



MINUTES OF THE REGULAR EDA MEETING

EDA Members Present: Russ Smith, Shelly Peterson, Steve Micke, Dave Bjerkness, Lara Wilkinson, Mike Schultz, Ross Peterson

EDA Members Absent: None.

Staff Present: Holly Butcher, Brian Fritsinger, Kelly Zink (Cloquet Area Chamber of Commerce); Connie Christenson (Carlton County Economic Development)

Others Present: Doug Smith (Avenue C Restaurant), Bob Palmquist (Northspan Group)

CALL TO ORDER

President Shelly Peterson called the meeting to order at 8:03 A.M.

ANNOUNCEMENTS, ADJUSTMENTS, CORRESPONDENCE AND OTHER

Ms. Butcher asked the the November 2015 Financials be added to the agenda.

APPROVAL OF MEETING MINUTES

President Shelly Peterson asked for any corrections or additions to the November 4, 2015 Meeting Minutes? EDA members noted a typo that Commissioner Mike Schultz was both present and absent and to correct. With that modification she called for a motion to approve.

Motion: **Commissioner Micke moved, and Commissioner Ross Peterson seconded, that the EDA approve the Meeting Minutes from November 4, 2015. (Motion passed 7-0.)**

APPROVAL OF OCTOBER 2015 EDA FINANCIALS

Ms. Butcher reviewed the October 2015 cash balances and loans for the EDA. For the cash balances, she noted increases in Fund 201 and 203; no change in Funds 202 and 204, a zero balance in Fund 206, and a cash balance deficit in Fund 207. EDA members asked about the 2015 structural imbalance of this fund, Ms. Butcher responded that the approved 2016-2019 City budget annually increased the levy by \$20,000 which will resolve the imbalance of the operational fund which will now be solvent. EDA members asked, will an adjustment be made at the end of the year to bring this fund into the positive? Mr. Fritsinger stated no, it's more complex than that as the EDA members are not looking at a full overall copy of the EDA budget and specifically the full balance sheet for Fund 207. Ms. Butcher stated that she would provide



the balance sheet for Fund 207 along with more specifics in the financial write up for the next EDA meeting.

Motion: Commissioner Ross Peterson moved, and Commissioner Micke seconded, that the EDA October 2015 financials be approved. (Motion passed 7-0).

APPROVAL OF NOVEMBER 2015 EDA FINANCIALS

Ms. Butcher reviewed the November 2015 cash balances and loans for the EDA. For the cash balances, she noted increases in Funds 201 and 203, no change in Funds 202 and 204, a zero balance in Fund 206, and a negative cash balance in Fund 207. President Shelly Peterson asked for a motion to approve the November Cloquet EDA financials.

Motion: Commissioner Ross Peterson moved, and Commissioner Micke seconded, that the EDA November 2015 financials be approved. (Motion passed 7-0).

ACTION ITEMS / PRESENTATION / DISCUSSION

Loan Request from Avenue C Restaurant (Rivdogg LLC / DbA Avenue C)

Ms. Butcher contacted Bob Palmquist of the Northspan Group via phone to join the meeting and welcomed Doug Smith, owner of the Avenue C Restaurant (Rivdogg LLC / DbA Avenue C). Mr. Smith introduced himself, spoke about his industry experience and his intent with the Cloquet project to be located within the First National Bank Plaza at 207 Avenue C. He stated he is from Cloquet and views this restaurant as a long term investment into the the West End Business District. He secured primary bank financing for the project, however his bank was sold and in discussions with the new bank's buyer there are loan restructuring terms that concern Mr. Smith. As such, he is looking elsewhere for primary financing at this time.

Mr. Palmquist provided an overview of ownership and noted current and past restaurant experience of Doug Smith, current owner of Green Mill in Duluth's Canal Park and former owner of McKenzie's in Hermantown, with 14 years' experience as a General Manager. Mr. Palmquist noted that the project is requesting \$75,000 in gap financing from the Cloquet EDA, with \$300,000 secured by a bank/credit union and \$30,000 in equity. Being that Mr. Smith does not own the building in which the restaurant will be located (207 Avenue C in the West End Business District) the EDA funding will be used for leasehold improvements while the bank funding would be allocated towards equipment, furniture and fixtures, and leasehold improvements. Mr. Palmquist reviewed two years of summarized financial projections as well as the current balance sheet and project and loss sheet for the project.



Ms. Butcher reviewed the funding criteria for EDA Fund 203 which has a cash balance of \$137,391.86 (the applicant has paid the \$250 loan review fee). She mentioned there are three specific areas that don't align with the fund's criteria which include the proposed loan term, required project equity, and refinancing. The minimum equity requirement is 10% while the proposed project lists 8% and secondly, the term on leasehold improvements, no matter how significant, are listed at a 5 year term. Lastly, Fund 203 does not allow for refinancing.

Cloquet EDA Loan Fund 203 Criteria Deviation Justification Discussion

Mr. Palmquist reviewed two specific options for the EDA to approve and secure the loan, one as purchasing a participation in an SBA loan or to secure a gap financing loan with sufficient non-project collateral sources. Mr. Palmquist stated that SBA loans, in terms of their criteria, differ from the EDA's Fund 203 criteria in that they allow for a 15 year term on leasehold improvements. The EDA's loan would need to match the term of the primary financing agency, which at this time is targeting a 15 year term loan via SBA. Lastly, being that the project has not opened and has been in limbo due to financing changes, he stated that this proposal is not viewed as a loan refinance in the traditional sense as noted in the EDA's fund criteria.

Ms. Butcher noted there are two general paths to approach the loan approval at this time:

Option #1: The City of Cloquet pursue a pledge of Coca-Cola stock (\$60,000) to provide collateral on the City's loan and make the loan subject to approval of a primary lender the terms of which are shared with the City for the City to finalize and determine appropriate term, rate, and collateral; or

Option #2: Have the primary project lender agree to make a \$375,000 loan with a 75% SBA loan guaranty and sell a \$75,000 loan participation to the City.

Mr. Smith is beginning with the City's gap financing request and several other banking institutions are examining the opportunity as primary financiers of the project. Being that the primary financing is not approved for this project, the EDA members suggested approving the gap loan secured by non-project sources (Option 1) in an effort to show banks/credit unions there are committed EDA funds towards the project.

Motion: Commissioner Ross Peterson moved, and Commissioner Micke seconded, that the EDA approve a gap financing loan to the Avenue C Restaurant (Rivdogg LLC / Dba Avenue C) in the amount of \$75,000 at a preliminary projected term of 15 years and a preliminary projected rate of 3% secured by Coca-Cola stock as collateral for the EDA's loan. The approval of the



EDA's loan is subject to lead financing being secured the project and those terms being provided to the City to determine the City's final terms and collateral for the project and that the term of financing not exceed the debt service for the project.

(Motion passed 5-0; Commissioners Russ Smith and Lara Wilkinson abstained from the vote.)

Update on Downtown Business District Meetings

Ms. Butcher reported that the Cloquet Avenue District met on Monday of this week at the Lumberjack, Tuesday this week at the VFW for the West End Business District, and the last meeting would be held this evening for either business district representatives that were unable to meet during the day. There was good discussion on issues and concerns. Groups discussed second meeting to be targeted for the end of January with the last in February.

FOA Discussion Continued from November Meeting

Ms. Butcher provided an update on FOA's business offer and reviewed the details of that business in terms of proposed investment and job creation proposed on the site. She stated that FOA now needs to find an alternate location and their request that this be a bare lot for new construction building within Cloquet. At the November EDA meeting the direction of the EDA was for staff and the County to review other lot options in the community to see if there were other opportunities. That work was done and unfortunately most of the tax forfeit owned by the County along with additional sites had the presence of wetlands and lacked utilities as such prohibitively expensive to build on.

FOA has examined existing buildings in Cloquet but has continued to express an interest in building a new facility to fit their specific needs right off the bat. As such Ms. Butcher was returning to revisit the EDA discussion from November in determining if FOA was a fit for the Business Park and if another lot or part of that lot the City is proposing potential purchase of makes sense as an alternative FOA site. EDA members concluded that there are currently no detailed financials or project proforma for FOA building plans nor a business plan. EDA members recommended that the EDA would identify a lot, at no cost to FOA, only once a detailed project proforma and business plan is provided to the City, EDA and its financial advisor for detailed review.

Direction: Staff is to prepare a formal communication to FOA that the EDA will identify a lot for them (potentially at no cost) but only once they provide a



**full detailed project proforma and business plan demonstrating that they have sufficient resources to complete such a building project.
(Motion passed 6-0; Russ Smith departed the meeting prior to this agenda item)**

Roundtable / Informational Updates / EDA Questions

Next meeting date

January 13, 2016

ADJOURNED 9:45 A.M.

Respectfully submitted,

Holly L. Butcher, Community Development Director