MANITOWOC INDUSTRIAL DEVELOPMENT CORPORATION - 7/21/2011

Plan Commission Offices Manitowoc City Hall	Regular Meeting Manitowoc Industrial Development Corporation (IDC) Thursday July 21, 2011 3:30 P.M.

I. CALL TO ORDER

The meeting of the IDC was called to order by Acting Chairman, Jim Brey at 3:30 P.M.

II. ROLL CALL

Members Present	Members Excused
Carl Laveck	John Zimmer
Myron Halla	David Soeldner
Bob Kaufman	Jim Hamann
Jim Brey	Wayne Mertens
Dennis Tienor	
Ted Vallis	
Greg Dufek	

Staff Present	Others Present
David Less	See Attached Sign In Sheet

III. APPROVAL OF MINUTES of the January 27, 2011 Meeting.

Motion by: Mr. Halla	Seconded by: Mr. Tienor
Moved that: the minutes be approved as presented.	Upon Vote: the motion was approved unanimously.

IV. REFERRALS FROM COMMON COUNCIL

A. None.

V. NEW BUSINESS

A. I & S Holdings, LLC, and A & M Hospitality Group, LLC - Proposed Revolving Loan (#IREV2011-2)

Mr. Less reviewed a "Project Narrative" for this project, and explained that the borrower had recently acquired the property. Mr. Less introduced Ed Feller as the principal member of the borrower, and David Eis, Union State Bank as the lead lender on the project. Mr. Less added that he had met with Mr. Tienor and Mr. Laveck prior to today's meeting to discuss all 3 credits identified on the agenda.

Mr. Less advised that the borrowers were also the owners of the Charcoal Grill d/b/a I&S Holdings, LLC. Mr. Less noted that I&S had acquired the Elks Club property on June 10, 2011, which included both the club house parcel (9.53-acres) and golf course parcel (48.4-acres). Mr. Less provided an overview of a recent City rezoning of the club house property in May to "B-3" to facilitate the re-use of the former Elks Club building for expanding their restaurant operation to allow for banquets and larger groups as an extension of the Charcoal Grill operation.

Mr. Less continued that discussions on this project had been in process since March, 2011.

Mr. Less explained the terms of the proposed $200,000 City RLF loan. Mr. Less again stated that even though the borrower took title to the property in mid-June, 2011, he was including that capital into the overall project cost for RLF consideration due to the newness and timing of the purchase. Mr. Less explained that the proposed loan would be at 2.1125% interest, amortized on a 10-year basis with repayment in 5 years including a balloon, and would require the borrower to create at least 20 full-time equivalent positions, with at least half those positions being made available to low and moderate income persons. Mr. Less explained the other sources of funding in the project, along with the collateral arrangement for the City loan. Mr. Less added that part of the proposal was for Kiefer Industries position to be subordinate to the City's, in return for the City's loan at the $200,000 level. Mr. Less commented on the risky nature of restaurants, but added that he liked this project as it was an extension of the Charcoal Grill operation in this location, and he was not viewing this as a true start up, but rather an extension of an already successful operation. Mr. Less continued that the recent sale of this property would make the club house parcel taxable. Mr. Less emphasized that the quality of management, the level of personal equity, and the connection to the Charcoal Grill were all positives for this project. Mr. Less asked Mr. Tienor and Mr. Laveck to address their opinions of this project.

Mr. Tienor commented that while the restaurant, golf and banquet businesses were all tough and there was some risk involved, he felt this project was about people, and felt that the management strength of Mr. Feller was substantial. Mr. Tienor asked if Union State Bank had considered SBA in their plan of financing?

David Eis, Union State Bank, 2221 Lincoln Avenue, Two Rivers, commented that they had looked into several options including SBA. Mr. Eis noted that he had talked with Mr. Less several months ago regarding potential funding, and originally thought that the RLF monies would be available in the range of $60-65,000. Mr. Eis then explained that an appraisal of the current and best use of the property had been completed which valued the property at $558,000. Mr. Eis noted that the appraisal established an "as is" liquidation value, as the Elks were teetering on foreclosure. Mr. Eis continued that they were anticipating the valuation to be between $612,000 and $645,000, and was prepared to invest up to $490,000 into the project. Mr. Eis noted that with concerns regarding the economy, he found out that all comparable sales used in the appraisal for banquet and golf facilities were all in some type of financial trouble. Mr. Eis continued that the lower appraised value meant that Mr. Feller would have to add another $72,000 in funds into this investment, and which dropped the bank's exposure to $419,000. Mr. Eis noted that regardless of the change in the bank's funding position, Mr. Feller's cash position remained at around 26-30% of the project cost. Mr. Eis also noted that there was around $40,000 of mandatory building code improvements that had to be made once the new owner got into the club house. Mr. Eis stated that these factors drove the discussion with Mr. Less to the $200,000 loan level, and added that with the RLF loan, the loan structure was very advantageous.

Mr. Tienor asked who had prepared the appraisal?

Mr. Eis noted that it had been prepared by Kevin Dunham.

Mr. Tienor stated that he did not think Mr. Less had a copy of the appraisal.

Mr. Less stated that he didn't have a copy.

Mr. Eis added that there was another appraisal done as well. Mr. Eis noted that he has had a relationship with Charcoal Grill and Mr. Feller since 2005, and was very confident on the success and achievability of this venture. Mr. Eis continued that at the time he reviewed the financial projections and expressed concerns with their apparent aggressiveness, Mr. Feller told him that they were not overly aggressive. Mr. Eis recalled Mr. Feller telling him that he managed businesses, and was not a bar/restaurant manager, noting that there was a difference. Mr. Eis added that while there were general concerns with the nature of the restaurant and golf businesses, most lenders had gotten involved in the first round of funding, and were significantly leveraged. Mr. Eis noted that Mr. Feller was getting into this venture for around $900,000, with total funded debt of around $698,000 in 3 facilities. Mr. Eis continued that as a new project today, this venture would probably cost between $8-10,000. Mr. Eis stated that they were very comfortable with the funding structure for this deal.

Mr. Laveck asked about the purchase price of the real estate at $682,500, and questioned how that was reconciled with an appraisal value at $558,000?

Mr. Eis stated that the appraised value established a liquidation value, and was not a going concern. Mr. Eis added that with $130,000 in gross revenues from the facility under the Elks, it was difficult to appraise the facility as a going concern.

Mr. Laveck stated that the new owners had paid a premium for the property.

Mr. Eis explained that the Elks Club, as part of the purchase arrangement, would have a 2-year, no rent lease to use a meeting room in the club house building, and felt that the 280 members of the Club would be good for his business.

Mr. Laveck asked if the Elks were paying Mr. Feller for this?

Ed Feller, 13928 St. Andrews Drive, Valders, added that while there was no rent, the Club members would be paying for meals, but not for usage of the facility.

Mr. Laveck asked if there was any monetary consideration in the lease for this arrangement?

Mr. Eis stated “no”, and added that in addition to Mr. Feller, there were 3 other cash offers for this property that ranged from $600,000 to $790,000.

Mr. Laveck then commented to Mr. Feller that it appeared they were projecting a 20% net income in year 3 for Charcoal Grill?

Mr. Feller noted that this was at the club house, and explained that what was deceiving in the 2010 financials was that they included costs related to him being asked to take over the Appleton Charcoal Grill to enhance its revenues. Mr. Feller stated that this was an attempt to turn that facility around or the corporate owner, Charcoal Grill, Inc., would shut it down. Mr. Feller noted that he had done this as a favor to Charcoal Grill, Inc., and added that the 6 months of operating costs was included in the numbers provided. Mr. Feller stated that the numbers reflected labor charges at 2 locations.

Mr. Eis emphasized that management was the key to operating a second location, and that additional staff had been paid for and trained to run the operation so that Mr. Feller could pursue a second business location in Manitowoc.

Mr. Tienor asked what the status of Appleton was at present?

Mr. Feller stated that he was out of that situation, and it was done.

Mr. Laveck asked about the land owner of the Manitowoc Charcoal Grill, and if Mr. Feller was a part of that ownership group?

Mr. Feller explained that he was not part of the landowner group, and that they leased the building. Mr. Feller added that the lease rate in Harbor Town was around 40-45% higher than the situation on Waldo Boulevard, which also had an additional 56-acres of land with it.

Mr. Tienor asked Mr. Eis if Mr. Less had been provided with Mr. Feller's personal financial statement?

Mr. Eis stated that he would send that information, but noted that the numbers on the analysis were taken from the tax returns.

Mr. Less stated that Mr. Eis should provide him with a copy of the appraisals, along with the personal financial statement for Mr. Feller.

Mr. Feller then commented on the appraisal, and noted that if the Elks did any business whatsoever out of that facility while they owned it, it would have appraised at around $900,000. Mr. Feller added that after 12 months of his operation, he anticipated that the appraised value of the property would be in the area of $1,200,000 in sales alone.

Mr. Eis added that at the time the appraisal had been done, the rezoning of the property had not been completed, and so the appraisal couldn't reflect what wasn't reality at that time. Mr. Eis noted that the comparable properties used in the appraisal were a significant distance from the City which tended to lower the valuation as well.

Mr. Eis added that he felt that the former club house could operate comfortably at $900,000 in gross sales.

Mr. Less noted that regarding the Charcoal Grill, gross sales in the period 2008-2010 increased by 62%.

Mr. Laveck noted that those numbers included Appleton.

Mr. Dufek asked Mr. Less if, in these instances, he had been contacted by other restaurants requesting a City loan?

Mr. Less replied that as this was a loan that had a repayment obligation, and was secured and collateralized. Mr. Less continued that this was not an issue, and added that the RLF program was available to other restaurants if they wanted. Mr. Less stated that he had not previously heard of this concern.

Mr. Eis noted that rarely would you see someone come in for a project of this type with a 26% cash equity stake.

Mr. Dufek asked if the golf course was part of this project?

Mr. Less explained that the borrower had purchased both the club house parcel and the golf course, but added that the City money was being applied to the club house.

Mr. Eis stated that I&S was the owner of all the real property that would be securing the City loan.

Mr. Laveck stated that the City would be in second position behind all collateral taken by Union State Bank.

Mr. Eis agreed.

Additional discussion was held.

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;

2. 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; and

3. Authorize the President and Planner/Secretary to sign documents as required.

Motion by: Mr. Tienor	Seconded by: Mr. Halla
Moved that: the IDC approve the loan as detailed above and in the "Project Narrative, and the recommendation of the City Planner.	Upon Vote: the motion was approved unanimously.

B. Wisconsin Aluminum Foundry Co., Inc. - Proposed Revolving Loan (#IREV2011-3)

Mr. Less explained the "Project Narrative" regarding a loan to Wisconsin Aluminum Foundry (WAF), and explained the funding proposal. Mr. Less noted that the City's 2009 RLF loan to WAF was the only long term debt that was held the company. Mr. Less explained the sales history of WAF, and commented that there were no issues related to the 2009 City $400,000 loan which had a current balance of approximately $319,000. Mr. Less noted the existing banking relationship between Heartland Business Bank and WAF.

Mr. Less asked Mr. Laveck and Mr. Tienor for any comments.

Both gentlemen noted that WAF was a good company.

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 $530,000;

2. 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; and

3. Authorize the President and Planner/Secretary to sign documents as required. approval

Motion by: Mr. Laveck	Seconded by: Mr. Tienor
Moved that: the IDC approve the loan as detailed above and in the "Project Narrative, and the recommendation of the City Planner.	Upon Vote: the motion was approved unanimously.

C. KNM, LLC - Proposed Revolving Loan (#IREV2011-4)

Mr. Less introduced Kevin Krueger to the group as the owner of KNM, and reviewed several maps identifying the location of the KNM business operation on Johnston Drive. Mr. Less explained that the property was located north of Gulseth, and south of Trails End manufactured home park, measured 1.04-acres in area, was zoned "I-1", and was located on west side of Johnston Drive, north of Albert Drive. Mr. Less then detailed the "Project Narrative" for this project, noting that the proposed project was in regarding to a recent addition to the KNM facility, and more specifically the purchase of a new lathe at $149,500. Mr. Less stated that the proposal was for the City to fund $40,000 of this equipment purchase from the RLF, with the promise of the creation of at least 2 new jobs, of which at least 51% would have to be made available to low and moderate income persons. Mr. Less explained the terms of the City financing, noting that the City loan would be at 2.1125% for a 5 year term. Mr. Less noted that the collateralization of the loan would be slightly different than stated in the "Project Narrative" as he did not have complete financial information on this business funding request. Mr. Less stated that collateral for this loan would be a purchase money security interest, along with a second mortgage on Mr. Krueger's residence. Mr. Less added that the personal and corporate guarantee requirements would be eliminated, adding that the equity in the personal residence gave him comfort in light of the missing financial information.

Mr. Less explained that KNM was established in 2005, and was a business involved in building equipment, machining, and tool & die work. Mr. Less noted that the business worked with various local businesses with the largest being Tramontina, Skana, Deep Flex, Federal Mogul, Manitowoc Company and Vollrath. Mr. Less stated that Mr. Krueger acquired the property in 2007 via Land Contract with Vern Gulseth in the amount of $70,000, and took bonafide title via WD in 6/1010, utilizing funding from UnitedOne Credit Union which had a first real estate mortgage in amount of $92,000 against property (current balance at $89,200).

Mr. Laveck stated that he was comfortable with the project, and felt that Mr. Krueger had done a good job with growing his business, and was profitable.

Kevin Krueger, 1950 Johnston Drive, stated that this had been a lot of hard work.

Mr. Tienor asked Mr. Krueger if his customer base was growing as sales were increasing?

Mr. Krueger noted that they had added Skana Aluminum as a business client in 2010, which was proving to be very steady work and an increasingly larger customer. Mr. Krueger continued that they were now doing maintenance work at their customer's locations, which was a positive for the business. Mr. Krueger felt that this approach separated his business model from some others.

Mr. Tienor asked Mr. Krueger who was currently their largest customer?

Mr. Krueger replied that Skana was probably going to be their largest customer, but at present, Tramontina was around 60% of their business, and felt the outlook for the future was good.

Mr. Tienor asked Mr. Krueger who did his accounting work?

Mr. Krueger replied it was Schenck SC, and that he had been with them for 2 years.

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 $40,000, with the collateral requirement to be modified as referenced above;

2. 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; and

3. Authorize the President and Planner/Secretary to sign documents as required. approval

Motion by: Mr. Laveck
Moved that: the IDC approve the loan as detailed above and in the "Project Narrative, and the recommendation of the City Planner.

Seconded by: Mr. Tienor
Upon Vote: the motion was approved unanimously.

VI. OLD BUSINESS

A. None.

VII. NEXT MEETING

VIII. ADJOURNMENT

The meeting was adjourned at 4:05 P.M.

Respectfully Submitted,

David Less
Secretary