

PIERCE COUNTY REVOLVING LOAN FUND
COMMITTEE MEETING
JULY 6, 2006

MINUTES:

1. Call to order and role call: Chairman Jim Hovel called the meeting to order at 10:05 AM. Pierce County Court House, County Board Room, Ellsworth, WI.

Establish Quorum: Role call; Attendees: (Jacque Foust-absent and excused), Claudia Traynor, Curt Kephart, Jim Camery, Jim Hovel, Rich O'Connell, Jeff Holst, Michael J. Malcheski, Andy Pichotta, Brad Lawrence. Dan Reis representing Pierce County Board. Jake Sailer of Sailer's Meats and Roger Ray of Hiawatha National Bank. Also attending Maureen Cleary, Pierce County Economic Development Corporation Administrative Assistant.

Adoption of agenda:

2. Approval of the May 16, 2006 Minutes:

Discussion: Brad Lawrence clarified and corrected omissions to the May 16, minutes and will email to Malcheski for correction to the final copy. Corrections will be Item 4. Paragraph 1. Heart Hands & Minds Day Care; Motion by Camery, Second by O'Connell. Paragraph 2 Terry Lewis Milk Volume, Kephart opposed motion. Item 6 Paragraph 2, Second by Jim Hovel passed with unanimous consent.

Motion By: Kephart to accept as corrected.

Second By: Traynor

Unanimous approval.

3. Discuss and take action on new loan application. Sailer Meat's.

O'Connell suggested that because he has a personal relationship with the Sailer's that he step out of the room during the discussion. Hovel suggested that he just not vote on the approval or disapproval of the loan request. O'Connell stayed in the room for the meeting.

Malcheski gave a brief background on the process of Sailer's coming to RLF with a request for a loan. Meeting was first held in Glenwood City with WI DOC on February 3, 2006. Jake shopped banks and began to work with Hiawatha and Roger Ray.

Jake Sailer gave a history of the business and the building housing the business. He took over management in 1995 and turned the business around to be profitable over the past three years. He explained that he needs a bigger facility and more efficient facility, and this has been two and one half years in planning for the expansion. He is 34 years old and will keep the business going, and mentioned his new 6 week old baby. He first met with former EDC Director Korpela, and then with Marty Ambrose of WI DOC and Marty suggested the EDC and RLF to him. He said he believes he is in the \$50,000 loan category based upon employees, bank and SBA eligibility. He

suggested the EDC be secured by the equipment and Sailer's Properties LLC will be the named borrower. The equipment, he thought is free and clear. Roger Ray corrected that it is held by a General Business Security Agreement, GBSA by Hiawatha. Jake has taken a \$1,000,000 life insurance policy on himself, as it is the most affordable way to cover the debt should a catastrophe happen. His Dad is 52, but Jake will not cover him due to the price of the coverage. He checked and disability insurance will not cover enough of the deal to be of any value, and the expenses for the coverage is too high to justify the coverage. Hovel asked if there is a GBSA held by Hiawatha. Ray replied yes there is. Hovel suggested a Purchase Money Mortgage which would shift coverage to the EDC. It was determined that the PCEDC will have a second on the equipment as collateral.

Camery asked how many jobs will be created and over what time period.

Jake replied: He has 6 FTE men, and 4 FTE women plus the bookkeeper and 2 after school kids. He can not do more until he gets into the new building. With the deals he is working on over the next 9-12 months he could foresee 6 to 7 more.

Camery further asked what are the top end limitations of the building.

Jake: Buildings has the capacity to add many more people, and that he will need some more new equipment, and foresees 8-10-12 new employees for packaging alone if all the deals he is working on come in, and he will need another 40 foot addition to accommodate that. SBA considers it special purpose building. It is 75 X 125 feet and is designed to have mobile walls as needed. There are 1/5th block walls for the entire building. Roger Ray explained the flexibility of the building to accommodate growth and expansion.

Hovel asked if there is a preliminary appraisal. Ray responded the appraisal came in at \$990,000, and he anticipates an 85% loan to value ratio.

Hovel asked whether there is TIF money available.

Jake responded that there is \$80,000 in TIF but that he has not drawn any down yet and will not draw any until after August 15 so as to defer its repayment factor to taxes to the following year.

Hovel said he reviewed the Proforma expenses and asked where the interest is figured into the Proforma for payments. His estimates is \$73,888/year for payments with a debt coverage ratio of .52:1. Roger Ray said the business plan writers called it a building expense and that his calculation show \$115,000 net before debt service is taken out.

Hovel continued that the rate is .75% < the 8.5% prime as set in the Wall Street Journal. He sees \$65,000 +/- interest and that he is concerned that there is enough to pay the principal.

Holst commented that he is familiar with the building and that it is antiquated, a new building will expand efficiency, and Sailer's work ethic and reduction of past debt is exemplary.

Hovel asked about collateral coverage, and mentioned that he has done SBA 504 previously.

Roger Ray explained that HNB will do the construction loan with SBA mortgage, and the bank has a GBSA on inventory, equipment, and receivables. Hovel commented that this is an uncollateralized loan. Traynor commented that that is what the RLF is for in assisting job

creation and development of small businesses.

Hovel suggested that an assignment of life insurance be done.

Holst commented that this is the only way to do this.

Hovel suggested that there is enough room in the life insurance coverage for all the lenders.

Hovel asked for any other questions.

Roger Ray said his calculation shows a \$42,000 surplus after debt service.

Malcheski added that there is a rent factor that is available also.

Camery asked how this came to be an EDC and RLF project.

Sailer explained the progression of getting to today's point.

Holst questioned when the meeting was with Russ Korpela.

Sailer said it was a Thursday and that Russ was accompanied by other EDC board members and toured the existing building.

Ray said that the bank and SBA both require subordination to their participation.

Kephart asked at what point in construction the project is as of today.

Sailer said the contractor is laying the internal wall block, and the roof is beginning to go on. He anticipates a November 1 opening date for operations.

Traynor asked about the plan and progress of expanding the sales and markets, and that she thinks the products are great and goes out of her way to purchase them.

Sailer responded with a list of outlets including Team Oil, a trucking line in Alberta Lea, Rice Lake, Hayward, St. Croix Falls, Knapp Oasis, and a Chisago, MN, a farm for red deer and buffalo that will be trucked in from Dakota. He said the expansion will take a turn on whether he can do interstate shipping, or will need Federal Inspection. He is working with Natural Foods in the Cities for organic certification and packaging of products for their expanding stores. He explained that being certified organic is similar to getting HASOP Certified. Malcheski asked whether he has planned the building for Federal Inspector's requirements. Jake replied that it is designed in, and optional for use. Hovel asked whether there are any environmental reports completed. Jake said Cedar Corp has completed the report and that he has only seen the bill and not the report as yet.

Motion By: Jim Camery to approve a \$50,000 loan to Sailer Properties, LLC, at 4 per cent interest for equipment with a seven year term including personal guarantees of Ricky J. Sailer, Mary E. Sailer, Jacob (Jake) J. Sailer, and Leslie M. Sailer, and an assignment of the life insurance coverage on Jake Sailer to the Pierce County Revolving Loan Fund.

Second By: Claudia Traynor.

Discussion: Malcheski clarified the wording of the motion and read it back to the committee.

Vote: Yes: Claudia Traynor, Curt Kephart, Jim Camery, Jim Hovel, Jeff Holst, and Brad Lawrence.

No: none

Abstentions: Rich O'Connell

Motion Carried.

4. Update on loans in Progress. Health Centered Dentistry.

Malcheski gave an update on the current status of the Pierce County Loan Portfolio. Health Centered Dentistry has not closed due to the owners spending more on finishing the basement area for two renters and the appraisal is not hitting the number required by Impact Seven or the two banks involved. Discussions on additional owners equity is taking place. Malcheski advised Impact Seven that he will defer to what they arrive at and that the EDC would like to close on this project as soon as they can reach agreement. Malcheski said that Terry Lewis has not responded with any of the required documentation of his bank participation and that he suspects that Lewis has not secured bank financing as he was lead to believe by the WI DOC person who reviewed the loan application. He suggested that after a period of time for the offer to lend be included in motions so that in the future a loan may be revoked for non-performance. The committee agreed but not specific time or date was established. The Mac-K equipment surrender has been completed and the equipment sold and the new owner is very happy with it. The equipment was paid for within a few days of taking it back and moving it to the new location. Hovel noted that there was about a \$4000.00 loss on the loan. Curran car wash made a payment last month. Stone Legacy had made a \$5000 payment. National Nut is due to close with a small interest payment created due to the lapse in time between their last payment and the final payment actually being submitted.

6. Discussion on PCEDC Revolving Loan Fund Performance Review.

Malcheski mentioned that there had not been any WI DOC reporting done in two and one years (7/1/2003-12/31/2003) and that he and Julie Brickner are working on getting the forms and reports together. Dan Reis asked what the current RLF balance is. A copy of the loan portfolio condition was provided to the committee members and copy given to him with an explanation of what it shows. Details on the various sections were explained. Malcheski responded with a clarification of how the money was received from Commerce for Berquist, the Tile Shop, Fiberstar, Skogen, Son-Bow, and Brandvale Farms for a total of \$1,340,190.00. Hovel asked what amount is coming in per month. Malcheski referred to page three of the report, and replied \$26,142 without Curran, Stone Legacy, and the milk volume awards. Reis asked that Malcheski set aside some time to help him better understand the RLF and economic development and how it operates. He would like a copy of the RLF Manual to review.

7. Discussion on Job Creation guidelines limit.

Malcheski discussed the lowering of the job creation guideline dollar factor from \$20,000 down to \$10,000.00. Traynor explained that that was done by the committee to provide loan funds to businesses that are not creating higher wage jobs, and that its purpose is not to be intended to be a ceiling for all jobs for the RLF, but a lower guideline for wages, and not

exclusionary from the \$20,000.00 per job that Commerce allows. Malcheski thanked her for the clarification.

8. Next Meeting Date.

Was not set as a definite date as there is a loan application in progress that has not received its bank commitment letter yet nor has final plans for its building.

Adjournment: Motion by O'Connell. Second by: Claudia Traynor

Unanimous

11:35 AM.