Five County Association of Governments

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MINUTES
FIVE COUNTY ECONOMIC DEVELOPMENT DISTRICT
REVOLVING LOAN FUND ADMINISTRATION BOARD
MONDAY, AUGUST 8, 2011

FIVE COUNTY ASSOCIATION OF GOVERNMENTS
CONFERENCE ROOM
1070 WEST 1600 SOUTH, BUILDING B
ST. GEORGE, UTAH

ATTENDING:

Nick Lang, Chair	Lang and Company
Jeff Marchant	Entrepreneur/State Bank of So. Utah (board member)
Scott Jolley	Cedar Area Chamber of Commerce
Rich VanAusdal	Dixie Applied Technology College
Ken Sizemore	Five County AOG
Darren Janes	Five County AOG

EXCUSED:

West Martin	Town & Country Bank
Paul Campbell	Senior Corps of Retired Executives (SCORE)
Commissioner Jim Matson	Five County AOG Steering Committee
Vacant Position	Wells Fargo Bank
Vacant Position	County/City Attorney

A. <u>WELCOME, INTRODUCTION OF NEW BOARD MEMBER, & APPROVAL OF MAY 4, 2011 MINUTES</u>

Nick Lang, Chair, welcomed those in attendance and provided an introduction and welcome to Rich VanAusdal, new board member and Director of the Dixie Applied Technology College. It was noted that Mr. Ken Sizemore has proxy vote for Paul Campbell for today's meeting, and a quorum was present to conduct business. He presented minutes from the May 4, 2011 meeting for Board discussion and consideration.

MOTION WAS MADE BY SCOTT JOLLEY, SECONDED BY JEFF MARCHANT, TO APPROVE MINUTES OF THE MAY 4, 2011 MEETING AS PRESENTED. MOTION CARRIED UNANIMOUSLY.

Chairman Lang asked that agenda item #C. Loan Portfolio Status Report be shifted to the end of the meeting to allow sufficient time for Board training.

B. BOARD TRAINING

Ken Sizemore thanked Rich VanAusdal for his willingness to represent the Workforce Services Council as a member of the Revolving Loan Fund (RLF) Administration Board. A number of new representatives have been appointed to the Board and there will be some additional members that will be appointed in the near future. It has been determined that it would be valuable to spend a few minutes at the beginning of each meeting to provide some orientation and background about the RLF program. For many years, the Board membership did not fluctuate and members had a vast knowledge of the program. This training time will provide the opportunity to share information and answer any questions Board members may have about the program.

He referenced a handout and report that are used to introduce this program to prospective borrowers and to describe the program to others who might be interested in the RLF program. The program was established in the mid-1980's when the economy was similar to what it is today. One of the gaps that was identified nationwide during that period was that banks providing the primary lending in business deals were only willing to provide between 50-70 percent of the financing for a business. Thereby requiring businesses to inject 20-50 percent down payment in order to close a standard conventional business loan. This was identified as one of the major impediments to job creation in the country. RLF programs were established to help provide gap financing, with a source of capital that would be in second position to the primary lender, to make things work. The program was established in the mid-1980s by utilizing two different sources of funding: A grant from the Economic Development Administration (EDA) matched by a grant from the Community Development Block Grant (CDBG) program. Since that time additional injections have been provided by EDA and CDBG along with what is now called Rural Development funds from the U.S. Department of Agriculture (USDA) and some other sources to build the capital base.

Since the programs inception, there have been 117 loans closed. The majority of these loans have been in Washington County, but a number of loans have been made in Garfield County. For a period of time in the recent past, it was difficult to get the money lent out and a large amount was built up in the bank account. Darren Janes has been very aggressive and successful in marketing the program and closing additional lending deals. One of the biggest challenges is that the RLF is the second lender and the collateral position is subordinate to the primary lender. It is difficult to obtain adequate collateral to back up that second position. Much of the Board deliberations deal with character, capability to repay the loans, cash flow, and collateral. The program focuses on job creation because the goal is to build the economic base through securing sustaining family employment. Over the years the program has functioned well to provide loans to small businesses. The current challenge is that funds have been lent out and staff is now being particular about deals presented to the Board.

Mr. Sizemore explained that the second injection of funds into the RLF program is not a match to the EDA grant. Because it does not have that tie, there is more latitude in using the CDBG funds. The Board made a conscientious decision to focus on micro lending. A portion of these funds have been set aside for a micro loan program that does not have the same set of restrictions as the RLF program. Interest in this fund has picked up some with two current loans included in the portfolio. Loans can range from $3,000 to $25,000. There is approximately $120,000 available in this fund that could be used for start-up or expanding businesses. The challenge with micro loans is that someone needs to babysit the business owner, and AOG staff does not have the capacity to fill that role. Therefore, the small business development centers in the Five County area work directly with businesses to fill that role through a very rigorous vetting process. The centers fill a very intricate role in working with businesses to develop sound business plans and to prepare owners to take on loans necessary to fund their operations. It was noted that this fund could also be used for a standard RLF loan if a good deal came forward and other funds were not available for lending.

Mr. Sizemore reported that in the neighborhood of $10,000 to $12,000 a month in repayment from existing loans is available for lending. The bulk of loans in the portfolio are current and making payments in a timely fashion. There are a few challenging loans, but overall things are functioning well.

D. APPLICANT PRESENTATION

1. **Iron Gate Winery**: Mr. Sizemore explained that it is somewhat unusual that a deal is reported in the local news media prior to being presented to this Board. There is currently no wine tasting facility in southern Utah as a component of the economic base. This individual has been exploring the concept around the region for years and originally proposed establishing a vineyard in Springdale. A number of roadblocks with Utah liquor laws have slowed progress for his business concept. His capacity and ability to understand the different game is pretty impressive. He has intentionally downsized his original idea to move away from growing grapes and making wine on site to shipping in wine for a smaller scale wine tasting facility. Scott Jolley explained that the owner does plan to expand operations down the road to include his original vision of a full winery in southern Utah. The borrower is invited to meet with the Board to discuss their application and answer any questions of Board members. Mr. Sizemore noted that this deal is stronger than most and the owner has done a considerable amount of research and preparation.

   Nick Lang welcomed Doug McCombs, owner, and asked that he provide an overview of the application. Mr. McCombs reported that he is proposing to obtain financing from the RLF program to build a winery in Cedar City. The proposed facility will be large enough to produce 1,000 to 1,500 cases of wine to be sold to the entire southern Utah area. The owner proposes to take advantage of the Shakespearean Festival as well as other activities occurring in Cedar, St. George and Springdale. The proposed facility is in conjunction with the Iron Gate Inn, which is a bed and breakfast located in close proximity to the Southern Utah University campus in Cedar City. The existing cottage will be expanded with a 400 foot addition as well as a 400 foot expansion of basement footage. The winery will ultimately include full production and retail sales. The winery will be divided with one half used for production, a retail tasting room divided by a glass wall for viewing the production side, outside and inside seating for tasting, and a retail sales area for wine and wine related retail items. It is anticipated that approximately 80 percent of their revenues will be derived from the tasting fees and retail sales of wine. The remaining revenue will be generated through sales at local wine stores and restaurants. There is growth potential to expand into the Springdale, Hurricane and St. George area markets. Sales statistics and revenue projections are based on 1% of hotel occupancy in Cedar City. Projections include a $10.00 tasting fee that is reimbursed if the customer purchases two bottles of wine. The cost analysis assumed that 50 percent will not buy anything and the other 50 percent will buy two bottles. It is also assumed that about 18% of the customers will join the company's wine club that consists of three shipments each quarter. Restaurant sales is an important piece of the business and the company will have the ability to provide custom labels. Initially bulk wine will be imported in order to make the product available at the opening of the business.

Scott Jolley noted that the Cedar City Council has approved the project subject to the alcohol division approval based on the facilities proximity to a church. He asked if that had been granted. Mr. McCombs indicated that the request has not yet been submitted to the alcohol division. A letter has been provided by the church stating that there is no problem with the proximity of the winery. That letter and release form will be submitted with all of the ABC documents, but this cannot occur until federal approval is provided. The city council will generally follow recommendations of the alcohol division. It was noted that as the business expands into wine production, grapes will likely be grown in locations in Washington County. Jeff Marchant asked about the owners profession and work history. Mr. McCombs indicated that his family moved from Minneapolis in 1985 to Las Vegas. His profession has been in Human Resources at various casinos working up the ranks to the most senior position as the Director of Human Resources at the M Resort Hotel Casino. His interest in the wine business started approximately eight years ago through involvement with a friend that was acquainted with the owner of a vineyard. The vineyard owner wanted someone to assume responsibilities of his business as he began to think about retirement. For the past eight years, they have been involved in the operation of this vineyard and learned about the business through the owners tutoring. In the initial operation of the business, Mr. McCombs will retain his employment at the M Resort Hotel Casino. Laura McBride, formerly the vice president of operations with the Luxor Hotel, would manage the business initially and is currently working with the business startup. Other employees would include operators of the bed and breakfast who are also investors in the winery project. There will be some additional employees during the summer months to run the tasting room and special functions. Blending at the production level allows the operation to provide custom labels for their wine product. Board members asked about marketing and sales which seems to be a critical need for the business to succeed. An individual who previously worked as marketing director for a large winery in Washington state has moved to Cedar City and is excited to provide assistance in this regard. Jeff Marchant asked if the business would offer any non-alcoholic wines taking into consideration the LDS population in the area. The business will provide this offering in the same type of wine bottle presentation containing water, lemonade or ice tea. The two nearest wineries to the southern Utah area are located in Moab, Utah. The business will have to compete with the Mesquite, Nevada market with better product, taste and appeal as opposed to offering products at a low price point.

Jeff Marchant asked about the owners personal investment into the project and what form that will take. Mr. McCombs indicated that his personal investment will be approximately $10,000 and the remaining $41,000 will come from other investors. Zions Bank will have the first collateral position on the business. The RLF program would require a personal guarantee and some other substantial assets such as a home. Mr. McCombs explained that the home in Las Vegas is on an acre of property, has approximately 5,000 square feet of living area and has not shrunk to the original value because of its uniqueness. The value of this property has been estimated using similar appraisals of homes in the immediate area. Proposed collateral for this loan is a 40 acre parcel of property located near Kolob Reservoir area. Tax statements have been provided for the estimated value of this property which is free and clear. Rich VanAusdal asked about the bed and breakfast part of the business as opposed to the winery portion that has been the focus of information provided today. Mr. McCombs explained that the bed and breakfast is not going to be associated in a business relationship with the winery under the same umbrella. The bed and breakfast is one of the largest in Cedar, it has been very successful of the past 10 years, and the facility has been completely restored. Establishing a winery at this site allows the owner to begin operations at a relatively lower cost and it plays on the B&B reputation that is very plugged into the community and the Shakespearean Festival. Scott Jolley asked about a formal agreement with the B&B and how this plays into requirements of Zions Bank or the division of alcohol. A formal agreement is in process in terms of rental fee, percentage of profit, etc. The catching point seems to be the opportunity to participate in the winery as it expands operations. At this point, neither the bank or division of alcohol has asked for any formal agreement. The loan with Zions Bank is subject to approval of the RLF loan.

Nick Lang thanked the business owner for providing information and answering questions of the Board. Mr. Sizemore indicated that the Board would deliberate and Darren would contact the owner to convey their decision.

E. BOARD DISCUSSION AND DELIBERATIONS

1. **Current Requests**: Rich VanAusdal noted that Mr. McCombs is very impressive in terms of the amount of homework and due diligence that has been done as well as his knowledge of the business. Jeff Marchant explained his reservations in terms of the financial backing and some concern with the Kolob property that is being pledged for collateral. Most other lending institutions would not provide that high of a loan to value ratio. It is disappointing that the owner does not have more personal investment to provide. Nick Lang pointed out that the most important thing to consider is the cash flow, credit rating and character of the owner. Jeff Marchant mentioned that the owner has developed some good relationships with individuals in Cedar City that are very impressive. These resources should be a big help in launching the business. Scott Jolley commented that the Bed and Breakfast owners will be very helpful with startup and could provide some long term stability to the loan. There are also a number of co-op opportunities tied to the Shakespearean Festival that could be very beneficial in terms of marketing the product.

   MOTION WAS MADE BY SCOTT JOLLEY TO APPROVE THE IRON GATE WINERY, LLC. LOAN IN THE AMOUNT OF $85,000, CONTINGENT ON THE FOLLOWING CONDITIONS: 1) 1ST LIEN POSITION ON KOLOB PARCELS; 2) STATE ABC AGREEMENT WITH CITY VARIANCE ACCEPTANCE; 3) DOCUMENTED LEASE AGREEMENT WITH IRON GATE INN; 4) EQUITY INVESTORS QUANTIFICATION (OWNERSHIP); 5) ZIONS BANK LOAN IN PLACE; 6) PERSONAL GUARANTEE OF DOUG MCCOMBS; AND 7) FIVE YEAR TERM AT 6.5% FIXED INTEREST RATE. MOTION WAS SECONDED BY JEFF MARCHANT AND CARRIED WITH A UNANIMOUS VOTE.

C. LOAN PORTFOLIO STATUS REPORT

Mr. Sizemore provided a brief status report as follows: **1) Skyline Forest Products--** The business has laid off all their employees, closed their doors and State Bank is taking the equipment to auction. At this point, the loan will be a write-off. Previous discussion of shifting some funds from the micro-mill to cover this loan has occurred. Updates will be provided as progress is made in this regard; **2) Just-Right, LLC--** This is the micro-mill which did not have RLF money invested in the deal. The RLF Board agreed to provide the financial capacity to facilitate payments to be received and disbursed. The Rural Life Foundation Stewardship Center has received $130,000 from the sale of the micro-mill. All of this money is going to pay off a line of credit that the Stewardship Center had at State Bank. It is anticipated that an approximate $55,000 is still outstanding and will be received. Once this occurs, Scott Truman will visit with the RLF Board to determine a split of left-over funds; **3) Black Ridge Chiropractic--** A repayment plan was executed with Dr. Boyer to begin repayment beginning July 1, 2011. The repayment plan would progressively increase payments on a monthly basis. No payment was made in July, but he has pledged that two payments will be made in August. Even though he has increased business since relocating the business, collections from medical billings typically lag by two months creating some problems; **4) Cougar Adventure Youth Academy--** The loan payment is late and there has been some difficulty in getting students (patients) enrolled in their program since opening to business. The academy has received approval from Washington City for a reduction in the age limit to eight years of age which has stimulated additional interest in the program; **5) Alpha One Fire--** This loan is somewhat concerning due to the lack of fires over the last year. Telephone calls have been placed and a letter has been sent out notifying the owner that he is not in compliance with the loan agreement.

Nick Lang instructed staff to request financial statements from the companies with late loan payments. This assists in making the owners more conscientious of the business and its current financial status.

The meeting adjourned at 11:25 a.m.