

MINUTES
LOAN ADMINISTRATION BOARD MEETING
AUGUST 1, 2013

Pursuant to public notice, a regularly re-scheduled meeting of the Escanaba Loan Administration Board was held on Thursday, August 1, 2013, at 8:00 a.m. at City Hall, Room C102, 410 Ludington Street, Escanaba, MI.

Board Members Present: Chairperson Tim Kobasic, Boardmembers Roni Beaudoin, Jeanine Dagenais and Chris Economos

Also Present: City Treasurer Robert Valentine, City Attorney Russ Hall, and Tony Harris from A.M. Fleet Maintenance

Chairperson Tim Kobasic called the meeting to order at 8:00 a.m.

Motion was made by Boardmember Dagenais, seconded by Boardmember Beaudoin, to approve the meeting agenda as written.

Motion was made by Boardmember Beaudoin, seconded by Economos, to approve the meeting minutes of April 25, 2013. Motion was approved unanimously.

Chairperson Kobasic questioned whether the Marcoe situation was still in the court system. City Treasurer Valentine stated that it has been decided, but there is one aspect that has not been decided as of yet and suggested that he give more detail at the quarterly loan review agenda item.

NEW BUSINESS

Quarterly Loan Review

Quarterly loan review was conducted.

City Treasurer Valentine stated Michigan Meats is current as agreed and typically start showing arrears this time of year and those arrears will build into the fall season and as they begin the fall hunting season processing the payments start coming in again and they will be current by year end or shortly thereafter. There are no concerns with Michigan Meats.

City Treasurer Valentine stated A.M. Express is paid in full as of today.

City Treasurer Valentine stated Donalway has brought in a couple of thousand dollars since the last meeting from selling parts from inventory. There is a stipulated judgment against Al Waeghe. City Attorney Hall stated the City was in a holding pattern and now it is at the point to do what is needed. Discussed the business possibilities and the inventory that is available.

City Attorney Hall questioned whether the Board wanted to garnish Patsy Waeghe's wages. Boardmember Dagenais offered the option that, rather than garnish Patsy

Waeghe's wages, the City could require her make a monthly payment in lieu of garnishment. Board members agreed that the payment should be in the range of \$400 – \$500 per month.

A motion was made by Boardmember Dagenais, seconded by Boardmember Economos, to request a payment program from Patsy Waeghe at a minimum of \$500 per month in lieu of wage garnishments to be reviewed in one year. Motion was unanimous.

Boardmember Beaudoin stated the money that is received from Patsy Waeghe should be applied to the principal and you can keep accruing the interest, the City just wouldn't collect the money on the principal dollar and at the end the money is still accruing and if there was a windfall to collect it all then the interest would be collected at the end.

City Attorney Hall stated the City has a different financial practices than banks and it is not subject to the same regulations as a bank. City Treasurer Valentine stated the City doesn't have a receivable on the books for accrued interest, there is only a receivable for the principal balance and when a payment is booked, the principal portion reduces the receivable, and the interest portion becomes interest income. City Attorney Hall stated that terms change with a judgment and that a judgment accrues interest at a statutory rate until paid

City Treasurer Valentine stated under the CDBG Loan Fund there are two loans outstanding in this fund. This fund was subject to regionalization. Regionalization is moving forward and he received from MEDC a packet of documents for regionalization to take place. MEDC has changed their position in terms of it being mandatory. Regionalization is now optional, but there are a lot of new terms and conditions if you want to opt out of the regionalization proposal. His sense is that most communities are simply going to regionalize. Personally, he thinks the City should regionalize as the City has plenty of money available to lend in the EDA Fund and money available in the UDAG Fund. Mr. Valentine emphasized that there is still a mandate that money be loaned out and that unloaned balances are subject to the constant threat of sequester or forfeiture. Mr. Valentine believes that a decision not to regionalize will simply result in punitive treatment down the road will ultimately lead to forfeiture of the funds. He further believes that Northern Initiatives, who is the regional authority, will do a good job for the City. City Treasurer Valentine stated he has been appointed to the Loan Review Board Northern Initiatives. Northern Initiatives would have access to more funding and would be more flexible assembling deals than the City is. The decision regionalize will be placed before the city Council in the near future.

A motion was made by Boardmember Dagenais, seconded by Boardmember Economos to recommend to City Council that the City of Escanaba regionalize its CDBG RLF with the stipulation that when City Treasurer Valentine has completed his review, if there is any new information which is adverse to regionalization, then he shall bring such information back to the Loan Administration Board for further review. Ayes were unanimous.

City Treasurer Valentine stated P & B and House of Ludington continue to pay on time.

Peacock continued to pay as agreed. At the last meeting the Board was going to recapitalize the loan, he has been meaning to talk with Peacocks and it is just a matter of paperwork.

Matt Heath's payments are erratic, but continues to make payments and the balance is small.

Lofts on Ludington continue to get interest only payments per agreements that are in place. No issues with this loan.

Crispignas continue to pay on time and business is good.

The City received a judgment against Cal Marcoe for \$60,000. The City also obtained a judgment against Theresa Marco for 26,700, on which any payments reduce the judgment against Mr. Marcoe. Total indebtedness remains at \$60,000. There remains the possibility of recovery.

Wickert Floral is paying erratically. Gordon Cashen bought Wickert Floral approximately six years ago and the City was involved in the financing for him. He has always been 4-7 months in arrears and he has been making payments regularly.

A motion was made by Boardmember Economos, seconded by Boardmember Dagenais, to accept the Quarterly Loan Report. Ayes were unanimously.

Loan Request from A.M. Fleet Maintenance

City Treasurer Valentine stated A.M. Fleet Maintenance was established in 2005 for the purpose of servicing the maintenance needs of A.M. Express Trucking Company. A.M. Fleet Maintenance was originally a joint venture between A.M. Express Trucking and Tony Harris. In 2008, Mr. Harris purchased A.M. Express's ownership interest and moved the business to its current location at 2003 21st Avenue North, under the Wells water tower (building is owned by Bosk Corporation). Since that time, Mr. Harris has grown the business by continuing to serve A.M. Express, and by expanding into all facets of diesel truck and heavy equipment maintenance. Mr. Harris supplements the service side of his business with sales of parts and commercial tires from Kelly and Goodyear. Additionally, trailer sales and service area also becoming increasingly more important components of the business.

City Treasurer Valentine further stated that in 2012, Mr. Harris recognized that his current facilities were not adequate to support further business growth. According, Mr. Harris purchases a Brownfield parcel of property at 1700 20th Avenue North in Escanaba, and in conjunction with the City's Brownfield Authority, he formulated a plan to clean up the parcel and to construct a new, state of the art, 17,500 s.f. facility. The new facility will support multiple service stalls, increased parts and tire inventory, and room to service larger equipment and trailers. In addition, the new facility will be easier for customers to find and will support easier on and off the highway access.

Currently, Fleet's only debt is a commercial line of credit from MBank in the amount of \$84,000. MBank has agreed to finance construction of the new facility with loans totaling up to \$975,000. The State of Michigan will finance the brownfield cleanup with

a low interest loan up to \$420,000. The State loan will be repaid from the brownfield capture and not from operating income of Fleet. It is proposed that the City EDA RLF will finance the equipment and inventory option of the project, with balance of the required funds, including the contingency, coming from Tony Harris and Fleet.

Proposed to have MBank being the lead lender and the City of Escanaba being the subordinate lender. The City of Escanaba will have a second lien on all assets, behind the MBank. Tony Harris's personal guarantee will be given. The residential mortgage will be at the Board's discretion.

City Treasurer Valentine stated the Brownfield Redevelopment Authority, Tony Harris and himself believe this facility is what is needed to take the business to the next level. Mr. Valentine emphasized to the Board that the success of the project is 100% dependent on Mr. Harris being able to increase sales at a new facility. Mr. Valentine advised that the project will not "cash flow" at current sales volumes. Mr. Valentine and Mr. Harris reviewed the challenges presented by the current facility, which include location, size, ingress and egress, heating, etc. Tony Harris stated the current building was designed to be a warehouse for EMP and there is no insulation in the building and the costs for the winter months to heat is a lot of money.

Boardmember Dagenais asked if Mr. Harris was renting the current facility. Mr. Harris responded yes, he rents the facility from Bosk Corporation for approximately \$30,000/year. Mr. Harris stated the facility they are currently in is 150' x 70' and the proposed new facility would be 100' x 175', plus it would be 7' higher and tractor trailers would be able to gain access inside.

Mr. Harris's financial information was discussed.

Chairperson Kobasic stated 75% of the amount being requested from the Board is for inventory. The other 25% is for equipment. City Treasurer Valentine stated he doesn't believe the equipment is anything that will have a title that the City could lien specifically with the State of Michigan, instead we would be talking about a subordinate all asset filing. Chairperson Kobasic stated an all asset filing would mean Mr. Harris couldn't liquidate or be sold without consent. City Treasurer Valentine stated the loan is not going to be well secured because MBank would be ahead of the City of Escanaba. There would be a second lien on the assets.

The Board discussed the staffing of A.M. Fleet Maintenance. The facility is 24 hour service and they have a contract with Gene's Towing.

Chairperson Kobasic stated the amount being requested is \$160,000 and the interest rate is 1% over prime. City Treasurer Valentine proposed setting the rate at closing in approximately 60 days, he advised that prime is at 3.25 now but could change between now and closing.

A motion was made by Boardmember Beaudoin, seconded by Boardmember Dagenais, to authorize the loan request by A.M. Fleet Maintenance in the amount of \$160,000 at a fixed rate of 1% over prime, amortized over 7 years with rate determined on the day of closing. Ms Beaudoin's motion included the requirement that the City obtain a 2nd mortgage on Mr. Harris's residence, and

obtain personal guarantees from Mr. Harris and his spouse. Ayes were unanimous.

General Public Comment

None.

Announcements

None.

Adjournment

A motion was made by Boardmember Economos, seconded by Boardmember Beaudoin, to adjourn the meeting at 9:15 a.m.

Motion was approved unanimously.

APPROVED:

TIM KOBASIC, CHAIRPERSON

ROBERT VALENTINE, RECORDER