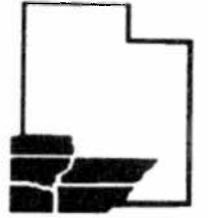


# Five County Association of Governments

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## MINUTES FIVE COUNTY ECONOMIC DEVELOPMENT DISTRICT REVOLVING LOAN FUND ADMINISTRATION BOARD TUESDAY, AUGUST 14, 2012

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

### ATTENDING:

Nick Lang, Chair  
David Grant  
Scott Jolley  
West Martin  
Eric Clarke  
Darrin Duncan  
Commissioner Jim Matson  
Ken Sizemore  
Gary Zabriskie

HintonBurdick  
Entrepreneur, Metalcraft Technologies  
Cedar Area Chamber of Commerce  
Town & Country Bank  
Washington County Attorney's Office  
State Bank of Southern Utah  
Five County AOG Steering Committee  
Five County AOG  
Five County AOG

### EXCUSED:

Paul Campbell  
Wayne Shamo

Senior Corps of Retired Executives (SCORE)  
Dixie Applied Technology College

### A. WELCOME, INTRODUCTION OF NEW BOARD MEMBER, & APPROVAL OF AUGUST 8, 2011 MINUTES

Nick Lang, Chair, welcomed those in attendance and provided an introduction and welcome to new board members David Grant, Metalcraft Technologies; Darrin Duncan, State Bank; and Eric Clarke, Washington County Attorney's Office. It was noted that Paul Campbell asked to be excused.

Nick Lang indicated that a quorum was present to conduct business. He presented minutes from the August 8, 2011 meeting for Board discussion and consideration. Scott Jolley commented that the last page of the minutes references a repayment plan for Black Ridge Chiropractic and the loan is now 150 days late. Discussion today should include a better explanation of this loan status.

**MOTION WAS MADE BY SCOTT JOLLEY, SECONDED BY NICK LANG, TO APPROVE MINUTES OF THE AUGUST 8, 2011 MEETING AS PRESENTED. MOTION CARRIED UNANIMOUSLY.**

## **B. BOARD TRAINING**

Ken Sizemore provided a brief orientation and background about the Revolving Loan Fund (RLF) program for new Board members. Board members are selected to serve on this Board based mainly on professional qualifications, but personal relationships play a role. The Steering Committee of the Association of Governments approved the final open slot on the Board with confirmation of Eric Clarke's nomination. It was pointed out by the Steering Committee Chair that Eric grew up in Tropic and his father utilized the RLF program previously with a loan for Clarke's Country Market. Commissioner Matson brings a tremendous amount of knowledge of the timber industry and economic development as well as a rural view of the economy. One comment from the Governing Board was the need for more representation from the more rural parts of the region. David Grant is a former borrower of the RLF program, literally one of the first RLF loans in the 1980s. He also previously served on the Governor's staff for Economic Development prior to forming Metalcraft Technologies. Darrin Duncan is a compliance banker with State Bank of Southern Utah and also served with Ken in the Utah National Guard. It will be good to have the perspective of a compliance banker on the Board. Scott Jolley is a hold over member who brings the chamber of commerce perspective. West Martin is from Town & Country Bank, but previously worked for First Security Bank in Cedar City. Gary Zabriskie has been with the Association of Government for almost 19 years and has been involved with a number of programs administered by the organization. Through the hiring process to select Darren Jane's replacement, staff assignments were realigned. Gary volunteered to help administer the RLF program. He will be working to complete RLF training provided by the National Development Council (NDC) with four courses of one week each.

Mr. Sizemore reported that the RLF program started in 1986 to help finance lending gaps. Banks are typically willing to finance 50% to 75% of business loans, and the RLF program provides subordinate, secondary financing. The major objective of the program is job creation to provide for family sustaining jobs, which is a loosely defined term depending on where you live. The major focus of the program is to help expand the region's economic base. As a subordinate lender, the RLF program is normally in a very tenuous position if a loan defaults. Federal funding started with \$841,000 in government grants to capitalize the program. An additional \$400,000 has been injected from the same federal agencies. In addition, another \$118,000 and other small amounts have been injected to total approximately \$1 million. The two major federal funding sources are the Economic Development Administration, through the U.S. Department of Commerce; and the Community Development Block Grant program, administered through the U.S. Department of Housing and Urban Development. Over \$7.7 million dollars has been lent out from the portfolio over the years to 120 deals, with multiple loans to several businesses. The current balance available for lending is \$348,000. Interest rates are determined by the Board at the time of closing based on cash flow and the amount a business can afford. Over the past ten years, the interest rate has averaged approximately six percent. A 1.5% loan origination fee is collected at the time of the loan closing. Loan write offs are higher than what a bank would tolerate, but not bad for a subordinate lending position. Current staffing limits aggressively pursuing loans that are delinquent and/or in default. Over 900 jobs have been created and another 300 retained as a direct result of funds injected to loans throughout the region.

The RLF Board is technically an advisory board to the AOG's governing board. The Board is comprised on nine members and five members constitute a quorum. Loans are approved with a majority vote of the members present. It was noted that Board members do not have any liability because it is a voluntary position. In the past, the Board has denied some applications and asked for additional information for evaluation. Mr. Grant asked if all of the Board member votes would be confidential. Mr. Sizemore explained this is a public body that does not have

to divulge company information that is proprietary, but minutes of the meeting are public. Meeting dates and times are adjusted to accommodate staff and Board member schedules and are held on an as needed basis as applications are submitted. Board members indicated they could adjust their schedules as long as plenty of advance notice is provided. There are two applications currently in the pipe line that could be ready for Board review within the next month.

### **C. LOAN PORTFOLIO STATUS REPORT**

Mr. Sizemore referenced a loan status report handout including numbers through July 2012. Staff has been aggressive to get accounts current. The first two loans, Skyline Forest Products and the Micro Mill, should probably be written off. Obviously the bank and Five County will not get their money back from these deals. However, efforts are currently underway to get the business back into operation. Most likely the \$71,000 will be written off for Skyline Forest Products loan, and no Five County money was injected into the Mirco Mill loan. The loan was provided from a grant given to the Rural Development Council. Five County agreed to act as the fiscal agent for this loan and to take the interest paid from this loan as payment. The micro mill never functioned properly and is currently at the manufacturers being refurbished. A potential buyer is in the wings and there is a chance that some funds will be received from this deal. Black Ridge Chiropractic closed its doors in the location that was financed with this loan. The owner of the business is working with another group of chiropractors at a new location, but is not generating as much cash flow as he had hoped. This is a problematic loan, but payments are being made periodically. The principal owner of Funtime Inflatables has had some medical challenges but is attempting to bring the loan current. Recent payments have only partially covered accrued interest and they are trying to get to a point where payments will be made on the principal amount due. It was noted that the physical location of the business has closed and the business is now operating out of their home. Alpha One mobilizes water trucks and other types of vehicles for fire fighting. The owner is in the process of selling a truck and will hopefully pay the loan off when this occurs. The Iron Gate Winery made a payment in July, but the loan is 60 days in the arrears with accrued interest. The good news is that the business is finally operational and materials have been distributed to advertise the winery. Staff is in the process of obtaining current financial statements from all of the borrowers that are not current on their payments.

### **D. APPLICANT PRESENTATIONS**

1. **Ticaboo Resort, LLC**: Ken Sizemore provided background on the applicant and noted that the RLF program has provided financing to Ticaboo previously to the uranium company. The community was established in the mid 1980s to support the uranium mines. As a secondary impact, it provided housing and support services for Bullfrog. A subdivision, boat storage and a motel were developed on State Trust Lands as outlined in the packet of information. The majority of the homes are either single wide or manufactured homes, but there are some stick built houses in the subdivision. Traditionally, the uranium companies have operated the Ticaboo Resort facility, but they have decided to divest themselves of this activity. Mr. Curtis is an entrepreneur that is willing to take on the Resort facility. The new owner will operate the business but will reside in Midway. The bank's approval is contingent upon the Five County fund injection. This project site is remote and somewhat separated from Garfield County. The Five County AOG has participated in this project through the injection of RLF funds but also feels an obligation from an economic development standpoint to keep the resort as a viable operation. Board members questioned the existing personal debt included on the loan application and noted that a new loan would add to the debt.

David Curtis provided background information about the Ticaboo resort, the onsite manager and his personal history. A handout of presentation slides was provided to Board members for review. The Ticaboo Resort property contains 36 acres of property approximately 12 miles north of Bullfrog in Garfield County. The townsite includes a mobile home park and a subdivision. The commercial operations including the lodge, restaurant, convenience store, and gas station are located on Highway 276, with the boat portion on Ticaboo Drive. Two homes come with the property which are typically used to house the managers. The lodge consists of 70 units and includes a swimming pool which has been restored with solar heaters. Under a lease option with Uranium One, the lodge with a convenience store inside and gas station are now operational. SITLA owns the property and the value is based on the Pro Forma of businesses. The owner has currently invested over \$100,000 to get the business operational, but this allowed him to negotiate a favorable price. Uranium One is in the process of selling the entire operation.

Mr. Curtis noted that Proficio Bank made a financial commitment to provide funding to the project that is conditional on SBA approval. It was difficult to get bank participation because of the remote location of Ticaboo. The two homes are separated out and a first position could be used as collateral for the Five County loan. In addition to an appraisal, there is a business valuation has been completed that could be forwarded to staff. The appraisal on the homes came in below the county assessed value because comparison homes for the appraisal were located in Blanding. Pumps at the gas station are being retooled with credit card readers. Occupancy rates during the week have been running at approximately 50%, but have been somewhat higher on weekends. Marketing has been targeted to clients that stayed at the lodge previously. Advertising for 2013 is focusing on tour operators and a face book campaign. A relationship has been developed with the group "In Roads" that provides lodging software for reservations as well as promotional codes for discounted room rates. He provided copies of a brochure and an advertising display that are being placed around the area and in surrounding cities. Marketing has been targeted to the Wasatch Front and Colorado. The next challenge is to get the restaurant operational. He shared some results of a survey that was conducted to determine why visitors are no longer going to Bullfrog. A portion of those surveyed indicated that the ferry is not dependable, rooms are not readily available, the area feels dead, and motels typically cannot accommodate larger groups.

Mr. Curtis reviewed appraised amounts for the entire resort and a breakout for the lodge/restaurant, convenience store, boat storage and two homes. It was noted that electricity is still provided through the use of diesel generators and the owner had to provide a 500 watt generator as part of the negotiated lease agreement. The owner is currently working to obtain backup power source options such as solar. The standalone convenience store facility needs major repairs including a roof and HVAC system. The NAPA Auto/Hardware store owner is currently operating the boat shop as well, but he has the option to pull out at the time the loan is closed. The onsite manager lives in one of the homes and the owner has gone down once a week in the summer. The lease option is effective until December 31, 2012, but the bank is trying to close by the loan by the end of August. The RLF loan amount requested is \$250,000 which includes the \$100,000 that the owner has already injected into the project.

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

2. **Dairy Queen:** Prior to the presentation, a discussion took place amongst the Board members on a declared potential conflict of interest regarding Darrin Duncan participating in the Board deliberation and loan approval. The proposed new Dairy Queen facility would be built on property owned by and adjacent to the Hurricane Branch of the State Bank of Southern Utah. It was decided that Darrin would participate in the discussion phase, but he would recuse himself from the vote in the Board deliberation phase.

Brandon Adams, owner, provided background information regarding the business and funding proposal for the Dairy Queen located in Hurricane, Utah. Sales at the business have increased over the past several years to exceed \$1 million. This store has been in the top five Dairy Queen stores in Utah for the past six years. Dairy Queen is currently asking all of the store owners to remodel and infuse a cash injection into their stores. The lease on the current facility has expired and the landlord is not willing to make the required improvements. Therefore, the owner has been working with State Bank of Southern Utah to move the store to a different location. Moving the store to the proposed location will provide better visibility and additional parking, including a portion to the back of the facility that will accommodate boats and recreational vehicles. The business currently employs approximately 23 employees and construction of a new facility would provide an additional 6-7 jobs. Most of the jobs would be part-time positions that pay an average wage of \$8.35 per hour. The pay for full-time employees averages between \$10.00 to \$13.50 per hour. The new building design will provide a warmer feel and hopefully it will increase food sales. The new facility will also allow the business to expand the line of Orange Julius drinks. State Bank of Southern Utah has approved their loan at the branch office and it will now be sent to the main office in Cedar for consideration at a meeting scheduled for tomorrow. Mountain West Small Business Finance has secured approval of the SBA loan. Mr. Adams explained that he is injecting \$117,000 cash into the project as well as existing equipment that has been purchased over the past seven years which has an appraised value of approximately \$130,000. It was noted that he owns the Dairy Queen franchise for the Hurricane area. The land purchase is currently under contract awaiting approval of the loans. The refinance on the existing State Bank loan will be separate from the new loan. The Small Business Administration will not refinance existing debt and also requires a cash injection into the loan. Down time to move the operations will take approximately one week.

## E. **BOARD DISCUSSION AND DELIBERATIONS**

Nick Lang proposed deliberating the Dairy Queen loan first and the Ticaboo Resort second due to the size and complexity of that loan. West Martin made a general comment that it is difficult to evaluate a proposed loan without a Pro Forma, balance sheets, income statements and cash flow statements and hard to understand how loans can be approved without them. In the future, this information needs to be mandatory. Nick Lang discussed this further from an accounting perspective.

1. **Dairy Queen:** West Martin spoke about the 504 hybrid SBA loan and the process for loan maturity with CDC loans which need a minimum of ten year terms. Mr. Sizemore indicated that 504 loans have been approved previously with shorter terms. Scott Jolley questioned the value of the land being purchased and wondered if that is what land is selling for in Hurricane. Commissioner Matson asked about when the new facility is just about ready to open how long they will shut down for the transition of equipment from the old location. The owner estimated down time at approximately one week.

**MOTION TO APPROVE WAS MADE BY DAVID GRANT TO APPROVE THE LOAN AT TERMS AND CONDITIONS AS RECOMMENDED BY STAFF. MOTION WAS SECONDED BY COMMISSIONER JIM MATSON. MOTION CARRIED WITH DARRIN DUNCAN ABSTAINING.**

2. **Ticaboo Resort:** Board discussion included the remoteness of Ticaboo, distance to the closest school, and the lack of any other term for the area other than "deadness". It was noted that the two home parcels are separate from the other business operations. The Phase I environmental for the project came out clean. The cost to run diesel generated power and transference of power from underground mines is scary. The closest power source is approximately 60 miles distant. Another concern is the water flows of the lake that impact accessibility of the Bullfrog Marina to other parts of the lake that people like to visit. The three star rating of the motel and the rate that customers would be willing and/or able to pay for a room is also a concern. Another concern is utilizing 10% of the loan portfolio for this loan. The outcome of this loan may ultimately be sitting on the property for 10-11 years upon foreclosure.

**MOTION WAS MADE BY DAVID GRANT TO REQUEST ADDITIONAL INFORMATION FROM THE APPLICANT FOR THE TICABOO RESORT LOAN REQUEST AS FOLLOWS: 1) THREE YEAR PROJECTION, 2) CASH FLOW, 3) BALANCE SHEET AND 4) INCOME STATEMENTS. ALSO INCLUDED IN THE MOTION IS A REQUEST OF STAFF TO ASK THE APPLICANT IF THERE IS A POSSIBILITY OF RENEGOTIATING THE PRICE WITH URANIUM ONE SUCH THAT TO COME IN AT A LOWER DOLLAR AMOUNT AND STILL MAKE THE DEAL WORK. UPON RECEIPT OF THE ABOVE MENTIONED FINANCIAL INFORMATION, THE RLF LOAN ADMINISTRATION BOARD WILL RECONSIDER THE LOAN. STAFF IS DIRECTED TO COMMUNICATE WITH THE APPLICANT THAT THE BOARD WANTS TO DISCUSS FURTHER CONCERNS WITH THE APPLICANT ON THE FOLLOWING: 1) THE REMOTE NATURE OF THE RESORT; 2) THE CONDITION OF THE FACILITY; 3) THE SIZE OF THE RLF BOARD'S INVESTMENT; AND 4) CONCERN THAT THE PURCHASE PRICE SEEMS INFLATED. MOTION WAS SECONDED BY COMMISSIONER JIM MATSON AND CARRIED BY UNANIMOUS VOTE.**

**Other Items:**

Mr. Sizemore suggested that the Board consider nomination of a Vice-Chair to serve in the event that Nick is unable to attend. Eric Clarke was asked if he would be willing to serve as Vice-Chairman. This will be included as an agenda item for the next Board meeting. Board members also requested that packets be sent out as PDF files to them rather than folders.

The meeting adjourned at 4:15 p.m.