

**MINUTES
LOAN ADMINISTRATION BOARD MEETING
APRIL 9, 2010**

Pursuant to public notice, a special meeting of the Escanaba Loan Administration Board was held on Wednesday, April 7, 2010, at 8:00 a.m. at City Hall, Room C102, 410 Ludington Street, Escanaba, MI.

No quorum present and there was no action taken.

Pursuant to public notice, a special meeting of the Escanaba Loan Administration Board was held on Friday, April 9, 2010, at 8:00 a.m. at City Hall, Room C102, 410 Ludington Street, Escanaba, MI.

Board Members Present: Chairperson Tim Kobasic, Vice Chairperson Tom Nault, Members Roni Beaudoin and Chris Economos

Board Members Absent: Member Jeanine Dagenais

Also Present: Robert Valentine, Brady Nelson, Russ Hall, Kim Peterson, Al Waeghe and Shane Waeghe

Chairperson Tim Kobasic called the meeting to order at 8:02 a.m.

Approval of Minutes from February 8, 2010

A motion was made by Board Member Beaudoin, seconded by Vice Chairperson Nault, to accept the meeting minutes from February 8, 2010.

Motion was approved unanimously.

NEW BUSINESS

Annual EDA Plan Certification Resolution

Treasurer Valentine stated the annual EDA Plan Certification Resolution is protocol and is an annual requirement from EDA in Chicago that they certify in writing the City is operating in accordance with the EDA Plan.

Chairperson Kobasic stated this is used in case the Board goes outside the line and seeks permission so they are in compliance.

A motion was made by Vice Chairperson Nault, seconded by Boardmember Economos, to support the annual EDA Plan Certification Resolution.

Motion was unanimous

Consideration of \$400,000 EDA Loan Request from Donalway Golf

Treasurer Valentine stated approximately two years ago he spoke with Mr. Waeghe about the possibility of funding part of the project through RLF. Al Waeghe was able to

connect with some venture capitalists from Canada that began funding the project and allowed them to move forward, so it wasn't necessary to engage the City's funding. The venture capital deal got going and funding began, but the project fell apart when the venture capital fell apart. Donalway Golf has a couple of large purchase orders. The purpose of the loan is to provide working capital to fund production of those orders. One order will be shipped to China and is taken care of in inventory right now and the equipment has to be modified for use in China because their electrical standards are different. The other purchase orders have to be produced from scratch. The business model works as Donalway Golf does not get paid for the order up front, he gets paid partially up front and the balance goes on the revenue share as golfers would pay to use the equipment. Donalway Golf gets paid for the product overtime through the revenue share agreement – golfers pay to use the equipment and the business and Donalway Golf split the revenue. Current location of Donalway Golf is across from the Wells Sports Complex. When the project gets off the ground, they would like to relocate to the Renaissance Zone by the Airport.

Al Waeghe stated he was working with a group from Toronto, Canada, with investments of \$6.5 million. The project was going well, but after one year of the investment group funding, the head of the investment group stated they needed the funds and took back \$5.5 million. Donalway Golf utilized approximately \$1 million to produce inventory that they currently have. Some inventory was sold off to a job in Chicago and Canada last year. They still have \$1.5 million in inventory and since then they have procured a purchase order with China. The investment group had three other similar projects like his and took \$20 million from the group of investors. At this point, the investment group is facing criminal charges for fraud, etc. When the investment group stopped funding Donalway Golf, they left them with \$250,000 in bills that was owed to suppliers. Donalway Golf is now getting business and would like to move forward. The Chinese project has an order in and they would like to build ten more facilities exactly the same as their current purchase order is. This would amount to millions of dollars in business. Donalway Golf needs to complete this order in July/August and ship the modified equipment order in containers to China which takes about four weeks to reach them. Once the equipment is received in China, a couple guys have to go there to set it up and they are paying for such service separately.

Donalway Golf is also working with Billy Casper Golf and they manage 110 golf courses around the United States. They will be utilizing Donalway Golf's net unit #4 which is a self-contained practice bay. This would be revenue share projects. There are two of these units completed and would need to build approximately 200. This project would allow for a tremendous amount of cash flow and income for them.

Shane Waeghe explained the revenue share for the Billy Casper project. Donalway Golf would front the software and the self contained automated touch screen. The revenue share with the golf course would be if a golf course is hitting 35,000 rounds (average Billy Casper golf course) and they would bring their unit there set up with the golf course and members/public can pay as they play or if you are members there would be a set fee. The basic charge would be \$3.00/two minutes before you would hit the FirsTee you would get a warm up. \$1.50 would go to Donalway Golf and \$1.50 would go to the golf course owner. The FirsTee unit is priced into a round of golf at these facilities. They recommend two units being placed on each site so the first unit is being used by rounds of playing golf and the other one is used for as a driving range. Golfers that are waiting to play or want to practice their shots can hit in the separate net tent

range – depending on the region, the fees would be \$.10/ball which is the average at a driving range and they would get \$.5/ball and the golf course would get \$.5/ball. There is also a lesson's play which consists of a launch monitor/radar system that tells them how far they are hitting their ball and shows the trajectory of their ball. Donalway Golf would get \$7.50/per ½ hour lesson and the golf club can charge whatever they want for that pro. This would also allow people to test out their clubs and not get them dirty or hit them on the real driving range. Another way to charge would be in the off-season (as these are portable units) they can take them down and place them in their cart barns and continue lessons in the winter. This would allow golf courses to keep their restaurants open year around. The units are structured so you can walk up to it and swipe your credit card to play or get a prepaid gift card. With the Donalway Golf units the money is deposited immediately in their account when the equipment is being utilized. The touch screen monitors could be used for marketing purposes as you can advertise tournaments, breast cancer awareness, senior days, etc. The touch screens in China will allow you to order food/beverage (Donalway Golf does not see any revenues from such, but keeps the person at their station hitting balls). The more you can keep a person at the station, the more money is earned. The touch screens could be used for promotional banners and also used for demographic information. The touch screens could ask for your e-mail and then send out a blast promotion. The touch screens would be able to ask information of the golfer (male/female) so they could have a lady's day if they see they hardly have female golfers.

Shane Waeghe stated the portable units are a 50/50 revenue share. The driving range they would get \$.035 a ball and it depends on the region. Donalway Golf would own the units and they give the golf course the maintenance parts and they would also maintain the units. The wear parts the golf course would pay for, the rubber sheaths, belts, mats, balls, etc. The software development allows for the units to be shut down if a bill is not paid. The counter in the units cannot be modified.

Chairperson Kobasic asked if the golf courses have to qualify for Donalway Golf to have this equipment. Shane Waeghe stated they have an opportunity lien form. If the golf range is existing, Donalway Golf wants to know how many balls they are hitting to see if they qualify for them to put as much money into their units on their site. They need to make sure they would make a profit and not just break even. They review demographics, the region, and how many other driving ranges are around a certain square mile radius. Discussed Universities and they would prefer to buy the equipment outright and do not have an interest in revenue sharing. They would like to make a purchase of the equipment and this would be included in the tuition costs for the golf program. Golf courses on Universities are usually opened to the public.

Shane Waghe reviewed the Chicago project and it was purchased outright. They hit approximately 50 million balls a year and this would have been a great revenue sharing project. At the time of this particular project, Donalway Golf sold the unit outright because they needed the cash to pay their debt back. The unit in Chicago hits out into an open field and has 40 stalls (19 on the first level and 21 on the second level) they are automatic with a conveyer belt. The balls are picked out the field and dumped into the ball washing container and they never have to load the balls from this point on and it is loaded by elevators and belts. Discussed Al Waeghe's design in Canada which has 27 stalls and they are looking at purchasing another 26 units to put on this particular site. Since they opened last month, they have been average 9,000/day and are the only

range within 65 miles. The machines are the same for the left handed golfer, but they are twisted 180 degrees.

Discussed the programmer for the units. Donalway Golf will have a shared deal with the programmer. The units are a web based program and they have the ability to monitor each and every one of the machines from their offices. They can shut the system down with a push of a button from their office which will disable the entire facility. They can watch the equipment live everyday. Donalway Golf does the circuit boards and programming at their shop. Will be working to convert information on the touch screens to the Chinese language.

Discussed bank letter of denial and it referenced the basis of denial for an IRS lien and needing to see proof that it is taken care of. Al Waeghe indicated the bank letter of denial was for the other corporate entity and is not the entity that is sponsoring this project. Chairperson Kobasic stated under the original guidelines the monies were supposed to be used for fixed assets. Treasurer Valentine states the guidelines allow for working capital. A letter is on file from EDA allowing the City to go beyond the normal level of the amount. The City would have first position on the assets, however, they are liquid assets and if something happens the inventory is usually depleted. No real estate is involved. Al Waeghe and his wife Pat would have a personal guarantee.

A motion was made by Boardmember Beaudoin, seconded by Boardmember Economos, to approve a \$400,000 EDA loan request for Donalway Golf contingent upon clarity on the tax lien, 3.25% fixed at prime for five years. Personal guarantee from Al and Pat Waeghe. The City of Escanaba will be listed as first position. The project will have ten full-time jobs immediately and twenty additional jobs within twenty-four months.

Motion was approved unanimously.

Discussed the public coming to tour the facility and view the production. Al and Shane Waeghe welcomed anyone interested in touring their facility.

Modification of terms for MaMa Mia's

Treasurer Valentine stated the Loan Administration Board is being asked to consider a proposal from Bay Bank where they would advance up to \$20,000 in additional funds to MaMa Mia's to reopen the restaurant pursuant to a new business plan. The new business plan would incorporate new menu prices, different hours of operation and different menu.

Discussed the City being in front of Bay Bank in collateral position. Treasurer Valentine stated the City was in first position on the personal property. The real estate is Bay Bank. The City would lose leverage if they gave approval to Bay Bank and subordinated its interest in the personal property on the first \$120,000 of the bank's debt.

Chairperson Kobasic questioned whether an updated business plan was received. Treasurer Valentine replied no.

Treasurer Valentine stated Cal Marcoe is looking at getting refinanced with a SBA guarantee which would allow him to stretch out his financing terms and considerably lower his monthly payment. Mr. Marcoe has worked with First Step's consultants and came up with a plan to refinance with possibility Wells Fargo and MBank. Bay Bank has pitched the concept of loaning more money towards the project, but they do not want to do so behind the City's debt.

Discussed the \$50,000 cd value being pledged to Bay Bank as additional collateral. The City would be able to obtain the liquor license and would be worth \$20,000. The personal property is valued at approximately \$100,000 and would be worth \$10,000 in a restaurant liquidation sale. Don Germain from Bay Bank verbally promised if the City subordinates on the deal, they will not let the cds get turned back over to Mr. Marcoe's dad without the City being made whole.

Boardmember Beaudoin questioned if the City subordinates and make some adjustments, could they adjust that the City would be second on the cds. Treasurer Valentine stated he believed so and did not see any reason why Bay Bank could not grant the City a security interest in the cds.

A motion was made by Boardmember Beaudoin, seconded by Vice Chairperson Nault, to table the proposal until additional information is received, to include an updated Business Plan.

Motion was approved unanimously.

Update on RLF Regionalization

Treasurer Valentine stated the intent of the MEDC is to still move forward, however, they hit a significant roadblock with Marquette County. In Marquette County, the EDC is a separate and distinct entity from Marquette County Proper. These intergovernmental agreements work by having to be a governmental entity. The EDC itself in Marquette County does not qualify under Michigan law to be a party to the intergovernmental agreement; it has to be a local unit of government. Marquette County is the local unit of government that sponsors the EDC. The County of Marquette does not want to ultimately be the custodian of these funds. The representative from the Marquette EDC said they would operate this fund in exchange for the fees that are permitted under the statute, everyone moved forward since then and documents were drawn up. The representative spoke for Marquette County and they will not act as custodian for these funds. No one else is interested in doing the regionalization, as it is a lot of work and the fees involved will not cover the cost of the work and no one cares to work with MEDC. MEDC has a hold on everything and they are trying to figure out a legal mechanism for Marquette EDC to be able to be the custodian of the funds. Marquette County's number one concern is they will somehow be exposed to liability and MEDC is trying to address such.

Discussed MEDC being funded by the federal government, State of Michigan and private funding. Treasurer Valentine stated the City can continue to write loans. This agenda item is an update for the Loan Administration Board and no action is required by the City.

General Public Comment

None.

Announcements

Board Member Beaudoin stated she noticed a sign on an airport hangar that read IMS Hangars and thought Delta County was not receiving any revenues on such. Chairperson Kobasic stated Delta County is receiving revenues, but was less than the amount required. If Delta County did not get a certain amount of revenue, they had forbearance on the loan. Treasurer Valentine believed the IMS Hangar was not the hangar that belonged to the City. Delta County does not own every hangar as there are some privately-owned hangars. Discussed meeting with Delta County to receive a check to pay off their hangar loan debt.

Adjournment

A motion was made by Board Member Beaudoin, seconded by Vice Chairperson Nault, to adjourn the meeting at 9:25 a.m.

Motioned approved unanimously.

APPROVED:

TIM KOBASIC, CHAIRPERSON

KIMBERLY PETERSON, RECORDER