Process

Advantages:

1. This worked well because we had a long-time frame between when we created the plan and when an estimated retirement date for me would occur.
2. Created a scenario where both parties had an opportunity to gain as the business grew.
3. Created funding for the future Deferred Compensation payments and Buy/Sell payments.
4. Funds used for those payments were payable by the corporation and an expense on the corporation's taxable income vs. after tax dollars paid by Cory as an individual.
5. No need for a new business license number from the WDNR.
6. No need for a new Federal Tax ID number.

Disadvantages

1. The Deferred Compensation package is listed as a liability on the corporation's Balance Sheet.
2. Both parties must have a lot of trust in each other as this was a long-term process.
3. The cost basis on the shares that Cory was gifted is in essence Zero Dollars, therefore a future sale of those shares will result in higher capital gain taxes.

This will end my presentation on Succession Planning.

I would be willing to answer any questions you may have.

Thank you