

MANITOWOC INDUSTRIAL DEVELOPMENT CORPORATION - 1/27/2011

Plan Commission Offices
Manitowoc City Hall

Regular Meeting
Manitowoc Industrial Development
Corporation (IDC)
Thursday
January 27, 2011
3:30 P.M.

I. CALL TO ORDER

The meeting of the IDC was called to order by President, Jim Hamann at 3:30 P.M.

II. ROLL CALL

Members Present

John Zimmer
David Soeldner
Bob Kaufman
Jim Brey
Dennis Tienor
Ted Vallis
Greg Dufek
Jim Hamann
Wayne Mertens

Members Excused

Carl Laveck
Myron Halla

Staff Present

David Less

Others Present

See Attached Sign In Sheet

III. APPROVAL OF MINUTES of the November 18, 2010 Meeting.

Motion by: Mr. Brey _____ Seconded by: Mr. Zimmer
Moved that: the minutes be _____ Upon Vote: the motion was
approved as presented. approved unanimously.

IV. REFERRALS FROM COMMON COUNCIL

A. None.

V. NEW BUSINESS

A. Diamond Properties LLC/Musial Paint Finishes, LLC/Star Coatings LLC (IREV05-1) - Update, Asset Purchase Transaction and Proposed Revolving Loan (#IREV2011-1)

Mr. Less reviewed a “Project Narrative” for the project, and provided an overview of the funding proposal. Mr. Less began by giving a brief history of the original David Musial/Diamond Properties loan, and noted the following:

1. The loan was first approved in 2005 in the amount of \$100,000, as part of a \$1.480mm project that was to create 16 new jobs.
2. Investors Community Bank (ICB) invested \$1.021mm into the project, including a 75% SBA guarantee of \$750,000, along with a Department of Commerce Brownfield grant of \$160,000, WDNR Site Assessment Grant in the amount of \$29,900, and \$129,100 in borrower equity.
3. The loan arrangement with the City was amended in 2009 to allow for a 5-month period of interest-only payments, along with an extension of the loan term for the same 5 months.

Mr. Less explained that problems with the Musial loan began in earnest when payments ceased to be made beginning in July, 2010, adding that the City subsequently issued default and acceleration demand letters to the borrower. Mr. Less noted that the loan only had another 12 payments to be made before it would have been paid in full, but in light of the current situation, the cost to pay off the Musial loan was now in the area of \$25k.

Mr. Less explained that a solution began to become visible when Matt and Karen Jacobson d/b/a Jacobson Paint Finishes, LLC, came to be in a position to acquire the assets of Musial Paint Finishes. Mr. Less explained that his position in this matter was that if the Jacobson’s would pay off the outstanding Musial indebtedness to the City, he would view that as consideration to add additional capital into the project towards their purchase of the assets. Mr. Less then reviewed the “Project Narrative” and explained the proposed loan arrangement, noting that M&I Bank was the lead bank on this transaction. Mr. Less noted that there had been several meetings involving the Jacobson’s, ICB and himself to get to this point, and noted that he felt this was a solid transaction that would not only bring current and pay off the original City loan to

Musial, but would also provide additional capital to Jacobson Paint Finishes, LLC to acquire substantially all of the Musial Paint assets including the property at 2702 Division, and to create at least 12 new full-time equivalent jobs. Mr. Less detailed the following City loan terms:

- a. Amount of Loan: \$200,000.00 to be utilized as follows: (i) payment in full to City of outstanding loan obligations related to City RLF loan to Musial Paint Finishes, LLC (IREV05-1) estimated at \$24,191.57 as of 12/31/2010; and (ii) remainder of proceeds to be utilized as loan to Borrower to reduce lender capital in Borrower's acquisition of substantially all assets of Musial Paint Finishes, LLC.
- b. Interest Rate: 65% of Prime (currently 3.25% x .65 = 2.1125%).
- c. Term: 10 years.
- d. Total Project Cost: \$575,000.
- e. Use of Loan Proceeds: Repayment of outstanding loan obligations related to City loan to Musial Paint Finishes, LLC (IREV05-1), and acquisition by Borrower of substantially all assets of Musial Paint Finishes, LLC.
- f. City Financing: \$200,000.00 @ 2.1125% with an estimated monthly payment of \$1,850.36. Collateral Requirements - purchase money security interest (if any equipment would be purchased with loan proceeds); second real estate mortgage against 2702 Division; and personal guarantees from Karen and Matthew K. Jacobson.

Mr. Less noted that the current interest rate on the Musial loan was 3.7%, and referenced a 2009 real estate appraisal on the Division Street property. Mr. Less noted that the strength of the City's collateral were the personal guarantees. Mr. Less concluded by stating that he had met with Mr. Laveck and Mr. Tienor yesterday, along with the Jacobson's and representatives from ICB to finalize the loan proposal, and added that all parties were comfortable with the plan of financing.

Mr. Less clarified the proposed payment to ICB that was part of this proposal, noting that to date, the City had received total payments from Musial in the amount of \$88,222.54, and that the anticipated gross collection after closing would be in the area

of \$115,000. Mr. Less explained that part of this project would include disbursement of the proceeds above the \$100,000 level to ICB, and noted that this was a good faith, cooperation gesture, as the City would expect reciprocity in the future when this type of situation would next occur. Mr. Less asked Mr. Tienor if he wanted to add his commentary. Mr. Less added that M&I Bank was also comfortable with the proposed plan of financing. Mr. Less again stated that there was concurrence on this structure at yesterday's meeting.

Mr. Tienor stated that the amount of the interest payment to ICB was estimated to be around \$12k or \$13k, and added that this was a nice project. Mr. Tienor noted that the Jacobson's financial projections were conservative, with the majority of the new company's sales coming from Heiden, Inc. Mr. Tienor concluded by noting that he and Mr. Laveck were very comfortable with the transaction, including the opportunity for employee retention and company growth.

Tim Schneider, ICB, 465 Candlelight Court, Manitowoc, explained that the original Musial project had multiple layers of financing that included the City and SBA, and added that he had to justify the real value of the City-secured assets back to the SBA. Mr. Schneider noted that ICB would be looking at a substantial charge off related to the original Musial loan, and added that everyone was fine with the current proposed funding arrangement. Mr. Schneider noted that Dave and Debera Musial had been very cooperative through this entire process, and that the relationship had not been contentious.

Matt Jacobson, President, Heiden, Inc., 4624 Expo Drive, stated that he and Karen were the principals at Heiden, and felt there was a lot of upside to this transaction. Mr. Jacobson noted that Heiden was Musial's largest customer, and added that the new LLC would be a separate entity from Heiden, and would be a female-owned company. Mr. Jacobson then introduced Karen Jacobson, who would be the majority owner of the new business entity and operation.

Karen Jacobson, Heiden, Inc., 4624 Expo Drive, explained that the new business projections were conservative, and felt confident that this acquisition was a great opportunity for them. Ms. Jacobson added that this had not been a pleasant experience to go through, and hoped to be able to retain some of the Musials' as employees to the new business. Ms. Jacobson added that Heiden might move some assembly business over to the new facility for greater efficiencies. Ms. Jacobson noted that the new business would provide sister company arrangements with Heiden, with the priority being to grow the paint business by itself.

Mr. Jacobson added that in addition to M&I's participation, the project needed the City's funding support.

Mr. Less added that part of the give-and-take was to include an extended term to the proposed City loan to 10 years.

Mr. Hamann asked if the City loan could be prepaid?

Mr. Les stated "yes", and that the City loan did not have any prepayment penalties. Mr. Less recommended that the IDC take the following actions regarding this matter:

1. Approve the loan as detailed in the "Project Narrative" up to a maximum of \$200,000, with the Planner/Secretary to negotiate final terms and conditions with the plan of financing participants, to prepare loan documents, and to proceed to closing to complete the transaction;
2. Authorize the Planner/Secretary to disburse excess funds generated from this transaction in excess of \$100,000 in principal and interest collected by the City to ICB (estimated payment to ICB at \$12,000); and
3. Authorize the President and Planner/Secretary to sign documents as required.

Motion by: Mr. Zimmer _____ Seconded by: Mr. Kaufman
Moved that: the IDC approve the loan as _____ Upon Vote: the motion was
detailed above and in the "Project Nar- approved unanimously.
rative, and the recommendation of the
City Planner.

VI. OLD BUSINESS

A. None.

VII. NEXT MEETING

VIII. ADJOURNMENT

The meeting was adjourned at 3:50 P.M.

Respectfully Submitted,

David Less
Secretary